FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THESECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-13165

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

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

1655 Roberts Boulevard N.W., Kennesaw, GA 30144
(Address of principal executive offices) (zip code)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.01 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

None

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

[X] Yes [_] No

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

The aggregate market value of voting stock held by nonaffiliates of the registrant was approximately $111,802,000 at February 18, 1998 (7,985,863 shares). The number of common shares outstanding at February 18, 1998 was 9,700,791 (exclusive of treasury shares).

PART I

ITEM 1. BUSINESS.

OVERVIEW

CryoLife is the leader in the cryopreservation of viable human tissues for cardiovascular, vascular and orthopaedic transplant applications, and develops and commercializes additional implantable products and single-use medical devices. The Company estimates that it provided approximately 80% of the cryopreserved human tissue implanted in the U.S. in 1997. The Company uses its expertise in biochemistry and cell biology, and its understanding of the needs of the cardiovascular, vascular and orthopaedic surgery medical specialties, to continue expansion of its core cryopreservation business and to develop or acquire complementary implantable products and technologies for these fields. The Company develops bioprosthetic cardiovascular devices including a novel design stentless porcine heart valve currently marketed in the European Community and a proprietary process for non-viable animal tissue designed to improve human biocompatibility. The Company also develops proprietary implantable surgical bioadhesives, including BioGlue surgical adhesive, which it has begun commercializing for vascular applications within the European Community. In addition, the Company manufactures and distributes, through its Ideas For Medicine, Inc. ("IFM") subsidiary, single-use medical devices for use in vascular surgical procedures. The Company has generated compound annual growth rates in revenues and earnings per share, including contributions from acquisitions, of 24% and 68%, respectively, since 1993.

CryoLife processes and distributes for transplantation cryopreserved human heart valves and conduits, human vascular tissue and human connective tissue for the knee. Revenues from these services, which were $44.2 million, or 87%, of the total revenues in 1997, have grown at a compound annual growth rate of 24% since 1993. Based on detailed follow-up data available from approximately 1,700 documented implant procedures performed with the Company's cryopreserved human heart valves and conduits, management believes that cryopreserved human heart valves and conduits offer certain advantages over mechanical, synthetic and animal-derived alternatives. Depending on the alternative, these advantages include more natural functionality, elimination of a chronic need for anti-coagulation drug therapy, reduced incidence of reoperation and reduced risk of catastrophic failure, thromboembolism (stroke) or calcification. The U.S. market for implantable products targeting indications addressed by the Company's cryopreserved tissues was approximately $950 million in 1997. Since 1993, cryopreserved human tissues have captured an increasing share of this market. For example, since 1993, the total U.S. replacement heart valve market grew at a compound annual growth rate of approximately 7%, while CryoLife's revenues from cryopreservation of human heart valves and conduits grew at a compound annual growth rate of approximately 21%. The Company seeks to expand the availability of human tissue through its established relationships with over 250 tissue banks and organ procurement agencies nationwide.

CryoLife develops and markets outside the U.S. bioprosthetic cardiovascular devices for transplantation, currently consisting of fixed stentless porcine heart valves. Fixed porcine heart valves are often preferred by surgeons for procedures involving elderly patients because they eliminate the risk of patient non-compliance with anti-coagulation drug therapy associated with mechanical valves, are less expensive than human heart valves and their shorter longevity is more appropriately matched with these patients' life expectancies. Fixed porcine heart valves address a worldwide target market estimated to have been $175 million in 1997. Unlike most other available porcine heart valves, the Company's stentless porcine heart valves do not contain synthetic materials which increase the risk of endocarditis, a debilitating and potentially deadly bacterial infection. The Company's CryoLife-O'Brien aortic heart valve, currently marketed in the European Community and certain other territories outside the U.S., is a stentless porcine heart valve which contains a matched composite leaflet design that approximates human heart valve blood flow characteristics and requires only a single suture line which simplifies surgical implantation. The Company intends to submit a CE Mark application for the CryoLife-Ross pulmonary heart valve, another of the Company's fixed stentless porcine valves, for marketing in the European Community. The Company plans to apply its proprietary SynerGraft technology to its stentless porcine heart valves. SynerGraft involves the depopulation of living cells from the structure of non-viable animal heart tissue and the repopulation of such tissue with human cells. This process is designed to reduce calcification of porcine heart valves, thereby increasing longevity, and more generally to improve the biocompatibility and functionality of

such tissue. The Company believes that its porcine heart valves, when treated with SynerGraft technology, will expand its opportunity to address the broader international and U.S. heart valve markets, estimated to be $348 million and $395 million, respectively, in 1997.

CryoLife is developing implantable biomaterials for use as surgical adhesives and sealants. The Company's patent protected BioGlue surgical adhesive, designed for cardiovascular and peripheral vascular applications, is a polymer based on a derivative of a blood protein and a cross linking agent. The Company's patent protected FibRx surgical sealant, designed for tissue hemostasis and suture line sealing, is a light-activated, biodegradable surgical sealant under development which is based on a derivative of the human blood factors fibrinogen and thrombin. Both of these products may be used with or without sutures or staples, and may offer advantages over sutures and staples, including more effective sealing and easier application. The Company estimates that the annual worldwide market for surgical sutures and staples in 1997 was in excess of $2 billion. The Company recently received CE Mark Certification for its BioGlue surgical adhesive which permits the Company to begin marketing this product in the European Community for vascular applications.

CryoLife manufactures and distributes, through its IFM subsidiary, single-use medical devices including endarterectomy surgical instruments, intravascular shunts, infusion ports, accessories utilized in laparoscopic procedures and a wide range of single and dual lumen balloon catheters. The Company believes that many of its existing single-use medical devices have novel proprietary features that offer clinical advantages over competing products. For example, the Company's Pruitt-Inahara Shunt was the first endarterectomy shunt available to surgeons which contains a barrier feature designed to reduce migration of plaque particles to the brain during surgery. Another example is the Company's dual lumen embolectomy catheter incorporating a novel water irrigation mechanism which enables physicians to remove whole blood clots more effectively than with single lumen embolectomy catheters. The Company is benefiting from, and intends to utilize, its design and manufacturing expertise to develop single-use medical devices for use in conjunction with its cryopreserved human tissue and biomaterial products. Examples of such devices under development include a family of balloon catheters designed to assist in applying the BioGlue surgical adhesive and a human heart valve holder designed to provide physicians greater control in implantation procedures.

In the U.S., the Company markets its cryopreservation services for human heart valves and conduits and human vascular tissue through its in-house technical service representatives and relies on independent orthopaedic sales representatives to market its cryopreservation services for human connective tissue for the knee. Also in the U.S., the Company markets its single-use medical devices through its in-house technical service representatives. Internationally, cryopreserved human tissues, bioprosthetic cardiovascular devices and single-use medical devices are distributed through independent representatives located in several countries in Europe, South America and Asia. The Company plans to market and distribute its BioGlue surgical adhesive internationally through its existing independent representatives and, if approved for sale in the U.S., through its in-house technical service representatives.

GROWTH STRATEGY

The Company's primary objective is to continue its consistent growth in revenues and profitability. The Company has generated compound annual growth rates in revenues and net income of approximately 21% and 71%, respectively, since 1993, excluding revenues and net income from IFM, which the Company acquired in March 1997. The Company's strategy to generate continued growth is based on increasing the use of cryopreserved tissues as an alternative to mechanical and synthetic implantable products, developing new markets for existing products and technologies and developing new products and technologies for new and existing markets. The Company also selectively considers strategic acquisitions of complementary technologies to supplement its internal growth. The key elements of the Company's business and growth strategy are to:

- Continue Leadership in Cryopreservation of Human Heart Valves and Conduits. The Company intends to increase the market penetration of its cryopreserved human heart valves and conduits by

(i) expanding awareness of clinical advantages of cryopreserved human tissues through continuing educational efforts directed to physicians, prospective heart valve and conduit recipients and tissue procurement agencies, (ii) expanding its relationships with the more than 250 tissue banks and procurement agencies across the U.S. which direct tissue to the Company for cryopreservation and (iii) expanding its physician training activities.

- Expand Distribution of Cryopreserved Human Vascular Tissue and Connective Tissue for the Knee. Using the same strategy it has successfully employed to expand its distribution of cryopreserved human heart valves and conduits, the Company intends to increase its cryopreservation revenues from human vascular tissue and connective tissue for the knee through continuing educational efforts directed to vascular and orthopaedic surgeons about the clinical advantages of cryopreserved vascular and orthopaedic tissue, expanding its relationships with tissue banks and procurement agencies and expanding its programs for training physicians in the use of tissue cryopreserved by the Company.

- Broaden Application of Cryopreservation Services. The Company will continue to collect, monitor and evaluate implant data to (i) develop expanded uses for the human tissues currently cryopreserved by the Company and (ii) identify new human tissues as candidates for cryopreservation. The Company has recently begun providing cryopreserved human vascular tissue to be used as dialysis access replacement grafts for patients undergoing long-term dialysis, and separately, as venous valve replacements for patients suffering from diseases of the venous system. The Company has ongoing projects for cryopreserving the posterior tibialis and anterior tibialis tendons for use in knee repairs. The Company is also investigating the use of cryopreserved human osteochondral grafts to repair articular defects, and the use of cryopreserved human endothelial cells, peripheral nerves and spinal disks in various surgical applications.

- Develop and Commercialize Bioprosthetic Cardiovascular Devices. The Company intends to leverage its expertise with stentless human heart valves to expand commercialization of its stentless porcine heart valves and to use its stentless porcine heart valves as a platform for the development and commercialization of the Company's SynerGraft technology. The Company is expanding its production capacity for its bioprosthetic cardiovascular devices to address the increased demand it is currently experiencing. Separately, the Company's patent protected SynerGraft technology is being developed to expand the target market for the CryoLife-O'Brien aortic heart valve and the CryoLife-Ross pulmonary heart valve by minimizing calcification often associated with porcine tissues and thereby increasing their longevity.

- Develop and Commercialize Biomaterials for Surgical Adhesive and Sealant Applications. In the second quarter of 1998, the Company plans to commercialize its patent protected BioGlue surgical adhesive in the European Community through its existing independent representatives and to file an application to conduct clinical trials for BioGlue surgical adhesive in the U.S. The Company also plans to continue development of its patent protected FibRx surgical sealant. In addition to the adhesive and sealant applications of these biomaterials, the Company intends to pursue, either directly or through strategic alliances, certain drug delivery applications of BioGlue surgical adhesive and FibRx surgical sealant, such as administering antibiotics, attaching chemotherapy drugs to tumors, delivering growth agents or delivering bone chips for orthopaedic bone repair.

- Leverage Existing Capability across Product Lines. The Company plans to expand sales of its single-use medical devices by leveraging its established cryopreservation services marketing and sales staff and by introducing new complementary products. The Company intends to apply its expertise with stentless human heart valves to expand commercialization of its stentless porcine heart valves and to use its stentless porcine heart valves as a platform for the development and commercialization of the Company's SynerGraft technology. New complementary products under development include a stentless human heart valve holder being designed to provide greater physician control in implantation procedures and

modified single and double lumen balloon catheters for use in delivering the Company's implantable bioadhesives.

SERVICES AND PRODUCTS

Cryopreservation of Human Tissue for Transplant/Living Biologic Devices

The Company's proprietary and patent protected cryopreservation process involves the procurement of tissue from deceased human donors, the timely and controlled delivery of such tissue to the Company, the screening, disinfection, dissection and cryopreservation of the tissue by the Company, the storage and shipment of the cryopreserved tissue and the controlled thawing of the tissue. Thereafter, the tissue is surgically implanted into a human recipient.

The transplant of human tissue that has not been preserved must be accomplished within extremely short time limits (not to exceed eight hours for transplants of the human heart). Prior to the advent of human tissue cryopreservation, these time constraints resulted in the inability to use much of the tissue donated for transplantation. The application by the Company of its cryopreservation technologies to donated tissue expands the amount of human tissue available to physicians for transplantation. Cryopreservation also expands the treatment options available to physicians and their patients by offering alternatives to implantable mechanical, synthetic and animal-derived devices. The tissues presently cryopreserved by the Company include human heart valves and conduits, vascular tissue and connective tissue for the knee. The following table sets forth, for the types of tissues cryopreserved by the Company, the cumulative number of units shipped, the number of units shipped in 1997 and the total number of target market procedures performed annually in the United States:

	NUMBER OF CRYOLIFE UNITS SHIPPED		NUMBER OF TARGET MARKET PROCEDURES PERFORMED IN THE U.S. IN 1997
	SINCE INCEPTION	DURING 1997	
Human Heart Valves and Conduits	29,500	5,244	95,000
Human Vascular Tissue	9,300	2,621	34,000
Human Connective Tissue for the Knee	4,800	1,859	270,000

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

Human Heart Valves and Conduits. The Company's revenues have been primarily derived from the cryopreservation of human heart valves and conduits for use in reconstructive heart valve replacement surgery. CryoLife shipped approximately 29,500 cryopreserved human heart valves and conduits from 1984 to 1997. Based on CryoLife's records of documented implants, management believes that the Company's success in the allograft heart valve market is due in part to physicians' recognition of the longevity and natural functionality of the Company's cryopreserved human tissues as compared to mechanical and porcine heart valve alternatives in certain applications. The Company currently applies its cryopreservion services to human aortic, pulmonary and,

more recently, mitral heart valves for implantation by cardiac surgeons. In addition, the Company provides cryopreserved conduit tissue, which is the only source of tissue available to surgeons who wish to perform certain specialized cardiac repair procedures. Each of these human heart valves and conduits maintains a viable tissue structure which more closely resembles and performs like the patient's own tissue than non-human tissue alternatives.

Based on available market data, the Company estimates that of all heart valve replacement surgeries performed in the U.S. in 1997, 69%, 30% and 1% involved the replacement of diseased or damaged aortic valves, mitral valves and pulmonary valves, respectively. Due to the success of a procedure known as the Ross Switch

Procedure, 53% of the valves which CryoLife shipped in 1997 were pulmonary valves. In the Ross Switch Procedure, the surgeon replaces the patient's damaged aortic valve with the patient's own pulmonary valve. The patient's pulmonary valve is then replaced with a cryopreserved pulmonary valve. The advantage of this procedure is the use of the patient's own valve in the more stressful aortic position. The resulting benefit to CryoLife and the surgical community is a more even demand and distribution of the processed human aortic and pulmonary valves.

The Company estimates that the total heart valve and conduit replacement market in the U.S. in 1997 was approximately $395 million. Management believes that approximately 95,000 heart valve and conduit surgeries were conducted in the U. S. in 1997. Of the total number of heart valve and conduit surgeries, approximately 64,000, or 67%, involved mechanical heart valves, and approximately 31,500, or 33%, involved tissue heart valves or conduits, including porcine and cryopreserved human tissues. Of these tissue heart valve or conduit replacements, management believes that approximately 6,500, or 21%, involved cryopreserved human heart valve or conduit replacements. Over 5,200 human heart valves and conduits cryopreserved by the Company were shipped for implantation in 1997. Since 1993, the total U.S. replacement heart valve market grew at a compound annual growth rate of approximately 7%, while CryoLife's revenues from cryopreservation of human heart valves and conduits grew at a compound annual growth rate of approximately 21%.

Based on detailed follow-up data available from approximately 1,700 documented implant procedures performed with the Company's cryopreserved human heart valves and conduits, management believes cryopreserved human heart valves and conduits have characteristics that make them the preferred replacement for most patients. Specifically, human heart valves, such as those cryopreserved by the Company, allow for more normal blood flow hemodynamics and provide higher cardiac output than porcine and mechanical heart valves. Human heart valves are not subject to progressive calcification, or hardening, as are porcine heart valves, and do not require anti-coagulation drug therapy, as do mechanical valves. The synthetic sewing rings contained in mechanical and stented porcine valves are difficult to treat with antibiotics after they have become infected, a condition which usually necessitates the surgical removal of these valves at considerable cost, morbidity and risk of mortality. Consequently, human heart valves are the preferred alternative to mechanical and stented porcine valves for patients who have, or are at risk to contract, endocarditis.

The following table sets forth the characteristics of alternative heart valve implants that management believes make cryopreserved human heart valves the preferred replacement for most patients:

		PORCINE			
	CRYOPRESERVED HUMAN	STENTED	STENTLESS(1)	MECHANICAL	BOVINE PERICARDIUM(2)
Materials:	human tissue	glutaraldehyde-fixed pig tissue and synthetic sewing ring	glutaraldehyde-fixed pig tissue	pyrolitic carbon bi-leaflet and synthetic sewing ring	glutaraldehyde-fixed cow tissue and synthetic sewing ring
Blood Flow Dynamics:	normal	moderate elevation	nearly normal	high elevation	high elevation

(Required Pressure) (3)	(0-5)	(10-20)	(5-15)	(10-25)	(10-30)
Mode of Failure:	gradual	gradual	expected to be gradual	catastrophic	gradual
Longevity:	20 years	7-10 years	expected to exceed stented porcine valves	20 years	10-15 years
Increased Risk of Thromboembolic Events (strokes or other clotting):	no	occasional	expected to be rare	yes	occasional
Anti-Coagulation Drug Therapy Required:	none	short-term	short-term	chronic	short-term
Responsiveness to Antibiotic Treatment of Endocarditis:	high	low	low	low	low
Average Valve Cost in U.S.:	$6,850	$4,228	$5,500	$4,100(4)	$4,500

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(1) Limited long-term clinical data is available since stentless porcine heart valves only recently became commercially available.
(2) Management believes that bovine pericardium heart valves have experienced mixed clinical results and are generally not considered a preferred alternative for most patients.
(3) Pressure measured in mm/Hg.
(4) Mechanical valves also require chronic anti-coagulation drug therapy at a cost of approximately $450 per year.

While the clinical benefits of cryopreserved human heart valves discussed above are relevant to all patients, they are particularly important for (i) pediatric patients (newborn to 14 years) who are prone to calcification of porcine tissue, (ii) young or otherwise active patients who face an increased risk of severe blood loss or death due to side effects associated as a result of even with the anti-coagulation drug therapy required with mechanical valves and (iii) women in their childbearing years for whom anti-coagulation drug therapy would interfere with normal pregnancy.

Human Vascular Tissues. The Company cryopreserves human saphenous and superficial femoral veins for use in vascular surgeries that require small diameter conduits (3mm to 6mm), such as coronary bypass surgery and peripheral vascular reconstructions. Failure to bypass or revascularize an obstruction in such cases may result in death or the loss of a limb. The Company believes it offers the only available small diameter conduit product for below-the-knee vascular reconstruction and shipped approximately 9,300 human vascular tissues from 1986 to 1997.

A surgeon's first choice for replacing diseased or damaged vascular tissue is generally the patient's own tissue. However, in cases of advanced vascular disease, the patient's own tissue is often unusable and the surgeon may consider using synthetic grafts or transplanted human vascular tissue. Synthetic small diameter vascular grafts are not available for below-the-knee surgeries and, in other procedures, have a tendency to shut down due to occlusion because the synthetic materials in these products attract cellular material from the blood stream which in turn closes off the vessel to normal blood flow. Cryopreserved vascular tissues tend not to occlude as quickly because of the presence of an endothelial cell lining in the donor vein which remains intact following the cryopreservation process. The Company's cryopreserved human vascular tissues are used for coronary artery bypass surgeries, peripheral vascular reconstruction, dialysis access graft replacement and venous valve transplantation.

In 1986, the Company began a program to cryopreserve saphenous veins for use in coronary artery bypass surgeries. Although the Company's cryopreserved human tissue was used in only a small percentage of the nearly 310,000 coronary artery bypass procedures performed in 1997, it is the only commercially available alternative to the patient's own tissue. Approximately 950 cryopreserved human saphenous veins for use in coronary artery bypass surgeries were shipped for this application in 1997, representing

approximately 36% of all the human vascular tissue shipped by the Company during such period. The Company estimates that, in 1997, approximately 20,000 coronary artery bypass surgeries were performed in which its cryopreserved human vascular tissues could have been used.

In 1989, the Company began a program to cryopreserve long segment saphenous veins for use in peripheral vascular reconstruction. In cases of peripheral arteriosclerosis, a cryopreserved saphenous vein can be implanted as a bypass graft for the diseased artery in order to improve blood flow and maintain a functional limb. Analysis of clinical data has shown that 80% of patients receiving CryoLife's preserved vascular tissues in this type of surgical procedure still have the use of the affected leg three years after surgery. The alternative for many of these patients was amputation. Approximately 1,570 cryopreserved human saphenous veins were shipped for this application in 1997. The Company estimates that, in 1997, approximately 22,000 peripheral vascular reconstruction surgeries were performed in which its cryopreserved human vascular tissues could have been used.

In 1996, the Company began a program for the cryopreservation of human superficial femoral veins for use in dialysis access graft replacement as an alternative for synthetic grafts which have a higher risk of infection than human tissue. The Company shipped less than 100 cryopreserved human superficial femoral veins for this application in 1997. The Company estimates that, in 1997, approximately 30,000 dialysis access graft replacements were performed in which its cryopreserved human vascular tissues could have been used.

In 1997, the Company began a program for the cryopreservation of human superficial femoral veins for venous valve transplant. The cryopreservation of these human tissues is designed for patients suffering from chronic venous insufficiency, a condition in which the blood flow returning to the heart from the legs is compromised due to absent, improperly functioning or destroyed venous valves. Prior to the introduction of CryoLife's

cryopreserved venous valves, treatment for patients suffering from this ailment generally was limited to drug therapy or compression stockings. The Company shipped less than 100 cryopreserved human superficial femoral veins for this application in 1997. The Company estimates that, in 1997, approximately 20,000 patients with chronic venous insufficiency could have benefitted from venous valve transplant procedures using its cryopreserved human vascular tissues.

Human Connective Tissue for the Knee. The Company provides surgical replacements for the meniscus and the anterior and posterior cruciate ligaments, which are connective tissues critical to the proper operation of the human knee. CryoLife has shipped approximately 4,800 human connective tissues for the knee through 1997.

Human menisci cryopreserved by the Company provide orthopaedic surgeons with a new treatment in cases where a patient's meniscus has been completely removed. When a patient has a damaged meniscus, the current surgical alternatives are to repair, partially remove or completely remove the patient's meniscus, with partial removal being the most common procedure. Meniscal removal increases the risk of premature knee degeneration and arthritis and typically results in the need for knee replacement surgery at some point during the patient's life. Management believes that the Company is the only provider of cryopreserved meniscal tissue and that there are no synthetic menisci on the market. The Company estimates that in 1997 approximately 683,000 partial and total meniscectomies were performed in the U.S. The Company believes up to 30% of these patients could become candidates for meniscal replacement within five years.

Tendons cryopreserved by the Company are used for the reconstruction of anterior cruciate ligaments in cases where the patient's ligaments are irreparably damaged. Surgeons have traditionally removed a portion of the patient's patellar tendon from the patient's undamaged knee for use in repairing a damaged anterior cruciate ligament. Tendons cryopreserved by the Company provide an alternative to this procedure. Because surgeries using cryopreserved tissue do not involve the removal of any of the patient's own patellar tendon, the patient recovery period is typically shorter. The Company estimates that in 1997 approximately 175,000 cruciate ligament reconstruction surgeries were performed.

Based on its experience with human heart valves and conduits, management believes that as the body of clinical data builds regarding the use of cryopreserved human connective tissues for the knee, the use of such tissues will increase, although there can be no assurance that this will be the case.

Other Allograft Tissues Under Development. The Company currently has ongoing projects for cryopreserving the posterior and anterior tibialis tendons for use in the repair of anterior cruciate ligaments. The Company has other projects for using preserved osteochondral grafts to repair articular defects and for the use of cryopreserved human endothelial cells, peripheral nerves and spinal discs, in various surgical applications.

Bioprosthetic Cardiovascular Devices

The Company is developing bioprosthetic cardiovascular devices based on its experience with cryopreserved human tissue implants. Like human heart valves, the Company's porcine heart valves are stentless with the valve opening, or annulus, retaining a more natural flexibility. Stented porcine and mechanical heart valves are typically fitted with synthetic sewing rings which are rigid and can impede normal blood flow and hemodynamics. Unlike most other available porcine heart valves, the Company's stentless porcine heart valves do not contain synthetic materials which increase the risk of endocarditis, a debilitating and potentially deadly bacterial infection.

Fixed porcine heart valves are often preferred by surgeons for procedures involving elderly patients because they eliminate the risk of patient non-compliance with anti-coagulation drug therapy associated with mechanical valves, are less expensive than allograft valves and their shorter longevity is more appropriately matched with these patients' life expectancies. Fixed porcine heart valves address a worldwide target market estimated to have been $175 million in 1997.

The Company's SynerGraft technology involves the removal of living cells from the structure of non-viable animal tissue and the repopulation of such tissue with human cells. This process is designed to reduce

calcification of porcine heart valves, thereby increasing their longevity, and more generally to improve the biocompatibility and functionality of such tissue. The Company believes that its porcine heart valves, when treated with SynerGraft technology, will expand its opportunity to address the broader international and U.S. heart valve markets, estimated to be $348 million and $395 million, respectively, in 1997.

The following table sets forth the bioprosthetic cardiovascular devices currently marketed or under development by the Company, along with the product features and regulatory or market status for each.

	FEATURES	REGULATORY/MARKET STATUS
FIXED STENTLESS PORCINE VALVES		
CryoLife-O'Brien	aortic valve of matched composite leaflet design; single suture line	currently marketed in Europe with regulatory approval under CE Mark
CryoLife-Ross	pulmonary valve with attached conduit	application for CE Mark for European marketing approval submitted; review of application anticipated in mid-1998
DEPOPULATED STENTLESS PORCINE VALVES		
CryoLife-O'Brien S.G.	aortic valve, as above, with antigen reduction properties	submission of application for CE Mark for European marketing approval anticipated in fourth quarter 1998
CryoLife-Ross S.G.	pulmonary valve, as above, with antigen reduction properties	submission of application for CE Mark for European marketing approval anticipated in fourth

		quarter 1998
REPOPULATED STENTLESS PORCINE VALVES		
CryoLife-O'Brien SynerGraft	aortic valve, as above, repopulated with human cells	pre-clinical
CryoLife-Ross SynerGraft	pulmonary valve, as above, repopulated with human cells	pre-clinical

The CryoLife-O'Brien aortic valve, the exclusive worldwide distribution rights for which were acquired by the Company in July 1992, is a stentless porcine valve with design features which management believes provide significant advantages over other stentless porcine heart valves. The Company's CryoLife-O'Brien aortic heart valve, currently marketed in the European Community and certain other territories outside the U.S., contains a matched composite leaflet design that approximates human heart valve blood flow characteristics and requires only a single suture line thereby simplifying surgical implantation. Other stentless porcine valves require a more complicated implant procedure.

The CryoLife-Ross pulmonary valve, the patent for which the Company acquired in October 1996, is an advanced design stentless porcine heart valve within an attached conduit of porcine tissue, which mimics the structure of a human heart valve which simplifies the surgical implantation. The Company intends to submit a CE Mark application for marketing the Cryolife-Ross pulmonary heart valve, another of the Company's fixed stentless porcine valves, in the European Community.

The Company plans to apply its proprietary SynerGraft technology to its stentless porcine heart valves. The first of the SynerGraft technology applications involves developing depopulated stentless porcine heart valves with antigen reduction properties. This technology removes viable cells from animal tissues thereby reducing the transplant recipient's immune response to the remaining depopulated tissues. The auto-immune response typically deposits calcium which attaches to and hardens implanted porcine heart valve tissue, a process known as calcification, which reduces the useful life of the implant. By removing viable animal cells from the tissue while maintaining the underlying structural strength of the porcine heart valve, this SynerGraft application is designed to provide a platform for a patient's own cells to naturally populate the implant. This SynerGraft depopulation technology is being applied to both the CryoLife-O'Brien aortic heart valve and the CryoLife-Ross pulmonary heart valve for products under development anticipated to be known as the CryoLife-O'Brien S.G. and the CryoLife-Ross S.G.

The second of the SynerGraft technology applications involves developing stentless porcine heart valves repopulated with viable human cells prior to implantation. This technology uses porcine tissues that have been depopulated of viable animal cells as in the CryoLife-O'Brien S.G. and the CryoLife-Ross S.G. This SynerGraft repopulation technology is being applied to both the CryoLife-O'Brien aortic heart valve and the CryoLife-Ross pulmonary heart valve for products anticipated to be known as the CryoLife-O'Brien SynerGraft and the CryoLife-Ross SynerGraft.

Implantable Biomaterials for Use as Surgical Adhesives and Sealants

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

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

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

In order to address the inherent limitations of sutures and staples, the Company is developing and commercializing its BioGlue surgical adhesive and is developing its FibRx surgical sealant. The BioGlue surgical adhesive is a polymeric surgical bioadhesive based on a derivative of a blood protein and a cross-linking agent. BioGlue surgical adhesive is nonbiodegradable and has a tensile strength that is four to five times that of FibRx surgical sealant. Target clinical applications for BioGlue surgical adhesive include cardiovascular and vascular peripheral repair. FibRx surgical sealant is a light-activated surgical sealant based on a derivative of the human blood factors fibrinogen and thrombin. The Company believes that FibRx is the only surgical sealant under development offering ease of use to the surgeon through either single-syringe or spray applicators.

The following table summarizes certain important features, targeted applications and regulatory and market status of BioGlue surgical adhesive and FibRx surgical sealant:

	BIOGLUE SURGICAL ADHESIVE	FIBRX SURGICAL SEALANT
COMPOSITION:	animal albumin and glutaraldehyde	thrombin, fibrinogen and a thrombin inhibitor
METHOD OF APPLICATION:	double syringe; mixing device provided	light activated single syringe; or light activated spray applicator
TARGETED CLINICAL APPLICATIONS:	vascular repair; anastomotic sealing; aortic dissection repair; carotid endarterectomy patching; tissue bonding	hemostasis in cardiovascular procedures, skin grafts and breast reconstruction; adhesion for skin grafts and breast reconstruction
PERFORMANCE CHARACTERISTICS:	high tensile strength; non-biodegradable	strength of normal human blood clot; biodegradable; flexible, easily manipulated
REGULATORY/MARKET STATUS		
Europe:	CE Mark received for cardiovascular and vascular repair applications; expect to commence marketing in Europe in second quarter 1998	regulatory pathway not determined; expected to be evaluated in 1998
United States:	submission of application with the FDA for approval to conduct clinical trials anticipated in second quarter 1998	submission of IND with the FDA for approval to conduct U.S. clinical trials anticipated in third quarter 1998

The Company estimates that the worldwide market for surgical sutures and staples in 1997 was in excess of $2 billion. The Company intends to begin shipping BioGlue surgical adhesive for distribution in the European Community in the second quarter of 1998. FibRx surgical sealant is progressing through pre-clinical trials and is presently undergoing toxicology validation procedures mandated by the FDA prior to the commencement of clinical trials.

Single-Use Medical Devices

CryoLife manufactures and distributes, through its IFM subsidiary, single-use medical devices including endarterectomy surgical instruments, intravascular shunts, infusion ports, accessories utilized in laparoscopic procedures and a wide range of single and double lumen balloon catheters. The Company believes that many of its existing single-use medical devices have novel proprietary features that offer clinical advantages over competing products. For example, the Company's Pruitt-Inahara Shunt was the first endarterectomy shunt available to surgeons which contains a barrier feature designed to reduce

migration of plaque particles to the brain during surgery. Another example is the Company's double lumen embolectomy catheter incorporating a novel water irrigation mechanism which enables physicians to remove whole blood clots more effectively than with single lumen embolectomy catheters. The Company is benefiting from, and intends to utilize, its design and manufacturing expertise in developing single-use medical devices for use in conjunction with its human tissue and biomaterial products. Examples of such single-use medical devices under development include a family of balloon catheters designed to assist in applying the BioGlue surgical adhesive and a stentless human heart valve holder designed to provide physicians greater control in implantation procedures.

The Company plans to expand sales of its single-use medical devices by leveraging its established cryopreservation services marketing and sales staff to market existing products and by introducing new products. New complementary products under development include a modified single and double lumen balloon catheters to be used to deliver the Company's implantable bioadhesives. The Company is working to develop single-use medical devices for use with its BioGlue surgical adhesive. The Company believes that the introduction of BioGlue surgical adhesive in the European Community for vascular repair will create additional marketing opportunities for its single-use medical devices.

SALES, DISTRIBUTION AND MARKETING

Cryopreservation Services

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

Procurement of Tissue. Donated human tissue is procured from deceased human donors by organ procurement agencies and tissue banks. After procurement, the tissue is packed and shipped, together with certain information about the tissue and its donor, to the Company in accordance with the Company's protocols. The tissue is transported to the Company's laboratory facilities the Company's via commercial airlines pursuant to arrangements with qualified courier services. Timely receipt of procured tissue is important, as tissue that is not received promptly cannot be cryopreserved successfully. The procurement agency receives a fee for its services, which is paid by the Company. The procurement fee and related shipping costs are ultimately reimbursed to the Company by the hospital with which the implanting physician is associated. The Company has developed relationships with over 250 tissue banks and organ procurement agencies throughout the U.S. Management believes the establishment of these relationships is critical for a growing business in the cryopreservation services industry and that the breadth of these existing relationships provides the Company a significant advantage over potential new entrants to this market. As a result of its maintaining and developing these relationships, the Company has consistently increased its annual human heart valve procurement since its inception. The Company employs approximately 14 individuals in the area of tissue procurement, seven of whom are employed as procurement relations managers and are stationed throughout the country. The Company's central procurement office is staffed 24 hours per day, 365 days per year.

Preservation of Tissue. Upon receiving tissue, a Company technician completes the documentation control for the tissue prepared by the procurement agency and gives it a control/inventory number. The documentation identifies, among other things, donor age and cause of death. A trained technician then removes the portion or portions of the delivered tissue that will be cryopreserved. These procedures are conducted under aseptic conditions in clean rooms. At the same time, additional samples are taken from the donated tissue and subjected to the Company's comprehensive quality assurance program. This program may identify characteristics which would disqualify the tissue for cryopreservation.

Human heart valves and conduits, vascular tissue and connective tissue for the knee are cryopreserved in a proprietary freezing process conducted according to strict Company protocols. After the cryopreservation process, the specimens are transferred to liquid nitrogen freezers for long-term storage at

temperatures below -135(degrees)C. The entire cryopreservation process is rigidly controlled by guidelines established by the Company.

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

The Company encourages hospitals to accept the cryopreserved tissue quickly by providing Company-owned liquid nitrogen freezers to client hospitals without charge. The Company has currently installed more than 300 of these freezers. Participating hospitals pay the cost of liquid nitrogen and regular maintenance. The availability of on-site freezers makes it easier for a hospital's physicians to utilize the Company's cryopreservation services by making the cryopreserved tissue more readily available. Because fees for the Company's cryopreservation services become due upon the delivery of tissue to the hospital, the use of such on-site freezers also reduces the Company's working capital needs.

Marketing, Educational and Technical Support. The Company maintains active relationships with approximately 1,600 cardiovascular, vascular and orthopaedic surgeons who have active practices implanting cryopreserved human tissues and markets to a broader group of physicians within these medical specialties. Because the Company markets its cryopreservation services directly to physicians, an important aspect of increasing the distribution of the Company's cryopreservation services is educating physicians on the use of cryopreserved human tissue and on proper implantation techniques. Trained field support personnel provide back-up and support to implanting institutions and surgeons. The Company currently has approximately 98 independent technical service representatives and sub-representatives (who deal primarily with orthopaedic surgeons and who are paid on a commission basis) as well as 37 persons employed as technical service representatives (who deal primarily with cardiovascular and vascular surgeons and receive a base salary with a performance bonus) all of whom provide field support.

The Company sponsors physician training seminars where physicians teach other physicians the proper technique for handling and implanting cryopreserved human tissue. The Company conducted seven of these seminars in 1997. Physicians pay their own expenses to attend these seminars in addition to paying the Company a fee for attendance. The Company also produces educational videotapes for physicians. The Company coordinates live surgery demonstrations at various medical schools. The Company also coordinates laboratory sessions that utilize animal tissue to demonstrate the respective surgical techniques. Members of the Company's Medical Advisory Board often lead the surgery demonstrations and laboratory sessions. Management believes that these activities improve the medical community's acceptance of the cryopreserved human tissue processed by the Company.

In order to increase the Company's supply of human tissue for cryopreservation, the Company educates and trains procurement agency personnel in procurement, dissection, packaging and shipping techniques. The

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

Bioprosthetic Cardiovascular Devices

The Company markets the CryoLife-O'Brien stentless porcine heart valves in the European Community. The Company's European sales, distribution and marketing force consists of eight independent representatives, representing each of the Benelux countries, France, Germany, Greece, Scandinavia, Turkey and the United

Kingdom. Each of these representatives is paid on a commission basis. Marketing efforts are directed almost exclusively toward cardiovascular and vascular surgeons, and the Company conducts educational seminars and conferences to train these surgeons and educate them with respect to the uses and benefits of its porcine stentless heart valves. In 1997, the Company conducted one workshop and participated in three European conferences. The Company intends to market its CryoLife-Ross stentless porcine heart valves, if CE Mark approval is obtained, through this same European sales force.

BioGlue Surgical Adhesive

The Company plans to market and distribute its BioGlue surgical adhesive internationally through its existing independent representatives, and if approved for sale in the U.S., through its in-house technical service representatives. The initial shipments of BioGlue surgical adhesive to CryoLife's European distributors, which are currently distributing the CryoLife-O'Brien stentless porcine heart valve and single-use medical devices product lines, are scheduled for the second quarter of 1998. The Company conducts training sessions for European doctors with respect to the application and administration of BioGlue surgical adhesive.

Single-Use Medical Devices

Following its acquisition of IFM in March 1997, the Company terminated the majority of IFM's sales representatives and began transitioning the sales and distribution of single-use medical devices to its in-house technical service representatives. The Company plans to expand sales of its single-use medical devices by continuing new product development and leveraging its established cryopreservation services marketing and sales staff to market the products. The Company conducted two training seminars for these representatives during 1997.

RESEARCH AND DEVELOPMENT

The Company uses its expertise in biochemistry and cell biology, and its understanding of the needs of the cardiovascular, vascular and orthopaedic surgery medical specialties, to continue to expand its core cryopreservation business in the U.S. and to develop or acquire implantable products and technologies for these fields. The Company seeks to identify market areas that can benefit from preserved living tissues and other related technologies, to develop innovative techniques and products within these areas, to secure their commercial protection, to establish their efficacy, and then to market these techniques and products. The Company employs approximately 26 people in its research and development department. There are seven PhDs with specialties as diverse as immunology, molecular biology, protein chemistry, organic chemistry and vascular biology.

In order to expand the Company's service and product offerings, the Company is currently in the process of developing or investigating several technologies and products, including FibRx surgical sealant, SynerGraft and additional applications of BioGlue surgical adhesive. The Company is currently investigating certain drug delivery applications for BioGlue surgical adhesive and FibRx surgical sealant, such as administering antibiotics, attaching chemotherapy drugs to tumors, delivering growth agents or delivering bone chips for orthopaedic bone repair. To the extent the Company identifies additional applications for these products, the Company may attempt to license these products to corporate partners for further development of such applications. The Company's

research and development strategy is to allocate available resources among the Company's four core market areas of cryopreservation services, bioprosthetic cardiovascular devices, implantable biomaterials and single-use medical devices, based on the size of the potential market for any specific product candidate and the estimated development time and cost required to bring the product to market.

Research on these and other projects is conducted in the Company's research and development laboratory or at universities or clinics where the Company sponsors research projects. In 1995, 1996 and 1997, the Company spent approximately $2.6 million, $2.8 million and $3.9 million, respectively, on research and development activities on new and existing products. These amounts represented approximately 9%, 8% and 8% of the Company's revenues for

those respective years. The Company's research and development program is overseen by its medical and scientific advisory boards. The Company's pre-clinical studies are conducted at universities and other locations outside the Company's facilities by third parties under contract with the Company. In addition to these efforts, the Company may, as situations develop, pursue other research and development activities.

MANUFACTURING AND OPERATIONS

The Company's facilities (other than its single-use medical device manufacturing plant) are located in suburban Atlanta, Georgia, and consist of three separate locations totaling approximately 130,000 square feet of leased office, laboratory and warehouse space. Approximately 17,500 square feet are dedicated to laboratory work areas. The primary facility, which does not include the bioadhesive laboratory and the bioprosthetic manufacturing operation, has three main laboratory facilities: human tissue processing, research and development and microbiology. Each of these areas consists of a general technician work area and adjoining "clean rooms" for work with human tissue and for aseptic processing. The clean rooms are supplied with highly filtered air which provides a near-sterile environment.

Human Tissue Processing

The human tissue processing laboratory is responsible for the processing and cryopreservation of human tissue for transplant. This includes all processing of heart valves and conduits, vascular tissue and connective tissue for the knee supplied by CryoLife. This laboratory contains approximately 7,700 square feet with a suite of seven clean rooms. Currently there are 37 technicians employed in this area, and the laboratory is staffed for two shifts, 365 days per year. In 1997, the laboratory processed approximately 14,000 human tissues for distribution and transplant. The current staffing level is estimated to be at about half of total capacity. Increasing this capacity could be accomplished by increasing employees and expanding to three shifts.

Bioprosthetic Cardiovascular Devices

The bioprosthesis laboratory is responsible for the manufacturing of the CryoLife-O'Brien stentless porcine aortic heart valve. This laboratory is located in Marietta, Georgia and contains approximately 13,000 square feet, with about 3,500 square feet of laboratory space and a suite of four clean rooms for tissue processing. The Company plans renovation to this facility in 1998 which would double the size of the processing area and plans to add the production of the CryoLife-Ross stentless porcine pulmonary heart valve to its product line this summer. Currently, this laboratory employs nine technicians and is scheduled to manufacture approximately 1,500 CryoLife-O'Brien valves in 1998. The planned renovation, with additional staffing, is expected to expand capacity at this facility to over 6,000 valves.

Implantable Biomedical Devices

The Company produces limited quantities of FibRx surgical sealant in the biomedical products laboratory, which is located in Marietta, Georgia and employs 11 technicians. This laboratory contains approximately 11,000 square feet, including 4,000 square feet of laboratory space and a suite of eight clean rooms. The Company is also planning an addition of about 8,000 to 15,000 square feet of laboratory and clean room space to support the manufacture of BioGlue surgical adhesive. BioGlue surgical adhesive is presently manufactured at the Company's headquarters facility, which has an annual capacity of approximately 30,000 units. The facility expansion is expected to allow the manufacture of over 300,000 units of BioGlue surgical adhesive each year, with modest staff additions.

Single-Use Medical Devices

The manufacturing of single-use medical devices is conducted at the Company's IFM subsidiary located in St. Petersburg, Florida. IFM was purchased by CryoLife in 1997 and has recently moved to a renovated 30,000 square foot facility. The Company has 91 employees at this facility. At nearly full capacity in 1997, production was about 180,000 units. In the new facility, a single shift can produce approximately 300,000 units annually with full capacity expected to be nearly 800,000 units annually.

QUALITY ASSURANCE

The Company's operations encompass the provision of cryopreservation services and the manufacturing of bioprosthetics, bioadhesives and single-use medical devices. In all of its facilities, the Company is subject to regulatory standards for good manufacturing practices, including current Quality System Regulations, which are U.S. Food and Drug Administration ("FDA") regulatory requirements for medical device manufacturers. The FDA periodically inspects Company facilities to ensure Company compliance with these regulations. The Company also operates according to ISO 9001 Quality System Requirements, an internationally recognized voluntary system of quality management for companies that design, develop, manufacture, distribute and service products. The Company maintains a Certification of Approval to the ISO 9001, as well as EN46001 and ANSI/ISO/ASQC/Q9001, the European and U.S. versions of the international standard, respectively. This approval is issued by Lloyd's Register Quality Assurance Limited ("LRQA"). LRQA is a Notified Body officially recognized by the European Community to perform assessments of compliance with ISO 9001 and its derivative standards. LRQA performs semi-annual on-site inspections of the Company's quality systems.

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

Cryopreservation Services

The Company employs a comprehensive quality assurance program in all of its tissue processing activities. The Company is subject to Quality System Regulations, additional FDA regulations and ISO 9001. The Company's quality assurance program begins with the development and implementation of training courses for the employees of procurement agencies. To assure uniformity of procurement practices among the tissue recovery teams, the Company provides procurement protocols, transport packages and tissue transport liquids to the donor sites.

Upon receipt by the Company, each tissue is assigned a unique control number that provides traceability of tissue from procurement through the processing and preservation processes, and ultimately to the tissue recipient. Blood samples from each tissue donor are subjected to a variety of tests to screen for infectious diseases. Samples of certain tissues are also sent to independent laboratories for pathology testing. Following removal of the tissue to be cryopreserved, a separate disinfection procedure is begun during which the removed tissue is treated with proprietary antibiotic solutions. A trained technician then removes samples from the disinfected tissue upon which serial cultures are performed to identify bacterial or fungal growth.

The materials and solutions used by the Company in processing tissue are pre-screened to determine if they are of desired quality as defined by Company protocols. Only materials and solutions that meet the Company's requirements are approved by quality assurance personnel for use in processing. Throughout tissue processing, detailed records are maintained and reviewed by quality assurance personnel.

The Company's tissue processing facilities are annually licensed by the States of Georgia, New York, Florida and California as facilities that process, store and distribute human tissue for implantation. The regulatory bodies of these states perform appropriate inspections of the facilities to ensure compliance with state law and regulations. In addition, the Company's human heart valve operations are additionally regulated by the FDA and periodically inspected for compliance to Quality System Regulations. Other human tissue processed by the Company is periodically inspected for compliance with the Code of Federal Regulation ("CFR") Part 1270.

CFR 1270 is a FDA regulation which sets forth the requirements with which the Company must comply in determining the suitability of human tissue for implantation.

Bioprosthetic, Bioadhesive and Single-Use Medical Device Manufacturing

The Company employs a comprehensive quality assurance program in all of its

manufacturing activities. The Company is subject to Quality System Regulations, additional FDA regulations and ISO 9001.

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

All materials, components and resulting sub-assemblies are traced throughout the manufacturing process to assure that appropriate corrective actions can be implemented if necessary. Each process is documented along with all inspection results, including final finished product inspection and acceptance. Records are maintained as to the consignee of product to facilitate product removals or corrections, if necessary. All processes in manufacturing are validated by quality engineers to assure that they are capable of consistently producing product meeting specifications. The Company maintains a rigorous quality assurance program of measuring devices used for manufacturing and inspection to ensure appropriate accuracy and precision.

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

PATENTS, LICENSES AND OTHER PROPRIETARY RIGHTS

The Company relies on a combination of patents, trade secrets, trademarks and confidentiality agreements to protect its proprietary products, processing technology, rights and know-how. The Company believes that its patents, trade secrets, trademarks and technology licensing rights provide it with important competitive advantages. The Company owns or has licensed rights to 14 U.S. patents and three foreign patents, including but not limited to, patents relating to its technology for human heart valve and conduit, vascular tissue and connective tissue for the knee preservation; tissue revitalization prior to freezing; tissue transport; fibrin adhesive; organ storage solution; and packaging. Certain of the above patents relate to the Company's BioGlue surgical adhesive and FibRx surgical sealant. The Company has eight pending U.S. patent applications and in excess of 20 pending foreign applications that relate to areas including heart valve and tissue processing technology for transplantation and to delivery of bioadhesives for anastomosis and other uses. The Company holds six patents and has seven patents pending with respect to its single-use medical devices. There can be no assurance that any patents pending will result in issued patents. The Company also has exclusive licensing rights for technology relating to light-sensitive enzyme inhibitors. The remaining duration of the Company's issued patents ranges from 5 to 17 years. The Company has licensed from third parties certain technologies used in the development of its FibRx surgical sealant and SynerGraft technology. These licenses call for the payment of both development milestones and royalties based on product sales, when and if such products are approved for marketing. The loss of these licenses could adversely affect the Company's ability to successfully develop its FibRx surgical sealant and SynerGraft technologies.

There can be no assurance that the claims allowed in any of the Company's existing or future patents will provide competitive advantages for the Company's products, processes and technologies or will not be successfully challenged or circumvented by competitors. To the extent that any of the Company's products are not patent protected, the Company's business, financial condition and results of operations could be materially adversely affected. Under current law, patent applications in the U.S. are maintained in secrecy until patents are issued and patent applications in foreign countries are maintained in secrecy for a period after filing. The right to a patent in the U.S. is attributable to the first to invent, not the first to file a patent application. The Company cannot be sure that its products or technologies do not infringe patents that may be granted in the future pursuant to pending patent applications or that its products do not infringe any patents or proprietary rights of third parties. The

Company may incur substantial legal fees in defending against a patent infringement claim or in asserting claims against third parties. In the event that any relevant claims of third-party patents are upheld as valid and enforceable, the Company could be prevented from selling certain of its

products or could be required to obtain licenses from the owners of such patents or be required to redesign its products to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be on terms acceptable to the Company or that the Company would be successful in any attempt to redesign its products or processes to avoid infringement. The Company's failure to obtain these licenses or to redesign its products could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has entered into confidentiality agreements with all of its employees and several of its consultants and third-party vendors to maintain the confidentiality of trade secrets and proprietary information. There can be no assurance that the obligations of employees of the Company and third parties with whom the Company has entered into confidentiality agreements will effectively prevent disclosure of the Company's confidential information or provide meaningful protection for the Company's confidential information if there is unauthorized use or disclosure, or that the Company's trade secrets or proprietary information will not be independently developed by the Company's competitors. Litigation may be necessary to defend against claims of infringement, to enforce patents and trademarks of the Company, or to protect trade secrets and could result in substantial cost to, and diversion of effort by, the Company. There can be no assurance that the Company would prevail in any such litigation. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the U.S.

COMPETITION

Cryopreserved Human Tissues and Bioprosthetic Cardiovascular Devices

The Company faces competition from non-profit tissue banks that cryopreserve and distribute human tissue, as well as from companies that market mechanical, porcine and bovine heart valves for implantation. Many established companies, some with resources greater than those of the Company, are engaged in manufacturing, marketing and selling alternatives to cryopreserved human tissue. Management believes that it competes favorably with other entities that cryopreserve human tissue on the basis of technology, customer service and quality assurance. As compared to mechanical, porcine and bovine heart valves, management believes that the human heart valves cryopreserved by the Company compete on the factors set forth above, as well as by providing a tissue that is the preferred replacement alternative with respect to certain medical conditions, such as pediatric cardiac reconstruction, valve replacements for women in their child-bearing years and valve replacements for patients with endocarditis. Although human tissue cryopreserved by the Company is initially higher priced than are mechanical alternatives, these alternatives typically require that the patient take anti-coagulation drug therapy for the lifetime of the implant. As a result of the costs associated with anti-coagulants, mechanical valves are generally, over the life of the implant, more expensive than tissue cryopreserved by the Company. Notwithstanding the foregoing, management believes that, to date, price has not been a significant competitive factor.

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

Human and Stentless Porcine Heart Valves. Alternatives to human heart valves cryopreserved by the Company include mechanical valves, porcine valves and valves constructed from bovine pericardium. St. Jude Medical, Inc. is the leading supplier of mechanical heart valves, and has a marketing and distribution arrangement with a tissue bank for supplies of cryopreserved human heart valves and Baxter International Inc. is the leading supplier of porcine heart valves. In addition, management believes that at least three tissue banks offer cryopreservation services for human heart valves in competition with the Company. The Company presently distributes its

stentless porcine heart valves only outside the U.S. These stentless porcine

heart valves compete with mechanical valves, human heart valves and processed bovine pericardium. The Company is aware of at least two other companies that offer stentless porcine heart valves.

Human Vascular Tissue. Synthetic alternatives to veins cryopreserved by the Company are available primarily in medium and large diameters. Currently, management believes that there are no other providers of cryopreserved human vascular tissue in competition with the Company. Companies offering either synthetic or allograft products may enter this market in the future.

Human Connective Tissue for the Knee. The Company's competition in the area of connective tissue for the knee varies according to the tissue involved. When transplant is indicated, the principal competition for the human tissues cryopreserved by the Company are freeze-dried and fresh frozen human connective tissues. These alternative allografts are distributed by distributors of Osteotech, Inc. and various tissue banks, among others. Ligaments and tendons cryopreserved by the Company constitute the principal treatment options for injuries which require anterior cruciate ligament repair. To management's knowledge, there are presently no processed or synthetic alternatives to menisci cryopreserved by the Company.

Implantable Biomedical Devices

The Company competes with many domestic and foreign medical device, pharmaceutical and biopharmaceutical companies. In the surgical adhesive and surgical sealant area, the Company will compete with existing methodologies, including traditional wound closure products such as sutures and staples, marketed by companies such as Johnson & Johnson, United States Surgical Corporation, Sherwood, Davis & Geck and others. Other products currently being marketed include fibrin glue, sold in Europe, and the Pacific Rim countries by Immuno AG, a subsidiary of Baxter Health Care Company, Chemo-Sero Therapeutic Research Institute, Hoechst GmbH and others, and management believes other products are under development by Baxter Healthcare Corporation, Bristol-Myers Squibb Company, V.I. Technologies, Inc. and others. Other competitors in the surgical sealant market include Closure Medical Corporation, B. Braun GmbH and Focal, Inc. Competitive products may also be under development by other large medical device, pharmaceutical and biopharmaceutical companies. Many of the Company's current and potential competitors have substantially greater financial, technological, research and development, regulatory and clinical, marketing and sales, and personnel resources than the Company.

These competitors may also have greater experience in developing products, conducting clinical trials, obtaining regulatory approvals, and manufacturing and marketing such products. Certain of these competitors may obtain patent protection, approval or clearance by the FDA or foreign countries or product commercialization earlier than the Company, any of which could materially adversely affect the Company. Furthermore, if the Company commences significant commercial sales of its products, it will also be competing with respect to manufacturing efficiency and marketing capabilities, areas in which it currently has limited experience.

Other recently developed technologies or procedures are, or may in the future be, the basis of competitive products. There can be no assurance that the Company's current competitors or other parties will not succeed in developing alternative technologies and products that are more effective, easier to use or more economical than those which have or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive in these fields. In such event, the Company's business, financial condition and results of operations could be materially adversely affected. See "Risk Factors--Rapid Technological Change."

Single-Use Medical Devices

The Company competes in this market with many larger companies such as Boston Scientific's SciMed Life Systems, Guidant Corporation's Advanced Cardiovascular Systems, C.R. Bard, Inc. and Baxter Healthcare Corporation. Many of these companies are larger and carry broader product lines than CryoLife which allows them to bundle products to hospitals. Bundling device products has become a cost-effective way of marketing several products in a line and of providing incentives for the customer to use several products in a product line.

At present, CryoLife does not bundle its single-use medical devices but instead offers novel product enhancement.

GOVERNMENT REGULATION

U.S. Federal Regulation

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

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

If the product does not qualify for the 510(k) procedure (either because it is not substantially equivalent to a legally marketed device or because it is a Class III device required by the FDCA and implementing regulations to have an approved application for premarket approval ("PMA"), the FDA must approve a PMA application before marketing can begin. PMA applications must demonstrate, among other matters, that the medical device is safe and effective. A PMA application is typically a complex submission, usually including the results of human clinical studies, and preparing an application is a detailed and time-consuming process. Once a PMA application has been submitted, the FDA's review may be lengthy and may include requests for additional data. By statute and regulation, the FDA may take 180 days to review a PMA application although such time may be extended. Furthermore, there can be no assurance that a PMA application will be reviewed within 180 days or that a PMA application will be approved by the FDA.

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

The FDCA requires all medical device manufacturers and distributors to register with the FDA annually and to provide the FDA with a list of those medical devices which they distribute commercially. The FDCA also requires manufacturers of medical devices to comply with labeling requirements and to manufacture devices in accordance with Quality System Regulations, which require that companies manufacture their products and maintain their documents in a prescribed manner with respect to good manufacturing practices, design, document production, process, labeling and packaging controls, process validaiton and other quality control activities. The FDA's medical device reporting regulation requires that a device manufacturer provide information to the FDA on death or serious injuries alleged to have been associated with the use of its products, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The FDA's medical device tracking regulation requires the adoption of a method of device tracking by manufacturers of life-sustaining or implantable products, the failure of which would be reasonably likely to have serious adverse health consequences. The manufacturer must adopt methods to ensure that such devices can be

traced from the manufacturing facility to the ultimate user, the patient. The FDA further requires that certain medical devices not cleared for marketing in the U.S. follow certain procedures before they are exported.

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

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

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

Other Tissue. Other than human and porcine heart valves, none of the Company's other tissue services or products are currently subject to regulation as medical devices under the FDCA or FDA regulation. Heart valves are one of a small number of processed human tissues over which the FDA has asserted medical device jurisdiction. In July 1997, the FDA published a final rule, which became effective in January 1998, regulating "human tissue." The rule clarifies and modifies an earlier interim rule and defines human tissue as any tissue derived from a human body which is (i) intended for administration to another human for the diagnosis, cure, mitigation, treatment or prevention of any condition or disease and (ii) recovered, processed, stored or distributed by methods not intended to change tissue function or characteristics. The FDA definition excludes, among other things, tissue that currently is regulated as a human drug, biological product or medical device and excludes kidney, liver, heart, lung, pancreas or any other vascularized human organ. Human tissue is regulated by the FDA in a manner the agency has deemed necessary to protect the public health from the transmission of HIV infection and hepatitis infection through transplantation of tissue from donors with or at risk for these diseases. Unlike certain drugs, biologicals and medical devices, human tissue is not subject to premarket notification or approval by the FDA. It is likely, moreover, that the FDA will expand its regulation of processed human tissue in the future. For example, the FDA may determine that the veins and connective tissue that are currently processed by the Company are medical devices, or the FDA may determine to regulate human heart valves as "human tissue" rather than medical devices, but the FDA has not done so at this time. Complying with FDA regulatory requirements or obtaining required FDA approvals or clearances may entail significant time delays and expenses or may not be possible, any of which may have a material adverse effect on the Company. In addition, the U.S. Congress is expected to consider legislation that would regulate human tissue for transplant or the FDA could impose a separate regulatory scheme for human tissue. Such legislation or regulation could have a material adverse effect on the Company.

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

Single-Use Medical Devices. The products offered by the Company through IFM are regulated as Class I and Class II medical devices by the FDA. These products require clearance under a 510(k) procedure. All products currently marketed by IFM have received a 510(k) clearance from the FDA. In addition, the IFM facilities are subject to periodic review by the FDA, as are the Company's records on returned products and reported problems.

BioGlue Surgical Adhesive. It is anticipated that BioGlue surgical adhesive will be regulated as a Class III medical device, as a biologic or in some other capacity by the FDA. The Company is currently preparing to submit an application with the FDA for approval to conduct clinical trials for BioGlue surgical adhesive. There can be no assurance that approval of this application will be obtained.

Possible Other FDA Regulation. Other products and processes under development by the Company are likely to be subject to regulation by the FDA (e.g., SynerGraft and FibRx surgical sealant). Some may be classified as medical devices; others may be classified as drugs or biological products or subject to a regulatory scheme for human tissue that the FDA may adopt in the future. Regulation of drugs and biological products is substantially similar to regulation of medical devices. Obtaining FDA approval to market these products is likely to be a time consuming and expensive process, and there can be no assurance that any of these products will ever receive FDA approval, if required, to be marketed.

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

State Licensing Requirements

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

Foreign Approval Requirements

Sales of medical devices and biological products outside the U.S. are subject to foreign regulatory requirements that vary widely from country to country. Approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to commercialization of the product in those countries. The time required to obtain foreign approvals may be longer or shorter than that required for FDA approval. The European Community recognizes a single approval, called a CE Mark, which allows for distribution of an approved product throughout the European Community (15 countries) without additional applications to each country. The CE Mark is awarded by third parties called Notified Bodies. These Notified Bodies are approved and subject to review by the Competent Authorities of their respective countries. A number of countries outside of the European Community accept the CE Mark in lieu of clinical data submission as an addendum to that country's application process. The Company has been issued CE Marks for its CyroLife-O'Brien porcine heart valves, BioGlue surgical adhesive and IFM single-use medical devices by LRQA. The Company's porcine heart valves may be exported to specified developed nations, including countries in the European Community, Australia, Canada, Israel, Japan, New Zealand, South Africa and Switzerland if they comply with the laws of that country and have valid marketing authorization by the appropriate authority in that country. Beginning in July 1998, CE Mark Certification will be required to market porcine heart valves and other bioprosthetics in the European Community.

ENVIRONMENTAL MATTERS

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

EMPLOYEES

The Company presently has approximately 330 employees. These employees include nine persons with PhD degrees. None of the Company's employees is represented by a labor organization or covered by a collective bargaining agreement, and the Company has never experienced a work stoppage or interruption due to labor disputes. Management believes its relations with its employees are good.

LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. Management believes that no currently ongoing litigation, if determined adversely to the Company, will have a material adverse effect on the Company's business, financial condition or results of operations.

RISK FACTORS

DEPENDENCE ON CRYOPRESERVATION OF HUMAN TISSUE

A significant portion of the Company's current revenues is derived from the cryopreservation of human tissue, particularly heart valves and conduits. The success of this business depends upon, among other factors, the availability of sufficient quantities of tissue from human donors. Any material reduction in the supply of donated human heart tissue could restrict the Company's growth. The Company relies primarily upon the efforts of third party procurement agencies (all of which are not-for-profit) and others to educate the public and foster a willingness to donate tissue. Based on the Company's experience with human heart valves, management believes that once the use by physicians of a particular transplantable tissue gains acceptance, demand for that tissue will exceed the amount of tissue available from human donors. While availability is not currently a limiting factor for most vascular tissue and connective tissue for the knee, growth in these areas could ultimately be limited by tissue availability, in addition to other factors. Failure of the Company to maintain its supply of tissue for cryopreservation could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, a reduction in the demand for the Company's cryopreserved human tissue could also have a material adverse effect on the Company's business, financial condition and results of operations. Such reduction could occur if competitors' products were perceived as either functionally superior or more cost effective (see "--Intense Competition" and "--Uncertainties Regarding Future Health Care Reimbursement"), if the number of procedures in which cryopreserved tissues are used declines or if hospitals acquire sufficient inventories of cryopreserved tissue to allow a reduction in new orders.

INTENSE COMPETITION

The Company faces competition from other companies that cryopreserve human tissue, as well as companies that market mechanical valves and synthetic and animal tissue for implantation. Management believes that at least three tissue banks offer cryopreservation services for human heart valves and many companies offer processed porcine heart valves and mechanical heart valves. A few companies dominate portions of the

mechanical and porcine heart valve markets, including St. Jude Medical, Inc., Medtronic, Inc. and Baxter International Inc. The Company also faces competition from a number of competitors in the area of single-use medical devices and is aware that several companies have surgical adhesive products under development. Competitive products may also be under development by other large medical device, pharmaceutical and biopharmaceutical companies. Many of the Company's competitors have greater financial, technical, manufacturing and marketing resources than the Company and are well established in their markets. There can be no assurance that the Company's products and services will be able to compete successfully with the products of these or other companies. Any products developed by the Company that gain regulatory clearance or approval will have to compete for market acceptance and market share. Failure of the Company to compete effectively could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Competition."

RAPID TECHNOLOGICAL CHANGE

The technologies underlying the Company's products and services are subject to rapid and profound technological change. The Company expects competition to intensify as technical advances in each field are made and become more widely known. There can be no assurance that others will not develop products or processes with significant advantages over the products and processes that the Company offers or is seeking to develop. Any such occurrence could have a material adverse effect on the Company's business, financial condition and results of operations.

UNCERTAINTIES REGARDING PRODUCTS IN DEVELOPMENT

The Company's growth and profitability will depend, in part, upon its ability to complete development of and successfully introduce new products. The Company may be required to undertake time consuming and costly development activities and seek regulatory clearance or approval for new products. See "--Extensive Government Regulation." Although the Company has conducted pre-clinical studies on many of its products under development which indicate that such products may be effective in a particular application, there can be no assurance that the results obtained from expanded clinical studies will be consistent with earlier trial results or be sufficient for the Company to obtain any required regulatory approvals or clearances. There can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products, that regulatory clearance or approval of these or any new products will be granted on a timely basis, if ever, or that the new products will adequately meet the requirements of the applicable market or achieve market acceptance. The completion of the development of any of the Company's products remains subject to all of the risks associated with the commercialization of new products based on innovative technologies, including unanticipated technical or other problems, manufacturing difficulties and the possible insufficiency of the funds allocated for the completion of such development. Consequently, there can be no assurance that any of the Company's products under development will be successfully developed or manufactured or, if developed and manufactured, that such products will meet price or performance objectives, be developed on a timely basis or prove to be as effective as competing products. The inability to complete successfully the development of a product or application, or a determination by the Company, for financial, technical or other reasons, not to complete development of any product or application, particularly in instances in which the Company has made significant capital expenditures, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's porcine heart valve products are currently only offered for sale outside of the U.S., and beginning in the second quarter of 1998, the Company expects to begin shipping its BioGlue surgical adhesive for distribution in the European Community. The Company's porcine heart valves and BioGlue surgical adhesive are subject to the risk that the Company may be unable to obtain regulatory approval necessary to permit commercial distribution of these products in the U.S.

The Company's research and development efforts are time consuming and expensive and there can be no assurance that these efforts will lead to commercially successful products or services. Even the successful

commercialization of a new service or product in the medical industry can be characterized by slow growth and high costs associated with marketing, under-utilized production capacity and continuing research, and development and education costs. Generally, the introduction of new human tissue products requires significant physician training and years of clinical evidence derived from follow-up studies on human implant recipients in order to gain acceptance in the medical community.

EXTENSIVE GOVERNMENT REGULATION

Government regulation in the U.S., the European Community and other jurisdictions represents a potentially determinative factor in the success of the Company's efforts to market and develop its products. See "Business--Government Regulation." The human heart valves to which the Company applies its cryopreservation services are currently regulated as Class II medical devices by the FDA and are subject to significant regulatory requirements, including Quality System Regulations and recordkeeping requirements. There can be no assurance that changes in regulatory treatment or the adoption of new statutory or regulatory requirements will not occur, which could adversely impact the marketing or development of these products or could adversely affect market demand for these products.

Other allograft tissues processed and distributed by the Company are currently regulated as "human tissue" under a rule promulgated by the FDA pursuant to the Public Health Services Act. This rule establishes requirements for donor testing and screening of human tissue and recordkeeping relating to these activities. Although the Company's other human tissue allografts are not currently regulated as medical devices, such tissue may in the future become subject to more extensive FDA regulation, which could include PMA or product licensing requirements.

Although the regulatory status of the Company's BioGlue surgical adhesive and FibRx surgical sealant is not certain, the Company believes that FibRx surgical sealant will be regulated as a biologic and anticipates that BioGlue surgical adhesive will be regulated as a Class III medical device, as a biologic or in some other capacity by the FDA. These products have not been approved for distribution within the U.S. To date, the FDA has never approved for sale in the U.S. a surgical adhesive or sealant which, like FibRx surgical sealant, is composed of human blood components. Management believes that concerns over viral transmission may have hindered FDA approval of such products. There can be no assurance that CryoLife's quality control protocols will sufficiently address FDA concerns or that CryoLife will be able to develop viral inactivation processes acceptable to the FDA or license such processes at an acceptable cost. Fixed porcine heart valve products are classified as Class III medical devices. There can be no assurance that the Company will be able to obtain the FDA approval required to distribute its surgical adhesives, surgical sealants or porcine heart valve products in the U.S. Distribution of these products within the European Community is dependent upon the Company maintaining its CE Mark and ISO 9001 certifications, of which there can be no assurance.

Most of the Company's products in development, if successfully developed, will require regulatory approvals from the FDA and perhaps other regulatory authorities before they may be commercially distributed. The process of obtaining required regulatory approvals from the FDA normally involves clinical trials and the preparation of an extensive PMA application and often takes many years. The process is expensive and can vary significantly based on the type, complexity and novelty of the product. There can be no assurance that any products developed by the Company, independently or in collaboration with others, will receive the required approvals for manufacturing and marketing. Delays in obtaining U.S. or foreign approvals could result in substantial additional cost to the Company and adversely affect the Company's competitive position. The FDA may also place conditions on product approvals that could restrict commercial applications of such products. Product marketing approvals or clearances may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. Delays imposed by the governmental clearance process may materially reduce the period during which the Company has the exclusive right to commercialize patented products. Also, delays or rejections may be encountered during any stage of the regulatory approval process based upon the failure of the clinical or other data to demonstrate compliance with, or upon the failure of the product to meet, the regulatory agency's requirements for safety, efficacy and quality, and those requirements may become more stringent due to changes in applicable law, regulatory agency policy or the adoption of new

regulations. Clinical trials may also be delayed due to unanticipated side effects, inability to locate, recruit and qualify sufficient numbers of patients, lack of funding, the inability to locate or recruit scientists, the redesign of clinical trial programs, the inability to manufacture or acquire sufficient quantities of the particular product candidate or any other components required for clinical trials, changes in the Company's or its collaborative partners' development focus and a disclosure of trial results by competitors. To date, the Company has never had to submit clinical trials for any of its products. In the event that it should be required to perform clinical trials, there can be no guarantee that it will be able to do so effectively and efficiently. Even if regulatory approval is obtained for any of the Company's products or services, the scope of the approval may significantly limit the indicated usage for which such products or services may be marketed.

Products marketed by the Company pursuant to FDA or foreign oversight or approval are subject to pervasive and continuing regulation. In the U.S., devices and biologics must be manufactured in registered, and in the case of biologics, licensed, establishments and must be produced in accordance with Quality System Regulations. Manufacturing facilities and processes are subject to periodic FDA inspection. Labeling and promotional activities are also subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The export of devices and biologics is also subject to regulation and may require FDA approval. From time to time, the FDA may modify such regulations, imposing additional or different requirements. Failure to comply with any applicable FDA requirements, which may be ambiguous, could result in civil and criminal enforcement actions, product recalls or detentions and other penalties and could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the National Organ Transplant Act ("NOTA") prohibits the acquisition or transfer of human organs for "valuable consideration" for use in human transplantation. NOTA permits the payment of reasonable expenses associated with the removal, transportation, processing, preservation, quality control and storage of human organs. There can be no assurance that restrictive interpretations of NOTA will not be adopted in the future that will challenge one or more aspects of the Company's methods of charging for its cryopreservation services. The Company's laboratory operations are subject to the U.S. Department of Labor, Occupational Safety and Health Administration and Environmental Protection Agency requirements for prevention of occupational exposure to infectious agents and hazardous chemicals and protection of the environment. Some states have enacted statutes and regulations governing the processing, transportation and storage of human organs and tissue. While management believes that the Company is presently in compliance in all material respects with all such applicable statutes and regulations, there can be no assurance that more restrictive state laws or regulations will not be adopted in the future that could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

UNCERTAINTIES RELATED TO PATENTS AND PROTECTION OF PROPRIETARY TECHNOLOGY

The Company owns several patents, patent applications and licenses relating to its technologies, which it believes provide important competitive advantages. There can be no assurance that the Company's pending patent applications will issue as patents or that challenges will not be instituted concerning the validity or enforceability of any patent owned by the Company, or, if instituted, that such challenges will not be successful. The cost of litigation to uphold the validity and prevent infringement of a patent could be substantial. Furthermore, there can be no assurance that competitors will not independently develop similar technologies or duplicate the Company's technologies or design around the patented aspects of the Company's technologies. There can be no assurance that the Company's proposed technologies will not infringe patents or other rights owned by others. In addition, under certain of the Company's license agreements, if the Company fails to meet certain contractual obligations, including the payment of minimum royalty amounts, such licenses may become nonexclusive or terminable by the licensor, which could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, the Company protects its proprietary technologies and processes in part by confidentiality agreements with its collaborative partners, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach or that

the Company's trade secrets will not otherwise become known or independently discovered by competitors, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

UNCERTAINTIES REGARDING FUTURE HEALTH CARE REIMBURSEMENT

Even though the Company does not receive payments directly from third-party health care payors, their reimbursement methods and policies impact demand for the Company's cryopreserved tissue and other services and products. The Company's cryopreservation services may be particularly susceptible to third-party cost containment measures. In particular, the initial cost of a cryopreserved human heart valve generally exceeds the cost of a mechanical, synthetic or animal-derived valve. The Company is unable to predict what changes will be made in the reimbursement methods and policies utilized by third-party health care payors or their effect on the Company. Changes in the reimbursement methods and policies utilized by third-party health care payors, including Medicare, with respect to cryopreserved tissues provided for implant by the Company and other Company services and products, could have a material adverse effect on the Company. Significant uncertainty exists as to the reimbursement status of newly approved health care products and services and there can be no assurance that adequate third-party coverage will be available for the Company to maintain price levels sufficient for realization of an appropriate return on its investment in developing new products. Government and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new products approved for marketing by the FDA and by refusing in some cases to provide any coverage for uses of approved products for indications for which the FDA has not granted marketing approval. If adequate coverage and reimbursement levels are not provided by government and other third-party payors for uses of the Company's new products and services, market acceptance of these products would be adversely affected, which could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON KEY PERSONNEL

The Company's business and future operating results depend in significant part upon the continued contributions of its key technical personnel and senior management, many of whom would be difficult to replace. The Company's business and future operating results also depend in significant part upon its ability to attract and retain qualified management, processing, technical, marketing, sales and support personnel for its operation. Competition for such personnel is intense and there can be no assurance that the Company will be successful in attracting and retaining such personnel. The loss of key employees, the failure of any key employee to perform adequately or the Company's inability to attract and retain skilled employees as needed could have a material adverse effect on the Company's business, financial condition and results of operations.

PRODUCT LIABILITY AND INSURANCE

The use of the Company's products involves the possibility of adverse effects that could expose the Company to product liability claims. A recent U.S. Supreme Court decision held that product liability may exist despite FDA approval, and future court decisions may also increase the Company's risk of product liability. From time to time, the Company is involved in legal proceedings based on product liability claims of a nature considered normal to its business. The Company is currently involved in one such proceeding. The Company's products are used by health care providers in connection with the treatment of patients, who will, on occasion, sustain injury or die as a result of their condition or medical treatment. If a lawsuit is filed because of such an occurrence, the Company, along with physicians and nurses, hospitals and other medical suppliers, may be named as a defendant, and whether or not the Company is ultimately determined to be liable, the Company may incur significant legal expenses. In addition, such litigation could damage the Company's reputation and therefore impair its ability to market its products or obtain product liability insurance and could cause the premiums for such insurance to increase. Although the Company has incurred minimal losses due to product liability claims to date, there can be no assurance that it will not incur significant losses in the future. The Company currently maintains product liability insurance in the aggregate amount of $14 million per year. There can be no assurance that such coverage will continue to be

available on terms acceptable to the Company or will be adequate to cover any losses due to product claims if actually incurred. Furthermore, if any such claim is successful, it could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Legal Proceedings."

USE AND DISPOSAL OF HAZARDOUS MATERIAL

The Company's research, development and processing activities involve the controlled use of small quantities of radioactive compounds, chemical solvents and other hazardous materials. The Company's activities also include the preservation and growth of human cells and the processing of human tissue. Although the Company believes that its safety procedures for handling, processing and disposing of hazardous materials and human tissue comply with the standards prescribed by federal, state and local regulations, the risk of accidental contamination, injury or disease transmission from these materials cannot be completely eliminated. In the event of such an accident or transmission, the Company could be held liable for resulting damages and any liability could have a material adverse effect on the Company's business, financial condition and results of operations. Also, any failure to comply with applicable regulations could result in the imposition of penalties, fines and sanctions, which could have a material adverse effect on the Company's business, financial condition and results of operations.

VOLATILITY OF SECURITIES PRICES

The trading price of the Company's Common Stock has been subject to wide fluctuations from time to time and may continue to be subject to such volatility in the future. Trading price fluctuations can be caused by a variety of factors, including quarter to quarter variations in operating results, announcement of technological innovations or new products by the Company or its competitors, governmental regulatory acts, developments with respect to patents or proprietary rights, general conditions in the medical device or service industries, actions taken by government regulators, changes in earnings estimates by securities analysts or other events or factors, many of which are beyond the Company's control. If the Company's revenues or operating results in future quarters fall below the expectations of securities analysts and investors, the price of the Company's Common Stock would likely decline, perhaps substantially. Changes in the trading price of the Company's Common Stock may bear no relation to the Company's actual operational or financial results.

ANTI-TAKEOVER PROVISIONS

The Company's Articles of Incorporation and Bylaws contain provisions that may discourage or make more difficult any attempt by a person or group to obtain control of the Company, including provisions authorizing the issuance of preferred stock without shareholder approval, restricting the persons who may call a special meeting of the shareholders and prohibiting shareholders from taking action by written consent. In addition, the Company is subject to certain provisions of Florida law that may discourage or make more difficult takeover attempts or acquisitions of substantial amounts of the Company's Common Stock. Further, pursuant to the terms of a shareholder rights plan adopted in 1995, each outstanding share of Common Stock has one attached right. The rights will cause substantial dilution of the ownership of a person or group that attempts to acquire the Company on terms not approved by the Board and may have the effect of deterring hostile takeover attempts.

SHARES ELIGIBLE FOR FUTURE SALE

Substantially all of the Company's outstanding Common Stock is available for sale in the public marketplace. As of January 31, 1998, there were also outstanding stock options to purchase an aggregate of 747,000 shares of Common Stock at various exercise prices per share. The majority of the shares to be received upon exercise of these options will be available for immediate resale in the public markets. No prediction can be made as to the effect, if any, that sales of shares of Common Stock or the availability of such shares for sale will have on the market prices prevailing from time to time. The possibility exists that substantial amounts of Common Stock may be sold in the public market, which may adversely affect prevailing market prices for the Common Stock and could impair the Company's ability to raise capital through the sale of its equity securities.

ABSENCE OF DIVIDENDS

The Company has not paid, and does not presently intend to pay, cash dividends. The Company's major credit agreement contains, and future credit agreements may contain, financial covenants, including covenants to maintain certain levels of net worth and certain leverage ratios, which could have the effect of restricting the amount of dividends that the Company may pay. It is not likely that any cash dividends will be paid in the foreseeable future.

FORWARD-LOOKING STATEMENTS

This Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-K which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including approval of statements regarding the Company's competitive position, the timing and of the application to the FDA for the stentless CryoLife-O'Brien porcine heart valves, BioGlue surgical adhesive, and FibRx surgical sealant, other estimated dates relating to the Company's proposed regulatory submissions, estimates regarding 1998 research and development expenditures, the Company's expectations regarding the adequacy of current financing arrangements, product demand and market growth, and other statements regarding future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from the Company's expectations, including the risk factors discussed in this Form 10-K and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-K are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 2. PROPERTIES.

The Company's facilities (other than its single use medical device manufacturing plant) are located in suburban Atlanta, Georgia, and consist of three separate locations totaling approximately 130,000 square feet of leased office, laboratory and warehouse space. Approximately 17,500 square feet are dedicated to laboratory work areas. The primary facility, which does not include the bioadhesive laboratory and the bioprosthetic manufacturing operation, has three main laboratory facilities: human tissue processing, research and development, and microbiology. Each of these areas consists of a general technician work area and adjoining "clean rooms" for work with human tissue and for aseptic processing. The clean rooms are supplied with highly filtered air which provides a near-sterile environment. The human tissue processing laboratory contains approximately 7,700 square feet with a suite of seven clean rooms. The research and development laboratory is approximately 5,500 square feet with a suite of five clean rooms. The microbiology laboratory is approximately 3,200 square feet with a suite of three clean rooms. The biomedical products laboratory facility contains approximately 11,000 square feet, including approximately 4,000 square feet of laboratory space with a suite of eight clean rooms. The Company's porcine heart valves are manufactured in the Company's bioprosthesis laboratory, which contains approximately 13,000 square feet, with about 3,500 square feet of laboratory space and a suite of four clean rooms for tissue processing. The Company's single use medical devices are manufactured at the Company's IFM subsidiary located in St. Petersburg, Florida. This facility is approximately 30,000

square feet.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. Management believes that no currently ongoing litigation, if determined adversely to the Company, will have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.

Inapplicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

NAME	AGE	POSITION	DATE FIRST ELECTED TO PRESENT OFFICE
Steven G. Anderson	59	President, Chief Executive Officer and Chairman	February, 1984
Kirby S. Black, PhD	43	Vice President, Research and Development	July, 1995
Edwin B. Cordell, Jr., CPA	39	Vice President and Chief Financial Officer	December, 1994
Albert E. Heacox, PhD	47	Vice President, Laboratory Operations	June, 1995
Gerald B. Seery	41	Vice President, Marketing	August, 1995
James C. Vander Wyk, PhD	53	Vice President, Regulatory Affairs and Quality Assurance	February, 1996
Ronald D. McCall, Esq.	53	Director, Secretary and Treasurer	January, 1984

STEVEN G. ANDERSON, a founder of the Company, has served as the Company's President, Chief Executive Officer and Chairman since its inception. Mr. Anderson has more than 30 years of experience in the implantable medical device industry. Prior to joining the Company, Mr. Anderson was Senior Executive Vice President and Vice President, Marketing, from 1976 until 1982 of Intermedics, Inc., a manufacturer and distributor of pacemakers and other medical devices. Mr. Anderson received his BA from the University of Minnesota.

KIRBY S. BLACK, PHD, has served as Vice President of Research and Development since July 1995. Dr. Black is responsible for the continued development of the Company's current products as well as the evaluation of new technologies. Dr. Black is listed on three patents and has authored 118 publications. Prior to joining the Company, Dr. Black was Director, Medical Information and Project Leader from July 1993 until July 1994 at Advanced Tissue Sciences, LaJolla, California. Dr. Black has also held a number of positions at the University of California at Irvine, including Director, Transplantation and Immunology Laboratories, Department of Surgery. Dr. Black received his BS degree from the University of California, Los Angeles, and his PhD degree from the University of California at Irvine.

EDWIN B. CORDELL, JR., CPA, has served as Vice President and Chief Financial Officer of the Company since November 1994. From August 1987 to November 1994, Mr. Cordell served as Controller and Chief Financial Officer of Video Display Corporation, a cathode ray tube remanufacturing and distribution company. Mr. Cordell received his BS in Accounting from the University of Tennessee.

ALBERT E. HEACOX, PHD, has served as Vice President, Laboratory Operations since June 1988 and has been with the Company since June of 1985. Dr. Heacox has been responsible for developing protocols and procedures for both cardiovascular and connective tissues, implementing upgrades in procedures in conjunction with the Company's quality assurance programs, and overseeing all production activities of the Company's laboratories. Prior to joining the Company, Dr. Heacox worked as a researcher with the U.S. Department of Agriculture and North Dakota State University, developing methods for the cryopreservation of cells and animal germ plasm storage. Dr. Heacox received a BA and an MS in Biology from Adelphi University, and received his PhD in Biology from Washington State University and completed his post-doctorate training in cell biology at the University of Cologne, West Germany.

GERALD B. SEERY has served as Vice President of Marketing since August 1995 and has been with the Company since July 1993. Mr. Seery is responsible for developing and implementing the Company's sales and marketing plans and supervising all tissue procurement activities. Prior to joining the Company, Mr. Seery held senior

marketing management positions with Meadox Medicals from 1982 until 1985, Electro Catheter Corporation from 1985 until 1989 and Daig Corporation from 1992 until 1993, accumulating fifteen years of specialized marketing experience in cardiovascular medical devices. Mr. Seery received his BA in International Economics at The Catholic University of America in Washington, D.C. in 1978 and completed his MBA at Columbia University in New York in 1980.

JAMES C. VANDER WYK, PHD, has served as Vice President, Regulatory Affairs and Quality Assurance of the Company since February 1996. Prior to joining the Company, Dr. Vander Wyk held senior management positions at Schneider (USA), Inc. from 1993 until 1996, Pharmacia Deltec, Inc. from 1985 until 1993, Delmed, Inc. from 1980 until 1985 and Pharmaco, Inc. from 1975 to 1979, gaining 20 years of experience in Regulatory Affairs and Quality Assurance. Dr. Vander Wyk received his BS in Pharmacy from the Massachusetts College of Pharmacy and his PhD in Microbiology from the University of Massachusetts. Dr. Vander Wyk performed his NIH Postdoctoral Fellowship at the University of Illinois.

RONALD D. MCCALL has served as a director of the Company and as the Secretary and Treasurer of the Company since January 1984. From 1985 to the present, Mr. McCall has been the proprietor of the law firm of Ronald D. McCall, Attorney At Law, Tampa, Florida. Mr. McCall was admitted to the practice of law in Florida in 1961. Mr. McCall received his BA and JD degrees from the University of Florida.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "CRY." Prior to July 15, 1997, the Company's Common Stock was traded on the Nasdaq National Market under the symbol "CRYL." The following table sets forth, for the periods indicated, the intra-day high and low sale prices per share of Common Stock on the NYSE or the Nasdaq National Market, as applicable:

	HIGH	LOW
1998		
First Quarter (through February 18, 1998)	$17 15/16	$13 3/4
1997		
Fourth Quarter	19	13
Third Quarter	16 1/8	11 1/4
Second Quarter	13 1/4	7 5/8
First Quarter	14 1/4	8
1996		
Fourth Quarter	15 3/4	12 3/16
Third Quarter	20 1/2	11 1/4

Second Quarter	20 3/4	10 4/5
First Quarter	12 5/8	7
1995		
Fourth Quarter	9 1/16	6 1/8
Third Quarter	9 1/8	5 3/8
Second Quarter	5 5/8	3 3/8
First Quarter	4 1/4	3 1/8

As of February 1, 1998, there were approximately 410 holders of record, and approximately 7,000 beneficial holders, of the Company's Common Stock.

ITEM 6. SELECTED FINANCIAL DATA.

The following Selected Consolidated Financial Data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this Form 10-K or incorporated herein by reference. The data set forth below with respect to the Company's Consolidated Income Statements and Balance Sheets for, and as of the end of, the years ended December 31, 1996 and 1997 are derived from the Company's Consolidated Financial Statements which have been audited by Ernst & Young LLP, independent auditors, and which are included elsewhere in this Form 10-K and are qualified by reference to such Consolidated Financial Statements and Notes thereto. The selected data presented below for, and as of the end of, each of the years in the three-year period ended December 31, 1995, are derived from the Consolidated Financial Statements of the Company, which Consolidated Financial Statements have been audited by KPMG Peat Marwick LLP, independent auditors. The Consolidated Income Statement for the year ended December 31, 1995, and the report thereon, are included elsewhere in this Form 10-K. The historical results are not necessarily indicative of future results of operations.

	YEAR ENDED DECEMBER 31,				
	1993	1994	1995	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA:					
Revenues:					
Cryopreservation	$18,938	$22,818	$27,994	$36,293	$44,242
Bioprosthetic cardiovascular devices	933	414	263	385	576
Single-use medical devices	--	--	--	--	5,591
Other income	1,470	578	969	550	460
Total Revenues	21,341	23,810	29,226	37,228	50,869
Expenses:					
Cost of cryopreservation and products	8,759	8,965	10,485	12,593	17,764
Research and development	1,384	1,975	2,634	2,807	3,946
General, administrative and marketing	10,282	11,085	12,807	15,673	20,548
Interest expense	23	21	4	72	978
Total Expenses	20,448	22,046	25,930	31,145	43,226
Income before income taxes	893	1,764	3,296	6,083	7,633
Income tax expense	339	498	1,094	2,156	2,908
Net income	$ 554	$ 1,266	$ 2,202	$ 3,927	$ 4,725
Earnings per share of common stock:					
Basic	$ .06	$ .14	$ .23	$ .41	$ .49
Diluted	$ .06	$ .14	$ .23	$ .40	$ .48
Weighted average number of shares of common stock outstanding:					
Basic	9,018	9,312	9,379	9,505	9,642
Diluted	9,114	9,373	9,568	9,906	9,942

	DECEMBER 31,				
	1993	1994	1995	1996	1997
BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	$ 5,079	$ 6,366	$ 6,182	$ 1,370	$ 111
Total assets	20,075	21,417	24,132	34,973	53,749
Long-term debt, including current maturities	--	--	--	3,326	18,362
Retained earnings	506	1,773	3,975	7,902	12,627
Total shareholders' equity	16,615	17,933	20,465	24,929	30,227

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The Company was organized in 1984 to address market opportunities in the area of biological implantable products and materials, and today is the leader in the cryopreservation of viable human tissue for cardiovascular, vascular and orthopaedic applications. A majority of the Company's current revenues are derived from the cryopreservation of human heart valves and conduits, reflecting CryoLife's initial exclusive focus on this area. The Company began cryopreserving aortic heart valves in 1984, pulmonary heart valves in 1986 and mitral heart valves in 1995. CryoLife has also expanded into the cryopreservation of other human tissue, including vascular tissue and connective tissue for the knee.

The Company pays a fee to an organ procurement agency or tissue bank at the time such organization consigns human tissue to the Company. The Company generates revenues from cryopreservation services by charging hospitals a fee, which covers the Company's services, the associated procurement fee and applicable shipping expenses. The Company records revenue upon shipping tissue. Costs associated with the procurement, processing and storage of tissue are accounted for as deferred preservation costs on the Company's balance sheet and are expensed when the tissue is shipped. The Company continually monitors cryopreserved tissue in its possession to determine its viability. Tissue determined not to be suitable for implantation is disposed of properly, and the associated deferred preservation costs are expensed. As part of an effort to reduce its working capital needs, while simultaneously facilitating the use of cryopreserved tissue, the Company provides liquid nitrogen freezers to a number of hospitals. The Company retains ownership of the liquid nitrogen freezers and, consequently, incurs associated depreciation charges. The hospitals are responsible for operating expenses related to the use of the liquid nitrogen freezers.

The Company has expanded, and intends to continue to expand, its portfolio of products and services. Much of this expansion has been accomplished through acquisitions of intellectual property and companies. In 1992, the Company purchased for $730,000 the exclusive distribution rights for a line of stentless porcine heart valves which the Company currently markets in the European Community. In 1996, the Company purchased for $275,000 a patent for an advanced design stentless pulmonary porcine heart valve. Also in 1996, the Company acquired the assets of UCFI, a tissue processor, for $750,000 in cash and a $1.3 million note. In 1997, the Company acquired IFM and its line of single-use medical devices for $4.5 million in cash, a $5.0 million convertible debenture and a commitment to pay additional cash consideration (not to exceed $1.8 million) if certain target net revenues of IFM are exceeded.

The composition of the Company's revenues is expected to change in future years, reflecting, among other things, the anticipated growth in shipments of human vascular tissue and human connective tissue for the knee, the acquisition of IFM and the introduction into the European Community of BioGlue surgical adhesive as well as other expected new products.

The following table outlines product shipment and revenue data for the Company's major product lines from 1995 to 1997:

UNITS SHIPPED AND REVENUES BY MAJOR PRODUCT LINE	YEAR ENDED DECEMBER 31, 1995	1996	1997
	(DOLLARS IN THOUSANDS)		
Human Heart Valves and Conduits:			
Units shipped	3,499	4,528	5,244
Revenues	$19,767	$24,763	$29,046
Human Vascular Tissue:			
Units shipped	1,765	2,147	2,621
Revenues	$ 6,771	$ 8,172	$10,469
Human Connective Tissue for the Knee:			
Units shipped	573	1,562	1,859
Revenues	$ 1,456	$ 3,358	$ 4,727
Bioprosthetic Cardiovascular Devices:			
Units shipped	198	256	532
Revenues	$ 263	$ 385	$ 576

RESULTS OF OPERATIONS

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues increased 37% to $50.9 million in 1997 from $37.2 million in 1996. The increase in revenues was primarily due to the growing acceptance in the medical community of cryopreserved tissues, the Company's ability to procure greater amounts of tissue, price increases for certain cryopreservation services and revenues attributable to the Company's line of single-use medical devices following the IFM acquisition in March 1997. Revenues attributable to IFM were $5.6 million in 1997.

Revenues from human heart valve and conduit cryopreservation services increased 17% to $29.0 million in 1997 from $24.8 million in 1996, representing 57% and 67%, respectively, of total revenues during such years. This increase in revenues was primarily due to a 16% increase in the number of heart allograft shipments.

Revenues from human vascular tissue cryopreservation services increased 28% to $10.5 million in 1997 from $8.2 million in 1996, representing 21% and 22%, respectively, of total revenues during such years. This increase in revenues was primarily due to a 22% increase in the number of vascular allograft shipments resulting from the introduction of cryopreserved tissues for new procedures and an increased demand for the Company's existing cryopreservation services.

Revenues from human connective tissue for the knee cryopreservation services increased 38% to $4.7 million in 1997 from $3.4 million in 1996, representing 9% of total revenues during each year. This increase in revenues was primarily due to a 19% increase in the number of allograft shipments resulting from a greater proportion of the 1997 revenues being derived from the implantation of cryopreserved menisci, which have a significantly higher per unit revenue than the Company's cryopreserved tendons.

Revenues from the sale of bioprosthetic cardiovascular devices in 1997 were $576,000 compared to $385,000 in 1996, representing 1% of revenues during each year. Other revenues decreased to $460,000 in 1997 from $550,000 in 1996. Other revenues in 1997 consisted primarily of research grant award revenues related to the Company's SynerGraft technology.

Cost of cryopreservation services and products increased to $17.8 million in 1997 from $12.6 million in 1996. Cost of cryopreservation services and products as a percentage of revenues increased to 35% in 1997 from 34% in 1996. This increase was primarily due to the increased overhead costs associated with the new corporate headquarters and the addition of the IFM product line, partially offset by efficiencies gained with the increase in the number of allografts processed.

General, administrative and marketing expenses increased 31% to $20.5 million in 1997 from $15.7 million in 1996, representing 40% and 42%, respectively, of

total revenues during such years. The increased expenses of approximately $4.8 million were primarily attributable to increased costs associated with the Company's new corporate headquarters, increased fees paid to technical representatives and other related marketing expenses relating to the growth in revenues and increases in general overhead expenses to support the growth in revenues.

The Company has continued its commitment to research and development activity, spending approximately $3.9 million in 1997 and $2.8 million in 1996, representing 8% of total revenues during each year. The Company's research and development expenditures during 1997 were primarily for the development of bioadhesives for surgical applications and its SynerGraft technology.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Revenues increased 27% to $37.2 million in 1996 from $29.2 million in 1995. The increase in revenues was primarily due to growing acceptance in the medical community of cryopreserved tissues, the Company's ability to procure greater amounts of tissue and price increases for certain services.

Revenues from human heart valve and conduit cryopreservation services increased 25% to $24.8 million in 1996 from $19.8 million in 1995, representing 67% and 68%, respectively, of total revenues during such years. This increase in revenues was primarily due to a 29% increase in the number of heart allograft shipments.

Revenues from human vascular tissue cryopreservation services increased 21% to $8.2 million in 1996 from $6.8 million in 1995, representing 22% and 23%, respectively, of total revenues during such years. This increase in revenues was primarily due to a 22% increase in the number of vascular allograft shipments.

Revenues from human connective tissue for the knee cryopreservation services increased 127% to $3.4 million in 1996 from $1.5 million in 1995, representing 9% and 5%, respectively, of total revenues during each year. This increase in revenues was primarily due to a 173% increase in the number of allograft shipments partially offset by a decrease in the unit revenue of cryopreserved tendons.

Revenues from the sale of bioprosthetic cardiovascular devices in 1996 were $385,000 compared to $263,000 in 1995, representing 1% of revenues during each year. This increase in revenues was primarily due to a 29% increase in the number of units shipped.

Other revenues decreased to $550,000 in 1996 from $969,000 in 1995. Other revenues in 1996 consisted primarily of research grant award revenues and a fee from a terminated agreement with Bayer Corporation. Research grant award revenues in 1996 were primarily related to the development of bioadhesives for surgical application and the Company's SynerGraft technology. The decrease compared to 1995 was primarily attributable to the sale of the Company's patented Viral Inactivation Process ("VIP") technology to Osteotech, Inc. for approximately $450,000 in 1995. The Company had developed its VIP technology to eliminate potential viruses from human bone processed by the Company. The Company sold its bone processing business in 1993.

Costs of cryopreservation services and products increased to $12.6 million in 1996 from $10.5 million in 1995. Cost of cryopreservation services and products as a percentage of cryopreservation revenues decreased to 34% in 1996 from 36% in 1995. This decrease was primarily due to an increase in the volume of processed tissue and more efficient processing methods.

General, administrative and marketing expenses increased 23% to $15.7 million in 1996 from $12.8 million in 1995, representing 42% and 44%, respectively, of total revenues during such years. The increased expenses of approximately $2.9 million were primarily attributable to additional regulatory and quality assurance costs related to the Company's CE Mark and ISO 9001 certifications, increased fees paid to technical representatives and other related marketing expenses resulting from the growth in revenues and increases in general overhead expenses to support the growth in revenues.

The Company continued its commitment to research and development activity, spending approximately $2.8 million and $2.6 million in 1996 and 1995,

representing 8% and 9%, respectively, of total revenues during such years. The Company's research and development expenditures during 1996 were primarily for the development of bioadhesives for surgical applications and the SynerGraft technology.

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 that this demand trend for human heart valve and conduit cryopreservation services is primarily due to the high number of surgeries scheduled during the summer months. Management believes that the trends experienced by the Company to date for its human connective tissue for the knee cryopreservation services indicate that this business may also be seasonal because it is an elective procedure that may be performed less frequently during the fourth quarter holiday months. However, the demand for the Company's vascular tissue cryopreservation services, bioprosthetic cardiovascular devices and single-use medical devices does not appear to experience this seasonal trend.

Quarterly Results

The Company achieved record revenues and earnings in both the year and three months ended December 31, 1997, as compared to comparable prior periods, with the fourth quarter of 1997 being the Company's tenth consecutive quarter of record revenues and earnings as compared to the same quarter for prior years. In the opinion of management, the information set forth in the table below has been prepared on a basis consistent with the Company's audited Consolidated Financial Statements appearing elsewhere in the Form 10-K, and all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the

unaudited quarterly results in accordance with generally accepted accounting principles ("GAAP"). The results for any quarter are not necessarily indicative of results to be expected in any future period.

The following table presents selected unaudited quarterly income statement data for each of the eight quarters in the period ended December 31, 1997:

	QUARTER ENDED							
	1996				1997			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
	(IN THOUSANDS EXCEPT PER SHARE DATA)							
REVENUES:								
Cryopreservation services	$8,103	$9,544	$10,067	$8,579	$9,725	$10,910	$12,689	$10,918
Bioprosthetic cardiovascular devices	157	75	71	82	104	135	177	160
Single-use medical devices	--	--	--	--	554	1,596	1,703	1,738
Interest and other income	174	79	273	24	30	82	72	276
Total Revenues	8,434	9,698	10,411	8,685	10,413	12,723	14,641	13,092
EXPENSES:								
Cost of cryopreservation services and products	2,879	3,289	3,563	2,862	3,426	4,550	5,112	4,676
Research and development	690	701	616	800	849	857	1,243	997
General, administrative and marketing	3,626	4,181	4,239	3,627	4,479	5,165	5,620	5,284
Interest expense	--	--	39	33	132	296	317	233
Total Expenses	7,195	8,171	8,457	7,322	8,886	10,868	12,292	11,190

INCOME BEFORE INCOME TAXES	1,239	1,527	1,954	1,363	1,527	1,855	2,349	1,902
Income tax expense	457	539	693	467	575	695	891	747
NET INCOME	$ 782	$ 988	$ 1,261	$ 896	$ 952	$ 1,160	$ 1,458	$ 1,155
EARNINGS PER SHARE OF COMMON STOCK:								
Basic	$ .08	$ .11	$ .13	$ .09	$ .10	$ .12	$ .15	$ .12
Diluted	$ .08	$ .10	$ .13	$ .09	$ .10	$ .12	$ .15	$ .12
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:								
Basic	9,433	9,491	9,529	9,575	9,581	9,615	9,670	9,694
Diluted	9,756	9,933	9,925	9,943	9,877	9,889	9,978	10,023

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997, net working capital was $18.8 million, compared to $10.8 million at December 31, 1996, with a current ratio of 4 to 1 at December 31, 1997. The Company's primary capital requirements arise out of general working capital needs, including 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 used in operating activities was $2.2 million for the year ended December 31, 1997, as compared to net cash provided by operating activities of $3.2 million for the year ended December 31, 1996. This decrease resulted from an increase in deferred cryopreservation costs to support the growing acceptance of the Company's existing cryopreserved tissues as well as new cryopreserved tissue offerings in 1997.

Net cash used in investing activities was $9.6 million for the year ended December 31, 1997, as compared to $4.2 million for the year ended December 31, 1996. This increase primarily resulted from the Company's acquisition of IFM.

Net cash provided by financing activities was $10.6 million for the year ended December 31, 1997, as compared to $1.8 million for the year ended December 31, 1996. This increase was primarily attributable to borrowings under the Company's credit facility in connection with the acquisition of IFM and the construction of the new Company and IFM facilities and increased deferred cryopreservation costs.

The Company intends to file a registration statement with the Securities and Exchange Commission in connection with a public offering of up to 2,500,000 shares of Common Stock (excluding over-allotments) (the "Offering"). The Company anticipates that, even if the Offering is not consummated, borrowings under its existing credit agreements and cash generated from operations will be sufficient to meet its operating and development needs for the next 12 months. 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 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 to expand manufacturing capacity and the extent to which the Company's products generate market acceptance and demand. There can be no assurance that 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.

INFLATION

Although the Company cannot determine the precise effects of inflation, management does not believe it has had a significant effect on revenues or results of operations and does not expect it to have a significant effect in the near future.

YEAR 2000

The Company is aware of the issues that many computer systems will face as the millennium (year 2000) approaches. The Company, however, believes that its own internal software and hardware is year 2000 compliant. The Company believes that any year 2000 problems encountered by procurement agencies, hospitals and other customers and vendors are not likely to have a material adverse effect on the Company's operations. The Company anticipates no other year 2000 problems which are reasonably likely to have a material adverse effect on the Company's operations. There can be no assurance, however, that such problems will not arise.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement No. 130, Reporting Comprehensive Income ("Statement 130"). Statement 130 establishes new standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. These new standards require that all items recognized as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Statement 130 is effective for fiscal years beginning after December 15, 1997. The adoption of Statement 130 will not have a significant impact on the Company's Consolidated Financial Statements.

In June 1997, the FASB issued Statement 131, Disclosures About Segments of an Enterprise and Related Information ("Statement 131"). Statement 131 changes the way public companies report segment information in annual financial statements and also requires those companies to report selected segment information in interim financial reports. Statement 131 is effective for years beginning after December 15, 1997. The adoption of Statement 131 will not have a significant impact on the Company's consolidated financial position and results of operations, but will require additional disclosure in the notes to the Company's Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Inapplicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
CryoLife, Inc.

We have audited the accompanying consolidated balance sheets of CryoLife, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of CryoLife, Inc. for the year ended December 31, 1995 were audited by other auditors whose report dated February 14, 1996 expressed an unqualified opinion on those statements.

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

In our opinion, the 1997 and 1996 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CryoLife, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Atlanta, Georgia
February 9, 1998

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
CryoLife, Inc.

We have audited the accompanying consolidated statements of income, shareholders' equity and cash flows of CryoLife, Inc. and subsidiaries for the year ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of CryoLife, Inc. and subsidiaries for the year ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Atlanta, Georgia
February 14, 1996

CRYOLIFE, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 111,000	$ 1,370,000
Receivables:		
Trade accounts, less allowance for doubtful accounts of $103,000 in 1997 and $94,000 in 1996	9,224,000	6,572,000
Income taxes	230,000	404,000
Other	311,000	1,518,000
Total receivables	9,765,000	8,494,000
Deferred preservation costs, less allowances of $152,000 in 1997 and $278,000 in 1996	12,257,000	7,178,000
Inventories	1,761,000	260,000
Prepaid expenses	1,260,000	697,000
Deferred income taxes	--	33,000
Total current assets	25,154,000	18,032,000
Property and equipment:		
Equipment	10,533,000	8,515,000
Furniture and fixtures	1,828,000	1,493,000

Leasehold improvements	8,247,000	7,495,000
Construction in progress	2,509,000	--
	23,117,000	17,503,000
Less accumulated depreciation and amortization	7,630,000	5,788,000
Net property and equipment	15,487,000	11,715,000
Other assets:		
Goodwill, less accumulated amortization of $468,000 in 1997 and $27,000 in 1996	9,809,000	1,846,000
Patents, less accumulated amortization of $531,000 in 1997 and $352,000 in 1996	2,196,000	2,081,000
Other, less accumulated amortization of $483,000 in 1997 and $289,000 in 1996	1,103,000	1,299,000
Total assets	$53,749,000	$34,973,000

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,612,000	$ 3,696,000
Accrued expenses	222,000	720,000
Accrued compensation	1,122,000	878,000
Accrued fees to technical service representatives	312,000	214,000
Accrued procurement fees	1,565,000	1,210,000
Current maturities of long-term debt	1,496,000	527,000
Total current liabilities	6,329,000	7,245,000
Deferred income taxes	327,000	--
Bank loans	10,777,000	1,250,000
Convertible debenture	5,000,000	--
Other long-term debt	1,089,000	1,549,000
Total liabilities	23,522,000	10,044,000
Commitments and Contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value per share; authorized 5,000,000 shares including 2,000,000 shares of series A junior participating preferred stock; no shares issued	--	--
Common stock, $.01 par value per share; authorized 50,000,000 shares; issued 10,242,961 shares in 1997 and 10,110,326 shares in 1996	102,000	101,000
Additional paid-in capital	17,694,000	17,128,000
Retained earnings	12,627,000	7,902,000
Unrealized gain (loss) on marketable securities	--	(1,000)
Treasury stock, 543,000 shares, at cost	(180,000)	(180,000)
Notes receivable from shareholders	(16,000)	(21,000)
Total shareholders' equity	30,227,000	24,929,000
Total liabilities and shareholders' equity	$53,749,000	$34,973,000

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC.

CONSOLIDATED INCOME STATEMENTS

	DECEMBER 31,		
	1997	1996	1995
Revenues:			
Cryopreservation and products	$50,409,000	$36,678,000	$28,257,000
Research grants, licenses and other revenues	460,000	361,000	713,000
Interest income	--	189,000	256,000
	50,869,000	37,228,000	29,226,000
Costs and Expenses:			
Cryopreservation and products	17,764,000	12,593,000	10,485,000
General, administrative and marketing	20,548,000	15,673,000	12,807,000
Research and development	3,946,000	2,807,000	2,634,000
Interest expense	978,000	72,000	4,000
	43,236,000	31,145,000	25,930,000
Income before income taxes	7,633,000	6,083,000	3,296,000
Income tax expense	2,908,000	2,156,000	1,094,000
Net income	$ 4,725,000	$ 3,927,000	$ 2,202,000
Earnings per share:			
Basic	$ 0.49	$ 0.41	$ 0.23
Diluted	$ 0.48	$ 0.40	$ 0.23
Weighted average shares outstanding:			
Basic	9,642,000	9,505,000	9,379,000
Diluted	9,942,000	9,906,000	9,568,000

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	DECEMBER 31,		
	1997	1996	1995
Net cash flows from operating activities:			
Net income	$4,725,000	$3,927,000	$2,202,000
Adjustments to reconcile net income to net cash flows (used in) provided by operating activities:			
Depreciation and amortization of property and equipment	1,842,000	973,000	769,000
Amortization	814,000	383,000	211,000
Provision for doubtful accounts	46,000	167,000	266,000
Deferred income taxes	360,000	242,000	(107,000)

Changes in operating assets and liabilities:			
Trade and other receivables	(530,000)	(2,561,000)	(1,780,000)
Income taxes	174,000	(614,000)	106,000
Deferred preservation costs	(5,079,000)	(1,053,000)	379,000
Inventories	(864,000)	163,000	432,000
Prepaid expenses	(506,000)	(326,000)	(146,000)
Accounts payable	(2,756,000)	1,197,000	38,000
Accrued expenses	(468,000)	740,000	39,000
Net cash flows (used in) provided by operating activities	(2,242,000)	3,238,000	2,409,000
Net cash flows from investing activities:			
Capital expenditures	(5,059,000)	(8,481,000)	(1,573,000)
Cash paid for acquisitions, net of cash acquired	(4,418,000)	(722,000)	--
Other assets	(148,000)	(939,000)	(1,002,000)
Net sales (purchases) of marketable securities	--	5,942,000	(2,175,000)
Net cash flows used in investing activities	(9,625,000)	(4,200,000)	(4,750,000)
Net cash flows from financing activities:			
Principal payments of debt	(6,607,000)	(750,000)	--
Proceeds from debt issuance	16,643,000	2,000,000	--
Proceeds from exercise of options and issuance of stock	567,000	561,000	265,000
Net payments on notes receivable from shareholders	5,000	5,000	--
Net cash flows provided by financing activities	10,608,000	1,816,000	265,000
(Decrease) increase in cash	(1,259,000)	854,000	(2,076,000)
Cash and cash equivalents, beginning of year	1,370,000	516,000	2,592,000
Cash and cash equivalents, end of year	$ 111,000	$1,370,000	$ 516,000
Supplemental disclosures of cash flow information--cash paid during the year for:			
Interest	$ 920,000	$ 34,000	$ 4,000
Income taxes	$2,380,000	$2,529,000	$1,089,000
Noncash investing and financing activities:			
Purchases of property and equipment in accounts payable	$ 440,000	$ 888,000	
Note issued for patent		$ 826,000	
Fair value of assets acquired	$1,768,000	$ 534,000	
Cost in excess of assets acquired	8,541,000	1,873,000	
Liabilities assumed	(891,000)	(435,000)	
Notes issued for assets acquired	(5,000,000)	(1,250,000)	
Net cash paid for acquisition	$4,418,000	$ 722,000	

CRYOLIFE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	DECEMBER 31,		
	1997	1996	1995

Common Stock:			
Balance, beginning of year, (9,567,000, 9,431,000 and 9,326,000 shares outstanding, at January 1, 1997, 1996 and 1995, respectively)	$ 101,000	$ 100,000	$ 99,000
Issuances of common stock:			
Employee stock purchase plan (30,000 and 2,000 shares in 1997 and 1996, respectively)	--	--	--
Purchase of other assets (10,000 shares in 1996)	--	--	--
Exercise of options (105,000, 124,000, and 105,000 shares in 1997, 1996 and 1995, respectively)	1,000	1,000	1,000
Balance, end of year	102,000	101,000	100,000
Additional Paid-in Capital:			
Balance, beginning of year	17,128,000	16,568,000	16,304,000
Issuances of common stock:			
Employee stock purchase plan	268,000	21,000	--
Purchase of other assets	--	130,000	--
Exercise of options	298,000	409,000	264,000
Balance, end of year	17,694,000	17,128,000	16,568,000
Retained Earnings:			
Balance, beginning of year	7,902,000	3,975,000	1,773,000
Net income	4,725,000	3,927,000	2,202,000
Balance, end of year	12,627,000	7,902,000	3,975,000
Unrealized Gain (Loss) on Marketable Securities:			
Balance, beginning of year	(1,000)	28,000	(38,000)
Unrealized gain (loss)	1,000	(29,000)	66,000
Balance, end of year	--	(1,000)	28,000
Treasury Stock:			
Balance, beginning and end of year	(180,000)	(180,000)	(180,000)
Notes Receivable From Shareholders:			
Balance, beginning of year	(21,000)	(26,000)	(26,000)
Additions to shareholder notes	(21,000)	--	--
Payments on shareholder notes	26,000	5,000	--
Balance, end of year	(16,000)	(21,000)	(26,000)
Total shareholders' equity, end of year	$30,227,000	$24,929,000	$20,465,000

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Founded in 1984, CryoLife, Inc. (the "Company") is the leader in the cryopreservation of viable human tissues for transplant, and is developing and commercializing additional implantable and single-use non-implantable devices for use in vascular, cardiovascular and orthopaedic applications. The Company

markets its viable human tissues in North and South America, Europe and Asia. The Company's bioprosthetic cardiovascular devices include fixed stentless porcine heart valves recently introduced into the European Community as well as a proprietary project to transplant human cells onto the structure of animal tissue. The Company also manufactures and distributes, principally through its recently acquired Ideas for Medicine, Inc. ("IFM") of Clearwater, Florida subsidiary, single-use medical devices for use in vascular surgical procedures. In addition, the Company is developing and commercializing within the European Community a proprietary surgical adhesive designed for vascular sealing.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances are eliminated.

Reclassifications

Certain prior year balances have been reclassified to conform to the 1997 presentation.

Use of Estimates

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist primarily of highly liquid investments with insignificant interest rate risk and maturity dates of 90 days or less at the time of acquisition.

Deferred Preservation Costs and Revenue Recognition

Tissue is procured from deceased human donors by organ procurement organizations and tissue banks which consign the tissue to the Company for processing and preservation. Preservation costs related to tissue held by the Company are deferred until shipment to the implanting hospital. Deferred preservation costs consist primarily of laboratory expenses, tissue procurement fees, and freight-in charges and are stated at average cost, determined annually, on a first-in, first-out basis. When the tissue is shipped to the implanting hospital, revenue is recognized and the related deferred preservation costs are charged to operations. The Company does not require collateral or other security for its receivables.

Inventories

Inventories are comprised of single-use medical devices and bioprosthetic cardiovascular devices and are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets, generally 5 to 10 years, on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the lease term or the estimated useful lives of the assets, whichever is shorter.

Intangible Assets

Goodwill resulting from business acquisitions is amortized on a straight-line basis over 20 years. Patent costs are amortized over the expected useful lives of the patents (primarily 17 years) using the straight-line method. Other intangibles, which consist primarily of manufacturing rights and agreements, are being amortized over the expected useful lives of the related assets

(primarily five years).

The Company periodically evaluates the recoverability of intangible assets and measures the amount of impairment, if any, by assessing current and future levels of income and cash flows as well as other factors, such as business trends and prospects and market and economic conditions.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Research Grant and License Revenues

Revenues from research grants are recognized in the period the associated costs are incurred. License revenues are recognized in the period the cash is received and all licenser obligations have been fulfilled.

Earnings Per Share and Stock Split

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share ("Statement 128"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

On May 16, 1996, the Board of Directors declared a two-for-one stock split, effected in the form of a stock dividend, payable on June 28, 1996 to shareholders of record on June 7, 1996. All share and per share information in the accompanying consolidated financial statements have been adjusted to reflect such split.

2. ACQUISITION OF IDEAS FOR MEDICINE

On March 5, 1997, the Company acquired the stock of IFM, a medical device company specializing in the manufacture and distribution of single-use medical devices, for approximately $9.5 million in cash ($4.5 million) and convertible debentures ($5.0 million) plus related expenses. The cash portion of the purchase price was financed by borrowings under the Company's loan agreement described in Note 4. Additional consideration equal to 10 percent of IFM's net revenues in excess of $7.5 million shall be payable each year for a 10 year period, limited to $1.75 million in the aggregate. The acquisition has been accounted for as a purchase; accordingly, the results of operations are included in the accompanying 1997 consolidated income statement from the date of acquisition. Based on the allocation of the purchase price, the Company's unaudited condensed pro forma results

of operations for the years ended December 31, 1997 and 1996, assuming consummation of the purchase as of January 1, 1997 and 1996, respectively, are as follows:

	1997	1996
Revenues	$52,082,000	$43,574,000
Net income	4,756,000	3,511,000
Earnings per share:		
Basic	$ 0.49	$ 0.37

Diluted	0.48	0.35

In connection with this acquisition, the Company also entered into a consulting agreement with the former majority shareholder requiring monthly payments of approximately $17,000 until March 2002.

3. INVENTORIES

Inventories at December 31 are comprised of the following:

	1997	1996
Raw material	$ 262,000	$ --
Work-in-process	358,000	--
Finished goods	1,141,000	260,000
	$1,761,000	$260,000

4. LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	1997	1996
Bank loans:		
Revolving loan	$ 6,777,000	$1,250,000
Term loan due in equal monthly installments of $83,000 plus interest at prime through December 31, 2002	5,000,000	--
7% convertible debenture, due in March 2002	5,000,000	--
8.25% note payable due in equal annual installments of $250,000	1,000,000	1,250,000
Note payable due in 2000 with an effective interest rate of 8%, net of unamortized discount of $35,000 in 1997 and $84,000 in 1996	585,000	826,000
	18,362,000	3,326,000
Less current maturities	1,496,000	527,000
Total long-term debt	$16,866,000	$2,799,000

On August 30, 1996, the Company executed a loan agreement (the "Agreement") with a bank which, as amended on December 16, 1997, permits the Company to borrow up to $10,000,000 under a revolving loan and includes $5,000,000 under a term loan. Borrowings under the Agreement provide for interest at either the bank's prime rate (8.5% at December 31, 1997) or at Adjusted LIBOR, as defined, plus an applicable LIBOR margin. The Agreement expires on December 31, 1999; all borrowings outstanding on that date under the revolving loan convert to a term loan to be paid in 60 equal monthly installments of principal plus interest computed as described above. The Agreement contains certain restrictive covenants including, but not limited to, maintenance of certain financial ratios and a minimum tangible net worth requirement. The Agreement is secured by

substantially all of the Company's assets, including IFM's stock but excluding intellectual property. Commitment fees are paid based on the unused portion of the revolving loan. At December 31, 1997 an additional $3,223,000 was

available to be borrowed under the revolving loan.

In March 1997, the Company issued a $5,000,000 convertible debenture in connection with the IFM acquisition. The debenture is convertible into common stock of the Company at any time prior to the due date at $12.08 per common share.

On September 12, 1996, the Company acquired the assets of United Cryopreservation Foundation, Inc. ("UCFI"), a processor and distributor of cryopreserved human heart valves and saphenous veins for transplant. The Company issued a $1,250,000 note in connection with the acquisition. The note bears interest at prime, as adjusted annually on the anniversary date of the acquisition.

In April 1996 the Company issued a $910,000 non-interest bearing note in connection with the technology underlying its BioGlue surgical adhesive. The note is payable in four annual installments of $290,000, plus a final payment of $40,000 at maturity.

Scheduled maturities of long-term debt for the next five years and thereafter are as follows:

1998	$ 1,496,000
1999	1,516,000
2000	2,678,000
2001	2,605,000
2002	7,355,000
Thereafter	2,712,000
	$18,362,000

5. FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments ("Statement 107"), requires the Company to disclose estimated fair values for its financial instruments. The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate their fair values due to the short term maturity of these instruments.

The Company enters into short-term interest rate swap agreements with the lender under the Agreement which effectively fix the interest rate on $5,000,000 of borrowings. The estimated fair values of the Company's interest rate swap agreements (which expired in January 1998) and outstanding debt approximate their carrying amounts at December 31, 1997.

6. LEASES

The Company leases equipment and office space under various operating leases with terms of up to 15 years. Certain leases contain escalation clauses and renewal options for additional periods. Future minimum lease payments under noncancelable operating leases as of December 31, 1997 are as follows:

1998	$ 1,443,000
1999	1,361,000
2000	1,220,000
2001	1,237,000
2002	1,205,000
Thereafter	10,390,000
	$16,856,000

Total rental expense for operating leases amounted to $1,282,000, $714,000 and $740,000 for 1997, 1996 and 1995, respectively.

Commencing January 5, 1998, IFM leases office and manufacturing facilities under a capital lease for $28,500 per month through January 2008 from the former majority shareholder of IFM.

7. STOCK OPTION PLANS

The Company has stock option plans which provide for grants of options to employees and directors to purchase shares of the Company's Common Stock at exercise prices generally equal to the fair values of such stock at the dates of grant, which generally become exercisable over a five-year vesting period and expire within ten years of the grant dates. Under the 1993 Employee Incentive Stock Option Plan and the Non-employee Director's Plan, the Company has authorized the grant of options of up to 700,000 and 360,000 shares of Common Stock, respectively. A summary of stock option transactions under the plans follows:

	SHARES	EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1994.....	414,000	$ 2.25-4.13	
Granted.....	321,000	3.63-7.74	$ 4.90
Exercised.....	(105,000)	2.25-4.13	2.53
Canceled.....	(40,000)	2.25-4.13	3.10
Outstanding at December 31, 1995.....	590,000	2.25-7.74	4.21
Granted.....	247,000	8.5-18.43	15.70
Exercised.....	(124,000)	2.26-7.26	3.31
Canceled.....	(5,000)	2.25-3.75	3.68
Outstanding at December 31, 1996.....	708,000	2.25-18.43	7.36
Granted.....	201,000	10.25-15.88	11.97
Exercised.....	(105,000)	2.25-7.50	2.85
Canceled.....	(50,000)	2.25-16.75	10.06
Outstanding at December 31, 1997.....	754,000	3.00-18.43	8.95

The following table summarizes information concerning currently outstanding and exercisable options:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 3.00- 8.50.....	429,000	2.5	$ 4.93	248,000	$ 4.35
10.25-13.50.....	181,000	5.0	11.88	23,000	10.75
15.88-18.43.....	144,000	3.3	17.14	37,000	17.21

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations ("APB 25") in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("Statement 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25,

because the exercise price of the Company's employee stock options equals the market prices of the underlying stock on the date of the grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair values for these options were estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	1997	1996	1995
Expected dividend yield	0%	0%	0%
Expected stock price volatility	.591	.552	.515
Risk-free interest rate	6.13%	6.48%	5.91%
Expected life of options (years)	4.3	4.8	4.0

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

For purposes of pro forma disclosures, the estimated fair values of the option are amortized to expense over the options' vesting periods. The Company's pro forma information follows:

	1997	1996	1995
Net income--as reported	$4,725,000	$3,927,000	$2,202,000
Net income--pro forma	4,308,000	3,632,000	2,123,000
Earnings per share--as reported:			
Basic	$ 0.49	$ 0.41	$ 0.23
Dilutive	0.48	0.40	0.23
Earnings per share--pro forma:			
Basic	0.45	0.38	0.23
Dilutive	0.43	0.37	0.22

Other information concerning stock options follows:

	1997	1996	1995
Weighted average fair value of options granted during the year	$6.34	$7.97	$2.36
Number of shares as to which options are exercisable at end of year	308,000	157,000	74,000

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until

1999.

8. SHAREHOLDER RIGHTS PLAN

On November 27, 1995, the Board of Directors adopted a shareholder rights plan to protect long-term share value for the Company's shareholders. Under the plan, the Board declared a distribution of one Right for each outstanding share of the Company's Common Stock to shareholders of record on December 11, 1995. Each Right entitles the registered holder to purchase from the Company one-tenth of a share of a newly created Series A Junior Participating Preferred Stock, at an exercise price of $100. The rights, which expire on November 27, 2005, may be exercised only if certain conditions are met, such as the acquisition of 15 percent or more of the Company's Common Stock by a person or affiliated group ("Acquiring Person").

In the event the Rights become exercisable, each Right will enable the owner, other than the Acquiring Person, to purchase, at the Right's then current exercise price, that number of shares of Common Stock with a market value equal to twice the exercise price. In addition, unless the Acquiring Person owns more than 50% of the outstanding shares of Common Stock, the Board of Directors may elect to exchange all outstanding Rights (other than those owned by such Acquiring Person) at an exchange ratio of one share of Common Stock, or one-tenth of a Preferred Share per Right.

9. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) savings plan (the "Plan") providing retirement benefits to all employees who have completed at least six months of service. The Company makes matching contributions of 50% of each participant's contribution up to 5% of each participant's salary. Total Company contributions approximated $139,000, $123,000 and $131,000 for 1997, 1996, and 1995, respectively. Additionally, the Company may make discretionary contributions to the Plan that are allocated to each participant's account. No such discretionary contributions were made in 1997, 1996 or 1995.

On May 16, 1996, the Company's shareholders approved the CryoLife, Inc. Employee Stock Purchase Plan (the "ESPP"). The ESPP allows eligible employees the right to purchase Common Stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period. As of December 31, 1997 and 1996 there were 568,000 and 598,000 shares of Common Stock reserved for the ESPP and there had been 32,000 and 2,000 shares issued under the plan, respectively.

10. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	1997	1996	1995
Numerator for basic and diluted earnings per share--income available to common shareholders	$4,725,000	$3,927,000	$2,202,000
Denominator for basic earnings per share--weighted-average basis	9,642,000	9,505,000	9,379,000
Effect of dilutive stock options	300,000	401,000	189,000
Denominator for diluted earnings per share--adjusted weighted-average shares	9,942,000	9,906,000	9,568,000
Basic earnings per share	$ 0.49	$ 0.41	$ 0.23

Diluted earnings per share.....	$ 0.48	$ 0.40	$ 0.23

11. INCOME TAXES

Income tax expense consists of the following:

	1997	1996	1995
Current:			
Federal.....	$2,145,000	$1,573,000	$1,012,000
State.....	403,000	341,000	189,000
	2,548,000	1,914,000	1,201,000
Deferred.....	360,000	242,000	(107,000)
	$2,908,000	$2,156,000	$1,094,000

Such amounts differ from the amounts computed by applying the U.S. Federal income tax rate of 34% to pretax income as a result of the following:

	1997	1996	1995
Tax expense at statutory rate.....	$2,593,000	$2,068,000	$1,121,000
Increase (reduction) in income taxes resulting from:			
Change in valuation allowance for deferred tax assets.....	(30,000)	(129,000)	(52,000)
Entertainment expenses.....	42,000	30,000	33,000
State income taxes, net of federal benefit.....	266,000	241,000	126,000
Non-taxable interest income.....	--	(50,000)	(74,000)
Other.....	37,000	(4,000)	(60,000)
	$2,908,000	$2,156,000	$1,094,000

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

	1997	1996
Deferred tax liabilities:		
Depreciation.....	$399,000	$ 99,000
Other.....	80,000	44,000
	479,000	143,000
Deferred tax assets:		
Deferred preservation costs and inventory reserves.....	58,000	87,000
Intangible assets.....	38,000	62,000
Other.....	56,000	57,000

	152,000	206,000
Less valuation allowance	--	30,000
Net deferred tax assets	152,000	176,000
Net deferred tax liabilities (assets)	$327,000	$(33,000)

12. FDA REGULATION

Human heart valves historically have not been subject to regulation by the U.S. Food and Drug Administration (the "FDA"). However, in June 1991 the FDA published a notice stating that human heart valves for transplantation are medical devices subject to Premarket Approval (PMA) or an Investigational Device Exemption (IDE). In October 1994 the FDA announced in the Federal Register that neither an approved application for PMA nor an IDE is required for processors and distributors who had marketed heart valve allografts before June 1991. This action by the FDA has removed allograft heart valves from clinical trial status thus allowing the Company to distribute such valves to cardiovascular surgeons throughout the U.S.

13. EXECUTIVE INSURANCE PLAN

Pursuant to a supplemental life insurance program for certain executive officers of the Company, the Company and the executives share in the premium payments and ownership of insurance policies on the lives of such executives. The Company's aggregate premium contributions under this program were $38,000, $37,000 and $31,000 for 1997, 1996 and 1995, respectively.

14. EQUIPMENT ON LOAN TO IMPLANTING HOSPITALS

The Company consigns liquid nitrogen freezers with certain implanting hospitals for tissue storage. The freezers are the property of the Company. At December 31, 1997 freezers with a total cost of approximately $1,339,000 and related accumulated depreciation of approximately $781,000 were located at the implanting hospitals' premises. Depreciation is provided over the estimated useful lives of the freezers on a straight-line basis.

15. TRANSACTIONS WITH RELATED PARTIES

The Company expensed $65,000, $39,000 and $67,000 during 1997, 1996 and 1995, respectively, relating to services performed by a law firm whose sole proprietor is a member of the Company's Board of Directors and a shareholder of the Company.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Inapplicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The response to Item 10, applicable to the Directors of the Company, is incorporated herein by reference to the information set forth under the caption "Election of Directors" in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 30, 1998. Information concerning executive officers is included in Part I, Item 4A of this Form 10-K.

The response to Item 10, applicable to Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated herein by reference to the

information set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 30, 1998.

ITEM 11. EXECUTIVE COMPENSATION.

The response to Item 11 is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 30, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The response to Item 12 is incorporated herein by reference to the information set forth under the captions "Ownership of Principal Shareholders and Certain Executive Officers" and "Election of Directors" in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 30, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The response to Item 13 is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in the Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission not later than April 30, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

The following are filed as part of this report:

(a) 1. Financial Statements

The following consolidated financial statements are filed herewith.

Report of Independent Auditors

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 1997 and 1996.

Consolidated Statements of Income for each of the three years in the period ended December 31, 1997.

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1997.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1997.

Notes to Consolidated Financial Statements

2. Financial Statement Schedule

Independent Auditors' Report on Schedule

Schedule II--Valuation and Qualifying Accounts

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

3. A. Exhibits

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

EXHIBIT NUMBER	DESCRIPTION
2.1	Sale Agreement dated August 16, 1996 between the Company and Donald Nixon Ross. (Incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly report on form 10-Q for the quarter ended September 30, 1996.)
2.2	Asset Purchase Agreement among the Company and United Cryopreservation Foundation, Inc., United Transplant Foundation, Inc. and QV, Inc. dated September 11, 1996. (Incorporated by reference to Exhibit 2.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
2.3	Agreement and Plan of Merger dated as of March 5, 1997 among Ideas for Medicine, Inc., J. Crayton Pruitt, Sr., M.D., Thomas Benham, Thomas Alexandris, Tom Judge, Natalie Judge, Helen Wallace, J. Crayton Pruitt, Jr., M.D., and Johanna Pruitt, and CryoLife, Inc. and CryoLife Acquisition Corporation. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on March 19, 1997.)
3.1	Restated Certificate of Incorporation of the Company, as amended. (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
3.2	Amendment to Articles of Incorporation of the Company dated November 29, 1995. (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	Amendment to the Company's Articles of Incorporation to increase the number of authorized shares of common stock from 20 million to 50 million shares and to delete the requirement that all preferred shares have one vote per share. (Incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.)
3.4	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.)
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).)
4.2*	Form of Certificate for the Company's Common Stock.
10.1	Lease, by and between New Market Partners III, Laing Properties, Inc., General Partner, as Landlord, and the Company, as Tenant, dated February 13, 1986, as amended by that Amendment to Lease, by and between the parties, dated April 7, 1986, as amended by that Amendment to Lease, by and between the parties, dated May 15, 1987, as amended by that Second Amendment to Lease, by and between the parties, dated June 22, 1988, as amended by that Third Amendment to Lease, by and between the parties, dated April 4, 1989, as amended by that Fourth Amendment to Lease, by and between the parties, dated April 4, 1989 as amended by that Fifth Amendment to Lease, by and between the parties, dated October 15, 1990. (Incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
10.1(a)	Seventh Amendment to Lease dated February 13, 1986, by and between New Market Partners III, Laing Properties, Inc., General Partner, as Landlord, and the Company as tenant, dated May 15, 1996. (Incorporated by reference to Exhibit 10.1(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

EXHIBIT NUMBER	DESCRIPTION
10.2	Lease by and between Newmarket Partners I, Laing Properties, Inc. and Laing Management Company, General Partner, as Landlord, and the Company as Tenant, dated July 23, 1993. (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

10.3 1993 Employee Stock Incentive Plan adopted on July 6, 1993. (Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

10.4 1989 Incentive Stock Option Plan for the Company, adopted on March 23, 1989. (Incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.5 Incentive Stock Option Plan, dated as of April 5, 1984. (Incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.6 Form of Stock Option Agreement and Grant under the Incentive Stock Option and Employee Stock Incentive Plans. (Incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.7 CryoLife, Inc. Profit Sharing 401(k) Plan, as adopted on December 17, 1991. (Incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.8 Form of Supplemental Retirement Plan, by and between the Company and its Officers -- Parties to Supplemental Retirement Plans: Steven G. Anderson, Robert T. McNally, Gerald B. Seery, James C. Vander Wyk, Albert E. Heacox, Kirby S. Black, and Edwin B. Cordell, Jr. (Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.9(a) Employment Agreement, by and between the Company and Steven G. Anderson. (Incorporated by reference to Exhibit 10.9(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.9(b) Employment Agreement, by and between the Company and Albert E. Heacox. (Incorporated by reference to Exhibit 10.7(c) to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.9(c) Employment Agreement, by and between the Company and Edwin B. Cordell, Jr. (Incorporated by reference to Exhibit 10.9(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.9(d) Employment Agreement, by and between the Company and Gerald B. Seery. (Incorporated by reference to Exhibit 10.9(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.9(e) Employment Agreement, by and between the Company and James C. Vander Wyk, Ph.D. (Incorporated by reference to Exhibit 10.9(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.9(f) Employment Agreement, by and between the Company and Kirby S. Black, Ph.D. (Incorporated by reference to Exhibit 10.9(g) to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996.)

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

10.11 Registration Rights Agreement, by and among the Company, Galen Partners, L.P., and Galen Partners International, L.P., both Delaware limited partnerships, dated August 22, 1991. (Incorporated by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

EXHIBIT NUMBER | DESCRIPTION

10.12 Technology Acquisition Agreement between the Company and Nicholas Kowanko, Ph.D., dated March 14, 1996. (Incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.13 Option Agreement, by and between the Company and Duke University, dated July 9, 1990, as amended by that Option Agreement Extension, by and between the parties, dated July 9, 1991. (Incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.14 Research and License Agreement by and between Medical University of South Carolina and CryoLife dated November 15, 1985, as amended by

Amendment to the Research and License Agreement dated February 25, 1986 by and between the parties and an Addendum to Research and License Agreement by and between the parties, dated March 4, 1986. (Incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10.15 Technical Services Agreement by and between the Company and Validation Systems, Inc., dated as of January 1, 1994. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

10.16 CryoLife, Inc. Non-Employee Directors Stock Option Plan adopted on March 27, 1995. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.17 Settlement Agreement between the Company and Bravo Cardiovascular, Inc., dated February 14, 1995. (Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.18 Sale Agreement between the Company and Bravo Cardiovascular, Inc. dated February 14, 1995. (Incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.19 Private Label Agreement between the Company and Bravo Cardiovascular, Inc. dated February 14, 1995. (Incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.20 Consignment Agreement between the Company and Bravo Cardiovascular, Inc. dated February 14, 1995. (Incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

10.21 Sale and Assignment Agreement between the Company and Osteotech, Inc. dated July 17, 1995. (Incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.22 Lease Agreement between the Company and Amli Land Development--I Limited Partnership, dated April 18, 1995. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.23 Preoccupancy and Construction Agreement between the Company and Amli Land Development--I Limited Partnership dated April 18, 1995. (Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

10.24 Funding Agreement between the Company and Amli Land Development--I Limited Partnership dated April 18, 1995. (Incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

EXHIBIT NUMBER	DESCRIPTION
10.25*	CryoLife, Inc. Employee Stock Purchase Plan (Incorporated by reference to Exhibit "A" of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 1996.)
10.26	Noncompetition Agreement between the Company and United Cryopreservation Foundation, Inc. dated September 11,1996. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
10.27	Noncompetition Agreement between the Company and QV, Inc. dated September 11, 1996. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
10.28	Revolving\Term Loan Facility between the Company and NationsBank N.A., dated August 30, 1996. (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
10.29	Research and Option Agreement between the Company and Biocompatibles Limited dated July 29, 1996. (Incorporated by reference to Exhibit

	10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.)
10.30	Technology License Agreement between the Company and Colorado State University Research Foundation dated March 28, 1996. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.)
10.31	Noncompetition Agreement between the Company and United Transplant Foundation, Inc. dated September 11, 1996. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
10.32(a)	First Amendment of Third Amended and Restated Loan Agreement between CryoLife, Inc., as Borrower and NationsBank, N.A. (South), as Lender, dated April 14, 1997. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.)
10.32(b)*	Second Modification of Third Amended and Restated Loan Agreement dated December 16, 1997 by and between the Registrant and NationsBank, N.A.
10.33*	Consulting Agreement dated January 1, 1998 by and between Robert T. McNally and the Registrant
10.34*	CryoLife, Inc. 1998 Long-Term Incentive Plan
10.35	Consulting Agreement dated March 5, 1997 between CryoLife Acquisition Corporation and J. Crayton Pruitt, Sr., M.D. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.)
10.36	Subordinated Convertible Debenture dated March 5, 1997 between the Company and J. Crayton Pruitt, Sr., M.D. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.)
10.37	Lease Agreement dated March 5, 1997 between the Company and J. Crayton Pruitt, Sr., M.D. (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.)
10.38	Lease Guaranty dated March 5, 1997 between J. Crayton Pruitt Family Trust U/T/A and CryoLife, Inc., as Guarantor for CryoLife Acquisition Corporation. (Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.)

EXHIBIT NUMBER	DESCRIPTION
10.39	Form of Non-Competition Agreement dated March 5, 1997 between the Company and J. Crayton Pruitt, Sr., M.D., Thomas Benham, Thomas Alexandris, Tom Judge, Natalie Judge, Helen Wallace, J. Crayton Pruitt, Jr., M.D., and Johanna Pruitt. (Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.)
21.1*	Subsidiaries of CryoLife, Inc.
23.1*	Consent of Independent Auditors.
23.2*	Consent of Independent Auditors.
27.1*	Financial Data Schedule

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* Filed herewith.

3.B. Executive Compensation Plans and Arrangements.

1. 1993 Employee Stock Incentive Plan adopted on July 6, 1993. (Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

2. 1989 Incentive Stock Option Plan for the Company, adopted on March 23, 1989 (Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

3. Incentive Stock Option Plan, dated as of April 5, 1984 (Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

4. Form of Stock Option Agreement and Grant under the Incentive Stock Option and Employee Stock Incentive Plans (Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

5. CryoLife, Inc. Profit Sharing 401(k) Plan, as adopted on December 17, 1991 (Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

6. Form of Supplemental Retirement Plan, by and between the Company and its Officers -- Parties to Supplemental Retirement Plans: Steven G. Anderson, Robert T. McNally, Gerald B. Seery, James C. Vander Wyk, Albert E. Heacox, Kirby S. Black and Edwin B. Cordell, Jr. (Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

7. Employment Agreement, by and between the Company and Steven G. Anderson. (Exhibit 10.7(a) to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

8. Employment Agreement, by and between the Company and Robert T. McNally. (Exhibit 10.7(b) to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

9. Employment Agreement, by and between the Company and Albert E. Heacox. (Exhibit 10.7(c) to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

10. Employment Agreement, by and between the Company and Gerald B. Seery. (Incorporated by reference to Exhibit 10.9(e) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.)

11. Employment Agreement, by and between the Company and James C. Vander Wyk, Ph.D. (Incorporated by reference to Exhibit 10.9(f) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.)

12. Employment Agreement, by and between the Company and Edwin B. Cordell, Jr. (Incorporated by reference to Exhibit 10.9(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

13. CryoLife, Inc. Non-Employee Directors Stock Option Plan adopted on March 27, 1995. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

14. CryoLife, Inc. Employee Stock Purchase Plan. (Incorporated by reference to Exhibit "A" of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 1996.)

15. Employment Agreement by and between the Company and Kirby S. Black (Incorporated by reference to Exhibit 10.9(g) to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996.)

16. CryoLife, Inc. 1998 Long-Term Incentive Plan. (Exhibit 10.34 to this Form 10-K).

(b) Reports on Form 8-K

The Registrant did not file a report on Form 8-K during the fourth quarter of the recently completed fiscal year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CRYOLIFE, INC.

February 18, 1998

/s/ Steven G. Anderson

By_____
Steven G. Anderson,
President, Chief Executive
Officer and Chairman of
the Board of Directors

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

SIGNATURE	TITLE	DATE
/s/ Steven G. Anderson STEVEN G. ANDERSON	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	February 18, 1998
/s/ Edwin B. Cordell, Jr. EDWIN B. CORDELL, JR.	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 18, 1998
/s/ Ronald D. McCall RONALD D. MCCALL	Director	February 18, 1998
/s/ Benjamin H. Gray BENJAMIN H. GRAY	Director	February 18, 1998
/s/ Virginia C. Lacy VIRGINIA C. LACY	Director	February 18, 1998
/s/ Ronald Charles Elkins, M.D. RONALD CHARLES ELKINS, M.D.	Director	February 13, 1998

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
CryoLife, Inc.

Under date of February 14, 1996, we reported on the consolidated statements of income, shareholders' equity, and cash flows of CryoLife, Inc. and subsidiaries for the year ended December 31, 1995, as contained in the annual report on Form 10-K for the year 1997. In connection with our audit of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statements schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG Peat Marwick LLP

Atlanta, Georgia
February 14, 1996

SCHEDULE II
CRYOLIFE, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

DESCRIPTION	BALANCE BEGINNING OF PERIOD	ADDITIONS	DEDUCTIONS	BALANCE END OF PERIOD
Year ended December 31, 1997				
Allowance for doubtful accounts	$ 94,000	$ 46,000	$ 37,000	$103,000
Deferred preservation costs	278,000	--	126,000	152,000
Year ended December 31, 1996				
Allowance for doubtful accounts	$ 30,000	$ 88,000	$ 24,000	$ 94,000
Allowance for doubtful note receivable	225,000	--	225,000	--
Deferred preservation costs	247,000	140,000	109,000	278,000
Year ended December 31, 1995				
Allowance for doubtful accounts	$ 25,000	$ 41,000	$ 36,000	$ 30,000
Allowance for doubtful note receivable	--	225,000	--	225,000
Deferred preservation costs	242,000	740,000	735,000	247,000
Inventory	150,000	--	150,000	--

EXHIBIT 4.2

CERTIFICATE OF STOCK

COMMON STOCK $.01 PAR VALUE

[PICTURE OF CORPORATE HEADQUARTERS]

SHARES

NUMBER
CL

INCORPORATED UNDER THE
LAWS OF THE
STATE OF FLORIDA

CUSIP 228903 10 0
SEE REVERSE FOR CERTAIN DEFINITIONS

CryoLife, Inc.

This Certifies that

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK OF

[CRYOLIFE CORPORATE SEAL]

CryoLife, Inc. transferable only on the books of the Corporation by the holder hereof or person or by duly authorized Attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

In Witness Whereof, the said Corporation has caused this certificate to be signed by its duly authorized officers and to be sealed with the Seal of the Corporation, by facsimile.

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER
& TRUST COMPANY
(NEW YORK, NY)

[CRYOLIFE LOGO]

BY: TRANSFER AGENT
AND REGISTRAR

AUTHORIZED SIGNATURE

SECRETARY CHAIRMAN/PRESIDENT

CryoLife, Inc.

THE ARTICLES OF INCORPORATION OF CRYOLIFE, INC. (THE "COMPANY") AUTHORIZE THE ISSUANCE OF PREFERRED STOCK, WHICH MAY BE DIVIDED AND ISSUED IN SERIES AND THE RELATIVE RIGHTS AND PREFERENCES OF WHICH MAY BE FIXED BY THE BOARD OF DIRECTORS. THE COMPANY WILL FURNISH TO THE HOLDER OF THIS CERTIFICATE, ON REQUEST AND WITHOUT CHARGE, A FULL STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, AND LIMITATIONS APPLICABLE TO EACH CLASS OF SHARES OF CAPITAL STOCK OF THE COMPANY AND THE VARIATIONS IN RIGHTS, PREFERENCES, AND LIMITATIONS APPLICABLE TO EACH CLASS OF SHARES OF CAPITAL STOCK OF THE COMPANY AND THE VARIATIONS IN RIGHTS, PREFERENCES, AND LIMITATIONS DETERMINED FOR EACH SERIES (AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES).

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM-as tenants in common	UNIF GIFT MIN ACT-____Custodian____
TEN ENT-as tenants by the entireties	(Cust) (Minor)
JT TEN-as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement dated as of November 27, 1995 (the "Rights Agreement") as amended, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of CryoLife, Inc. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. CryoLife, Inc. will mail to the holder of this certificate a copy of the Rights Agreement without charge after receipt of a written request therefor. Under certain circumstances, as set forth in the Rights Agreement, Rights issued to any Person who becomes an Acquiring Person (as defined in the Rights Agreement) may become null and void.

For value received, _____ hereby sell, assign and transfer unto PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____
PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)
_____

_____

_____shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated_____

NOTICE: _____
THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE(S) GUARANTEED: _____
THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM),PURSUANT TO S.E.C. RULE 17Ad-15.

EXHIBIT 10.25

CRYOLIFE, INC.

EMPLOYEE STOCK PURCHASE PLAN

1. PURPOSE.

The CryoLife, Inc. Employee Stock Purchase Plan (the "Plan") is intended to encourage employee stock ownership by offering employees of CryoLife, Inc. and its subsidiaries Purchase Rights (as such term is defined in Section 2 hereof) to purchase shares of Common Stock. The Plan is intended to be an "employee stock purchase plan" as defined in Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed in a manner consistent with the requirements of Section 423 of the Code.

2. CERTAIN DEFINITIONS.

"Base Pay" means regular straight-time and overtime earnings received from the Company, excluding payments for incentive compensation, bonuses and other special payments.

"Board" means the Board of Directors of the Company.

"Committee" means the Compensation Advisory Committee of the Board.

"Common Stock" means the Common Stock, par value $.01 per share, of the Company.

"Company" means CryoLife, Inc. and each subsidiary thereof of which it owns the majority of the outstanding voting shares.

"Custodian" means Smith Barney, Inc., whose address is 398 Greenwich Street, 28th Floor, New York, New York 10013, or such other person as the Committee shall designate from time to time.

"Exercise Date" means the last day of a Purchase Period (as such term is defined in Section 4(b) hereof), on which date all Participants' outstanding Purchase Rights will automatically be exercised.

"Fair Market Value" means the closing sale price of a share of Common Stock reported in the table entitled "NASDAQ National Market Issues" or any successor table in The Wall Street Journal for such date or, if no shares of Common Stock
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were traded on that date, on the next preceding day on which there was such a trade.

"NASDAQ" means the National Association of Securities Dealers Automated Quotation System.

"Participant" means an employee of the Company who has enrolled in the Plan by filing a Participation Form (as such term is defined in Section 5 hereof) with the Plan Administrator.

"Plan Administrator" means the Vice President and Chief Financial Officer of the Company, or any such other person so designated by the Committee.

"Purchase Right" means a Participant's option to purchase shares of Common Stock that is deemed to be outstanding during a Purchase Period. A Purchase Right represents an "option" as such term is used under Section 423 of the Code.

"Section 16(b) Insider" means those persons subject to the requirements of Section 16(b) of the Securities Exchange Act of 1934, as amended.

"Trading Day" refers to a day during which the NASDAQ National Market System is available for trading shares of Common Stock.

3. ELIGIBILITY.

(a) Participation in the Plan is voluntary. All employees of the Company, including officers and directors, whose customary employment is at least 20 hours per week and 5 months per year who have been employed for more than six months are eligible to participate in the Plan.

(b) Notwithstanding any provision of the Plan to the contrary, no employee may participate in the Plan:

(i) if following a grant of Purchase Rights under the Plan, the employee would own, directly or by attribution pursuant to Section 424(d) of the Code, stock, Purchase Rights or other stock options to purchase stock representing 5% or more of the total combined voting power or value of all classes of the Company's stock; or

(ii) to the extent a grant of Purchase Rights under the Plan would permit the employee's rights to purchase stock under all the Company's Code Section 423 employee stock purchase plans to accrue at a rate exceeding $25,000.00, based on the Fair Market Value of the stock (at the time of grant), for each calendar year in which such Purchase Right is outstanding.

4. SECURITIES SUBJECT TO THE PLAN AND PURCHASE PERIODS.

(a) The Plan covers an aggregate of 300,000 shares of Common Stock (subject to adjustment as provided in Section 15 hereof), which may be authorized but unissued shares, reacquired shares or shares bought on the open market. If any Purchase Right that shall have been granted shall expire or terminate for any reason without having been exercised in full, the unpurchased shares of Common Stock shall again become available for purposes of the Plan, unless the Plan shall have been terminated.

(b) Except as discussed below for the first year the Plan is in effect, there will be four purchase periods (each a "Purchase Period") each calendar year. There will be only two Purchase Periods in calendar 1996, the first of which will begin on July 1, 1996 and end on September 30, 1996, and the second of which will begin on October 1, 1996 and end on December 31, 1996. Thereafter, in each year that the Plan is in effect, the first Purchase Period will begin on January 1 and end on March 31. The second Purchase Period will begin on April 1 and end on June 30 of each year that the Plan is in effect. The third Purchase Period will begin on July 1 and end on September 30 of each year the Plan is in effect. The fourth Purchase Period will begin on October 1 and end on December 31 of each year the Plan is in effect.

5. PARTICIPATION.

Eligible employees become Participants in the Plan by authorizing payroll deductions for that purpose through a form (the "Participation Form") filed with the Plan Administrator no later than fifteen (15) days prior to the start date of a Purchase Period.

6. PAYROLL DEDUCTIONS.

(a) In order to purchase Common Stock, an employee must indicate on the Participation Form the contribution percentage he or she wishes to authorize the Company to deduct at regular payroll intervals, in integral percentage amounts ranging from 1% to 25% of such Participant's Base Pay for the applicable payroll period, with a minimum deduction of $10.00 per payday, during each Purchase Period. The Participation Form will include authorization for the Company to make payroll deductions from the Participant's Base Pay.

(b) In order to comply with the Federal tax laws, a Participant may not be granted Purchase Rights under the Plan and any other Code Section 423 employee stock purchase plan of the Company with respect to more than $25,000.00 worth of Common Stock for any calendar year such Purchase Rights to purchase Common Stock are outstanding pursuant to the terms of such plans. The $25,000.00 limit is determined according to the Fair Market Value of the Common Stock on the first day (grant date) of the Purchase Period. Participants will be notified if these limitations become applicable to them.

(c) The amounts deducted shall be credited to the Participant's account under the Plan, but no actual separate account will be established by the Company to hold such amounts. There shall be no interest paid on the balance

outstanding in a Participant's account. The deducted amounts may be commingled with the general assets of the Company and may be used for its general corporate purposes.

(d) Payroll deductions begin on the first payday of each Purchase Period, and end on the last payday of each Purchase Period. Eligible employees may participate in the Plan and purchase shares only by means of payroll deductions, except as set forth in the following sentence. A Participant may not make any separate cash payment into his or her account, except that employees on an approved leave of absence may continue participating in the Plan, at the sole discretion of the Plan Administrator, by making cash payments to the Company on a normal payday equal to the amount of the normal payroll deduction had a leave of absence not occurred. The right of a Participant on an approved leave of absence to continue participating in the Plan shall terminate if such leave of absence exceeds 90 days, unless and so long as the Participant's right to re-employment by the Company after a longer leave is guaranteed by statute or contract.

(e) Except as set forth below with respect to Section 16(b) Insiders, so long as a Participant remains an employee of the Company, payroll deductions will continue in effect from Purchase Period to Purchase Period, unless at least fifteen (15) days prior to the first day of the next succeeding Purchase Period the Participant:

(i) elects a different rate by filing a new Participation Form with the Plan Administrator; or

(ii) withdraws from the Plan in accordance with Section 9 hereof.

A Section 16(b) Insider may not participate in the Plan until the beginning of the first Purchase Period which begins at least six months after such Section 16(b) Insider has filed a Participation Form with the Plan Administrator. In addition, in order to elect a different rate of payroll deductions or to withdraw from the Plan, such Section 16(b) Insider must file the election with the Plan Administrator at least six months prior to the date upon which such election or withdrawal is to take effect. Any such election or withdrawal shall be irrevocable by the Section 16 Insider for a period of six months following the date of receipt by the Plan Administrator.

(f) Unless a Participant files with the Plan Administrator a new Participation Form electing to withdraw prior to 15 days (six months for Section 16(b) Insiders) before the beginning of the affected Purchase Period as permitted under the Plan, such Participant's payroll deductions will continue throughout such Purchase Period and his or her Purchase Right to purchase Common Stock will be deemed to be fully and automatically exercised on the last day of such Purchase Period with respect to payroll deductions made during that period.

7. PURCHASE PRICE.

(a) On the first day of each Purchase Period, a Participant is deemed to have been granted a Purchase Right to purchase on the last day of the Purchase Period as many full shares of Common Stock as such Participant will be able to purchase with the payroll deductions credited to such Participant's account during such period.

(b) The price at which each Purchase Right to purchase Common Stock may be exercised is the lower of:

(i) 85% of the Fair Market Value of the Common Stock on the NASDAQ National Market System on the first Trading Day of a Purchase Period; or

(ii) 85% of the Fair Market Value of the Common Stock on the NASDAQ National Market System on the last Trading Day of such Purchase Period.

(c) The number of shares purchasable by each Participant per Purchase Period will be the number of whole shares obtained by dividing the amount collected from the Participant (through payroll deductions during that Purchase Period) by the purchase price in effect for that Purchase Period. Any amount remaining in the Participant's account after such application will be held for the purchase of Common Stock in the next Purchase Period.

(d) A Participant may not purchase more than 1,000 shares of Common Stock

for any particular Purchase Period. The Committee has the power, exercisable at any time prior to the start of a Purchase Period, to increase or decrease the 1,000-share maximum for that Purchase Period. The maximum, as thus adjusted, will continue in effect from Purchase Period to Purchase Period until the Committee once again exercises its power to adjust the maximum.

8. EXERCISE OF PURCHASE RIGHT.

(a) Each outstanding Purchase Right will be exercised automatically on the Exercise Date. The exercise of the Purchase Right is to be effected by applying the amount credited to each Participant's account as of the Exercise Date to the purchase on the Exercise Date of whole shares of Common Stock (subject to the 1,000-share maximum) at the purchase price in effect for the Purchase Period.

(b) Fractional shares will not be issued under the Plan, and any amount remaining in the Participant's account after such application will be held for the purchase of Common Stock in the next Purchase Period.

(c) If a Participant purchases the 1,000-share maximum, any amount not applied to the purchase of Common Stock for that Purchase Period will be refunded after the close of the Purchase Period.

(d) If the number of shares for which Purchase Rights are exercised exceeds the number of shares available in any Purchase Period under the Plan, the shares available for sale will be allocated by the Plan Administrator pro rata among the Participants in such Purchase Period in proportion to the relative amounts in their accounts. Any amounts not thereby applied to the purchase of Common Stock under the Plan will be refunded to the Participants after the end of the Purchase Period.

9. WITHDRAWAL AND TERMINATION OF PURCHASE RIGHTS.

(a) Except as set forth in paragraph 6 with respect to Section 16(b) Insiders, a Participant may withdraw from the Plan by providing written notice to the Plan Administrator at any time prior to 15 days before the end of the current Purchase Period. Such notice shall be on a form (the "Withdrawal Form") provided by the

Plan Administrator for that purpose. The Withdrawal Form will permit such a Participant to make the following election:

(i) The Participant may elect to immediately terminate his or her outstanding Purchase Rights, and such withdrawal will become effective by the tenth day following the Plan Administrator's receipt of the Participant's Withdrawal Form, at which time all outstanding Purchase Rights will be terminated and all accumulated payroll deductions will be refunded without penalty; or

(ii) The Participant may elect to continue his or her participation in the Plan through the end of the current Purchase Period, and thus exercise such Participant's outstanding Purchase Rights on the following Exercise Date, but terminate his or her participation in the Plan for subsequent Purchase Periods. Payroll deductions for such a Participant will continue until the end of the current Purchase Period. After the applicable Exercise Date, no further Purchase Rights will be granted to the Participant, and no further payroll deductions will be made.

(b) Any Participant who withdraws from the Plan pursuant to Section 9(a) will not be eligible to rejoin the Plan for the Purchase Period underway at the time of withdrawal, and will have to re-enroll in the Plan by completing and filing a new Participation Form should such individual wish to resume participation in a subsequent Purchase Period; provided, however, that such Participant may not re-enroll in the Plan earlier than 90 days from the effective date of such withdrawal.

(c) In the event a Section 16(b) Insider Participant ceases participation in the Plan, whether as a result of a withdrawal during a Purchase Period or of such Participant's decision to discontinue his or her enrollment for subsequent Purchase Periods, such insider may not re-enroll in the Plan prior to six (6) months after the decision to cease participation.

(d) If a Participant ceases to be an employee of the Company for any reason

during a Purchase Period, his or her outstanding Purchase Right will immediately terminate, and all sums previously collected from such Participant during such Purchase Period under the terminated Purchase Right will be refunded.

(e) The Committee may, at its option, treat any attempt to borrow by an employee on the security of his or her accumulated payroll deductions as an election under Section 9(a)(I) hereof to withdraw such deductions.

10. RIGHTS AS SHAREHOLDER.

(a) A Participant is not a shareholder until the Participant exercises his or her Purchase Right. Thus, a Participant will not have a right to any dividend or distribution made prior to the Exercise Date.

(b) Participants will be entitled to receive, as soon as practicable after the Exercise Date, a stock certificate for the number of purchased shares upon a written request made to the Custodian. The Custodian may impose upon, or pass through to, the Participant a reasonable fee for withdrawal of shares of Common Stock in the form of stock certificates. It is the responsibility of each Participant to keep his or her address current with the Company through the Plan Administrator and with the Custodian.

11. SALE OF COMMON STOCK ACQUIRED UNDER THE PLAN.

(a) Participants may sell the shares of Common Stock they acquire under the Plan at any time without restriction, provided they are not Section 16(b) Insiders. Section 16(b) Insiders should consult with legal counsel prior to attempting to sell or otherwise dispose of any shares of Common Stock acquired under the Plan.

(b) A Participant shall immediately provide information to the Plan Administrator if the Participant transfers any shares purchase through the Plan within two (2) years from the date of grant of the related Purchase Right. Such transfer shall include disposition by sale, gift or other manner. The Participant may be requested to disclose the manner of the transfer, the date of the transfer, the number of shares involved and the transfer price. By executing the Participation Form, each Participant obligates himself or herself to provide such information to the Plan Administrator.

(c) The Company is authorized to withhold from any payment to be made to a Participant, including any payroll and other payments not related to the Plan, amounts of withholding and other taxes due in connection with any transaction under the Plan, and a Participant's enrollment in the Plan will be deemed to constitute his or her consent to such withholding.

12. PLAN ADMINISTRATION.

(a) The Plan shall be administered by the Committee. No member of the Board will be eligible to participate in the Plan during his or her period of Committee service.

(b) The Committee shall have the plenary power, subject to and within the limits of the express provisions of the Plan:

(i) to determine the commencement and termination date of the offering of Common Stock under the Plan; and

(ii) to interpret the terms of the Plan, establish and revoke rules for the administration of the Plan and correct or reconcile any defect or inconsistency in the Plan.

(c) The Committee may delegate all or part of its authority to administer the Plan to the Plan Administrator, who may in turn delegate the day-to-day operations of the Plan to the Custodian. The Custodian will establish and maintain, as agent for the Participants, accounts for the purposes of holding shares of Common Stock and/or cash contributions as may be necessary or desirable for the administration of the Plan.

(d) Except with respect to Section 16(b) Insiders, the Board may waive or modify any requirement that a notice or election be made or filed under the Plan a specified period in advance in an individual case or by adoption of a rule or regulation under the Plan, without the necessity of an amendment to the Plan.

13. TRANSFERABILITY.

(a) Any account maintained by the Custodian for the benefit of a Participant with respect to shares acquired pursuant to the Plan may only be in the name of the Participant; provided, however, that the Participant may elect to maintain such account with right of joint ownership with such Participant's spouse. Such election may only be made on a form (the "Joint Account Form") provided by the Company.

(b) Neither payroll deductions credited to a Participant's account nor any Purchase Rights of or other rights to acquire Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of by Participants other than by will or the laws of descent and distribution, and during the lifetime of a Participant, Purchase Rights may be exercised only by the Participant.

14. MERGER OR LIQUIDATION OF THE COMPANY.

In the event the Company merges with another corporation and the Company is not the surviving entity, or in the event all or substantially all of the stock or assets of the Company are acquired by another company, or

in the event of certain other similar transaction, the Committee may, in connection with such transaction, cancel each outstanding Purchase Right and refund all sums previously collected from Participants under the canceled Purchase Rights, or, in its discretion, cause each Participant with outstanding Purchase Rights to have his or her outstanding Purchase Rights exercised immediately prior to such transaction and thereby have the balance of his or her account applied to the purchase of whole shares of Common Stock (subject to the 1,000-share maximum) at the purchase price in effect for the Purchase Period, which would be treated as ending with the effective date of such transaction. The balance of the account not so applied will be refunded to the Participant. In the event of a merger in which the Company is the surviving entity, each Participant is entitled to receive, for each share as to which such Participant's Purchase Rights are exercised, the securities or property that a holder of one share of Common Stock was entitled to receive upon the merger.

15. ADJUSTMENT FOR CHANGES IN CAPITALIZATION.

To prevent dilution or enlargement of the rights of Participants under the Plan, appropriate adjustments may be made in the event any change is made to the Company's outstanding Common Stock by reason of any stock dividend, stock split, combination of shares, exchange of shares or other change in the Common Stock effected without the company's receipt of consideration. Adjustments may be made to the maximum number and class of securities issuable under the Plan, the maximum number and class of securities purchasable per outstanding Purchase Right and the number and class of securities and price per share in effect under such outstanding Purchase Right. Any such adjustments will be made by the Committee in its sole discretion.

16. AMENDMENT AND TERMINATION.

The Committee may terminate or amend the Plan at any time; provided, however, such termination or amendment may not affect or change Purchase Rights previously granted under the Plan without the consent of the affected Participant, and any amendment that materially increases the benefits or number of shares under the Plan (except for certain allowable adjustments in the event of changes to the Company's capital structure or for changes authorized by the Plan to be made by the Committee or the Plan Administrator) or materially modifies the eligibility requirements of the Plan shall be subject to shareholder approval. If not sooner terminated by the Committee, the Plan shall terminate at the time Purchase Rights have been exercised with respect to all shares of Common Stock reserved for grant under the Plan.

17. SHAREHOLDER APPROVAL.

The Plan is subject to the approval of shareholders of the Company in accordance with the provisions of Florida law.

Purchase Rights may be granted under the Plan for the Purchase Period beginning on July 1, 1996, but such rights may not be exercised (and Participants' payroll deductions will be returned to them) if shareholder

approval of the Plan is not obtained prior to September 30, 1996.

18. NO EMPLOYMENT RIGHTS.

Participation in the Plan will not impose any obligations upon the Company to continue the employment of the Participant for any specific period and will not affect the right of the Company to terminate such person's employment at any time, with or without cause.

19. STOCK LEGEND.

All shares of Common Stock issued pursuant to the Plan shall contain the following legend: "The shares of Common Stock represented by this Certificate have been issued on _____ pursuant to the CryoLife, Inc. Employee Stock Purchase Plan."

20. COSTS.

Except as set forth in Section 10(b), costs and expenses incurred in the administration of the Plan and the maintenance of accounts with the Custodian will be paid by the Company, to the extent provided in this Section 20. Any brokerage fees and commissions for the purchase of Common Stock under the Plan (including shares of Common Stock purchased upon reinvestment of dividends and distributions) will be paid by the Company, but any brokerage fees and commissions for the sale of shares of Common Stock under the Plan by a Participant will be borne by such Participant.

21. REPORTS.

After the close of each Purchase Period, each Participant in the Plan will receive a report from the Custodian indicating the amount of the Participant's contributions to the Plan during the Purchase Period, the amount of the contributions applied to the purchase of Common Stock for the Purchase Period, the purchase price per share in effect for the Purchase Period and the amount of the contributions (if any) carried over to the next Purchase Period.

22. GOVERNING LAW.

The validity, construction and effect of the Plan and any rules and regulations relating to the Plan will be determined in accordance with laws of the State of Georgia, without giving effect to principles of conflicts of laws, and applicable Federal law.

23. COMPLIANCE WITH LEGAL AND OTHER REQUIREMENTS.

The Plan, the granting and exercising of Purchase Rights hereunder, and the other obligations of the Company, the Plan Administrator and the Custodian under the Plan will be subject to all applicable federal and state laws, rules, and regulations, and to such approvals by or registrations with any regulatory or governmental agency as may be required. The Company may, in its discretion, postpone the issuance or delivery of shares of Common Stock upon exercise of Purchase Rights until completion of such registration or qualification of such shares of Common Stock or other required action under any federal or state law, rule, or regulation, listing or other required action with respect to any automated quotation system or stock exchange upon which the shares of Common Stock or other Company securities are designated or listed, or compliance with any other contractual obligation of the Company, as the Company may consider appropriate in connection with the issuance or delivery of shares of Common Stock in compliance with applicable laws, rules, and regulations, designation or listing requirements, or other contractual obligations.

EXHIBIT 10.32(b)

SECOND MODIFICATION OF
THIRD AMENDED AND RESTATED LOAN AGREEMENT

THIS MODIFICATION is made and entered into as of the 16th day of December, 1997, by and between CRYOLIFE, INC., a Florida corporation ("Borrower"), and NATIONSBANK, N.A., a national banking association which is the successor by merger to NationsBank, N.A. (South), the successor by merger to Bank South, formerly known as Bank South, N.A. ("Lender").

STATEMENT OF FACTS

Borrower and Lender are parties to that certain Third Amended and Restated Loan Agreement, dated as of August 30, 1996, as amended by First Modification of Third Amended and Restated Loan Agreement, dated as of April 14, 1997 (the "Loan Agreement").

Borrower and Lender desire to further amend the Loan Agreement as hereinafter provided.

NOW, THEREFORE, for and in consideration of the premises and the mutual agreements, warranties and representations herein made, as well as $10.00 in hand paid by each party hereto to the other, and other good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, Borrower and Lender agree that all capitalized terms used herein (and not otherwise defined herein) shall have the meanings given them in the Loan Agreement as herein amended and Borrower and Lender further agree as follows:

STATEMENT OF TERMS

1. The Loan Agreement is hereby amended by deleting from Section 101 thereof the definitions of the terms "Credit Expiration Date", "Debt Coverage Ratio", "Final Maturity Date", "Financing Documents" and "Note" and substituting in lieu thereof the following new and replacement definitions:

"Additional Term Loan" shall mean the Additional Term Loan made by Borrower to Lender pursuant to Section 201A hereof.

"Additional Term Note" means the Term Note substantially in the form of Exhibit A-2 attached hereto, to be executed by Borrower in favor of Lender to evidence the Additional Term Loan, and all renewals, extensions, modifications or replacements thereof.

"Credit Expiration Date" shall mean December 31, 1999, as such date may be extended, accelerated or amended pursuant to this Agreement.

"Debt Coverage Ratio" shall mean, with respect to any particular fiscal period of Borrower, the ratio of (a) Borrower's EBITDAR for the consecutive 4-quarter period ending therewith less Borrower's Maintenance Capital Expenditures during such period to (b) the sum (without duplication) of (i) Borrower's Current Maturities of Funded Debt for the immediately succeeding consecutive 4-quarter period plus (ii) Borrower's Interest Expense for the consecutive 4-quarter period ending therewith plus (iii) Borrower's Rental Expense for the immediately succeeding consecutive 4-quarter period, all as determined on a consolidated basis.

"Final Maturity Date" shall mean December 31, 2004, as such date may be extended, accelerated or amended pursuant to this Agreement.

"Financing Documents" means and includes this Agreement, each Note, the Security Agreement, each Stock Pledge Agreement, each Subsidiary Guaranty, each Subsidiary Security Agreement, each Hedge Agreement and any extensions, renewals, modifications or substitutions thereof or therefor, and all other associated loan and collateral documents including, without limitation, all

guaranties, suretyship agreements, security agreements, pledge agreements, security deeds, subordination agreements, exhibits, schedules, attachments, financing statements, notices, consents, waivers, opinions, letters, reports, records, title certificates and applications therefor, assignments, stock powers or transfers, documents, instruments, information and other writings related thereto, or furnished by any Credit Party to Lender in connection therewith or in connection with any of the Collateral, including without limitation any such documents executed and delivered pursuant to Section 202 hereof; provided, however, that

this term shall not include the Prior Loan Agreements or the Prior Security Agreements.

"Guarantor" shall mean and include CryoLife International and Ideas for Medicine, and each other Person guaranteeing payment and performance of the obligations and liabilities of Borrower under this Agreement and the other Financing Documents, as the context may require.

"Hedge Agreement" means any agreement between Borrower and Lender or any affiliate of Lender now existing or hereafter entered into, which provides for an interest rate or commodity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross-currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Borrower's exposure to fluctuations in interest rates, currency valuations or commodity prices.

"Ideas for Medicine" shall mean Ideas for Medicine, Inc., a Florida corporation which is a Subsidiary of Borrower, and its successors and assigns.

"Maintenance Capital Expenditures" shall mean expenditures incurred for the replacement of existing equipment and fixtures with new or used equipment or fixtures which will continue to perform similar functions. Significant upgrades of existing equipment with new technology which increases the functionality of the equipment are not considered maintenance capital expenditures.

"Note" shall mean either the Revolving Note or the Additional Term Note, as the context may require.

"Revolving Note" shall mean the Revolving Note substantially in the form of Exhibit A-1 attached hereto, to be executed by Borrower in favor of Lender to evidence the Loans, and all renewals, extensions, modifications or replacements thereof.

"Second Modification" means the Second Modification of Third Amended and Restated Loan Agreement, dated as of December 16, 1997.

"Second Modification Date" means December 16, 1997.

2. The Loan Agreement shall be further amended by deleting the last two sentences of Section 201(e) thereof in their entirety and substituting in lieu thereof the following:

> Such unused facility fees shall be payable by Borrower to Lender monthly in arrears on the last day of each month during the Revolving Loan Period as well as on the Credit Expiration Date. Notwithstanding the foregoing, from and after the Second Modification Date, the unused facility fee hereunder shall be deemed waived for any fiscal month of Borrower during which the average outstanding Loans during such month shall exceed $3,500,000.

3. The Loan Agreement is hereby further amended by adding a new Section 201A thereto, immediately following Section 201 thereof:

SECTION 201A. THE ADDITIONAL TERM LOAN. (a) On the Second Modification Date, and subject to the terms and conditions of

this Agreement, Lender agrees to advance to Borrower a term loan in the principal amount of $5,000,000, hereinafter called the "Additional Term Loan".

(b) The proceeds of the Additional Term Loan may be used by Borrower only to finance acquisitions by the Borrower and to finance Borrower's and its Subsidiaries' working capital and other general corporate needs.

(c) The Additional Term Loan is to be evidenced by the Additional Term Note. Interest on the Additional Term Loan will accrue at the rate or rates per annum set forth in the Additional Term Note, and principal and interest on the Additional Term Loan will be payable in the manner prescribed in the Additional Term Note.

(d) Borrower shall pay to Lender an origination fee for the Additional Term Loan facility provided by Lender to Borrower

under this Section 201A, which fee shall be in the amount of $12,500 and such fee shall be deemed fully earned by Lender upon the execution and delivery of the Second Modification by Borrower and shall be non-refundable.

(e) The Additional Term Loan shall constitute one loan by Lender to Borrower. Lender shall maintain a loan account on its books in which shall be recorded all advances of the Additional Term Loan, all payments made by Borrower on the Additional Term Loan and all other appropriate debits and credits as provided in this Agreement and the Additional Term Note with respect thereto, including without limitation all charges, expenses and interest. All entries in such account shall be made in accordance with the Lender's customary accounting practices as in effect from time to time. Lender shall render to Borrower a monthly statement setting forth the balance of such account, including principal, interest, expenses and fees, and each such statement shall, in the absence of manifest error or omissions, be presumed correct and binding upon Borrower and shall constitute an account stated unless, within thirty (30) days after receipt of any such statement from Lender, Borrower shall deliver to Lender a written objection thereto specifying the error or errors or omission or omissions, if any, contained in such statement.

(f) All interest owing by Borrower to Lender in respect of the Additional Term Loan shall be computed on the basis of a 360-day year and the actual days elapsed.

4. The Loan Agreement is hereby further amended by deleting Section 507(b) thereof in its entirety.

5. The Loan Agreement is hereby further amended by deleting Section 507(e) thereof in its entirety and substituting in lieu thereof the following:

(e) Borrower shall not permit its Net Worth at any time after the Second Modification Date to be less than $25,000,000 plus (i) 80% of the positive amount of Net Income of Borrower for each fiscal quarter ending after such date and (ii) the amount of any increase in Net Worth resulting from the issuance of stock, corporate reorganizations, recapitalizations or any similar event.

6. The Loan Agreement is hereby further amended by deleting Exhibit A originally attached to the Loan Agreement and substituting in lieu thereof the new Exhibit A-1 and Exhibit A-2 attached hereto, and by deleting Schedule 305 originally attached to the Loan Agreement and substituting in lieu thereof the new Schedule 305 attached hereto.

7. The effectiveness of this Modification is subject to:

(a) the prior or concurrent receipt by Lender of this Modification, duly executed by Borrower;

(b) the prior or concurrent receipt by Lender of the Revolving Note and the Additional Term Note;

(c) any and all guarantors of the Loans shall have consented to the execution, delivery and performance of this Modification and the new Notes and all of the transactions contemplated hereby by signing one or more counterparts of this Modification in the appropriate space indicated below and returning same to Lender;

(d) the prior or concurrent receipt by Lender of a certificate of Borrower in the form of Exhibit B attached hereto, and a certificate of each Guarantor in the form of Exhibit C attached hereto;

(e) the prior or concurrent receipt by Lender of an opinion of counsel for Borrower in the form of Exhibit D;

(f) the payment of all fees and expenses due from Borrower hereunder as set forth in Section 10 below; and

(g) the truth and accuracy in all material respects of Borrower's representations and warranties in Section 9 below.

8. Except as expressly modified herein, the Loan Agreement shall remain in full force and effect. Nothing contained herein shall be deemed to be or operate as a novation or an accord and satisfaction of the Loan Agreement or of any indebtedness arising thereunder.

9. Borrower hereby represents and warrants to Lender that (a) this Modification and the supplemental Financing Documents executed in connection herewith have been duly authorized, executed and delivered by Borrower, (b) after giving effect to this Modification, no Default or Event of Default has occurred and is continuing as of this date and (c) all of the representations and warranties made by Borrower in the Loan Agreement are true and correct in all material respects on and as of the date of this Modification (except to the extent that any such representations or warranties expressly referred to a specific prior date). Any breach by Borrower of its representations and warranties contained in this Section shall be an Event of Default for all purposes of the Loan Agreement.

10. In consideration of the amendments set forth herein, Borrower shall pay to Lender an amendment fee in the amount of $5,000, which fee shall be deemed fully earned by Lender upon the execution and delivery of this Modification by Borrower, and shall be non-refundable, and shall also pay to Lender the origination fee set forth in new Section 201A(d) above. Borrower further agrees to reimburse Lender for all reasonable expenses (including without limitation attorney's fees) incurred by Lender in the negotiation, documentation or consummation of this Modification and the transactions contemplated hereby.

11. This Modification shall be governed and construed in accordance with the laws of the State of Georgia and this Modification shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and permitted assigns.

12. This Modification may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, Lender has executed this Modification, and Borrower has executed this Modification and placed its seal hereon, all as of the day and year first above set forth.

LENDER:

NATIONSBANK, N.A.

By:_____
Vice President

BORROWER:

CRYOLIFE, INC.

By:_____
Title:_____

(CORPORATE SEAL)

CONSENT OF GUARANTOR

All capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in the Third Amended and Restated Loan Agreement, dated as of August 30, 1996, between CryoLife, Inc. ("Borrower") and NationsBank, N.A., successor by merger to NationsBank, N.A. (South) ("Lender"), as amended (the "Loan Agreement").

The undersigned acknowledges that it is indebted to Lender under the terms of the Guaranty Agreement, dated as of August 30, 1996, executed by the undersigned in favor of Lender (the "Guaranty"), and that the Guaranty is in full force and effect as of the date hereof, has not been amended, rescinded, revoked or terminated by such party through the date hereof, and continues to constitute the legal, valid and binding obligation of the undersigned enforceable against the undersigned in accordance with its terms. The undersigned hereby confirms and reaffirms all of its obligations and liabilities to Lender under the Guaranty and further confirms and agrees that pursuant to the Guaranty, the undersigned has guaranteed the payment and performance of the Revolving Note, the Additional Term Note and each Hedge Agreement now or hereafter in effect, and all obligations, liabilities and indebtedness of Borrower arising thereunder or evidenced thereby.

The undersigned also consents to and approves the execution, delivery and performance of the Second Modification of Third Amended and Restated Loan Agreement, dated as of the date hereof, between Lender and Borrower (the "Second Modification"), each new Note and each Hedge Agreement executed and delivered in connection therewith, and all the transactions contemplated thereby. The undersigned also agrees that all indebtedness, obligations and liabilities of Borrower to Lender which may now or hereafter arise under or by reason of the Loan Agreement, including without limitation Borrower's obligations in respect of Loans and/or the Additional Term Loan advanced pursuant to the Loan Agreement, and all obligations arising under any Hedge Agreement, constitute part of the obligations of Borrower to Lender which are guaranteed by the undersigned under the terms and conditions of the Guaranty.

SIGNED, SEALED AND DELIVERED as of this 16th day of December, 1997.

CRYOLIFE INTERNATIONAL, INC.

By:_____
Title:_____

(CORPORATE SEAL)

CONSENT OF GUARANTOR

All capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in the Third Amended and Restated Loan Agreement, dated as of August 30, 1996, between CryoLife, Inc. ("Borrower") and NationsBank, N.A., successor by merger to NationsBank, N.A. (South) ("Lender"), as amended (the "Loan Agreement").

The undersigned acknowledges that it is indebted to Lender under the terms of the Guaranty Agreement, dated as of April 14, 1997, executed by the undersigned in favor of Lender (the "Guaranty"), and that the Guaranty is in full force and effect as of the date hereof, has not been amended, rescinded, revoked or terminated by such party through the date hereof, and continues to constitute the legal, valid and binding obligation of the undersigned enforceable against the undersigned in accordance with its terms. The

undersigned hereby confirms and reaffirms all of its obligations and liabilities to Lender under the Guaranty and further confirms and agrees that pursuant to the Guaranty, the undersigned has guaranteed the payment and performance of the Revolving Note, the Additional Term Note and each Hedge Agreement now or hereafter in effect, and all obligations, liabilities and indebtedness of Borrower arising thereunder or evidenced thereby.

The undersigned also consents to and approves the execution, delivery and performance of the Second Modification of Third Amended and Restated Loan Agreement, dated as of the date hereof, between Lender and Borrower (the "Second Modification"), each new Note and each Hedge Agreement executed and delivered in connection therewith, and all the transactions contemplated thereby. The undersigned also agrees that all indebtedness, obligations and liabilities of Borrower to Lender which may now or hereafter arise under or by reason of the Loan Agreement, including without limitation Borrower's obligations in respect of Loans and/or the Additional Term Loan advanced pursuant to the Loan Agreement, and all obligations arising under any Hedge Agreement, constitute part of the obligations of Borrower to Lender which are guaranteed by the undersigned under the terms and conditions of the Guaranty.

SIGNED, SEALED AND DELIVERED as of this 16th day of December, 1997.

IDEAS FOR MEDICINE, INC.

By:_____
Title:_____

(CORPORATE SEAL)

EXHIBIT A-1

REVOLVING NOTE

DECEMBER 16, 1997 $10,000,000

FOR VALUE RECEIVED, the undersigned (hereinafter referred to as "Borrower") promises to pay to the order of NATIONSBANK, N.A., successor by merger to NationsBank, N.A. (South) (hereinafter referred to as "Lender"), at Lender's office located at 600 Peachtree Street, N.E., Atlanta, Georgia 30308, or at such other place as the holder hereof may designate, the principal sum of TEN MILLION DOLLARS ($10,000,000), or so much thereof as shall have been advanced hereagainst and shall be outstanding, together with interest on so much of the principal balance of this Note as may be outstanding and unpaid from time to time, calculated on the basis of a 360-day year and actual days elapsed, at the rate or rates per annum provided below.

The unpaid principal balance of this Note shall bear interest at a rate per annum equal to the Prime Rate (as defined below); provided, however, that Borrower may, by a written notice (or by telephonic notice promptly confirmed in writing) delivered to the Lender not later than 10:00 a.m. (Atlanta time) on the second Business Day prior to any Interest Period (as defined below) designated by the Borrower in such notice, direct that interest accrue on the unpaid principal balance of this Note (or any portion thereof which is in an amount of not less than $100,000 or any greater integral multiple thereof) outstanding from time to time during such Interest Period at a rate per annum equal to the sum of the Adjusted LIBOR (as defined below) for such Interest Period plus the Applicable LIBOR Margin (as defined below); provided, further, however, that upon the occurrence and during the continuation of any Event of Default (as defined below), the Lender may, upon notice to the Borrower, suspend Borrower's right to use the aforesaid Adjusted LIBOR option. Each such designation by the Borrower of an interest rate for this Note based on the Adjusted LIBOR and of an Interest Period applicable thereto shall be irrevocable and shall remain in effect throughout such Interest Period. Upon determining any interest rate based on the Adjusted LIBOR for an Interest Period requested by the Borrower, the Lender shall promptly notify the Borrower by telephone (which shall be promptly confirmed in writing by the Lender) of such determination, and such determination shall, in the absence of manifest error, be final, conclusive and binding for all purposes. Notwithstanding anything in this Note to the contrary, a prepayment of any portion of the principal balance of this Note which is then bearing interest based on the Adjusted LIBOR may be made without penalty by the Borrower only on the last day of the Interest Period applicable

thereto and, if any such prepayment is made on a day that is not the last day of the applicable Interest Period, the Borrower shall pay to the Lender, upon the Lender's written request to the Borrower therefor (which request shall set forth the basis for the request of such payment in reasonable detail and, in the absence of manifest error, shall be final, conclusive and binding on the Lender and the Borrower), an amount equal to any and all losses, expenses and liabilities (including, without limitation, any interest paid by the Lender to the extent not recovered by the Lender in connection with its re-employment of the prepaid funds and including any loss of anticipated profits) which the Lender may sustain as a result of such prepayment. The calculation of any and all amounts payable to the Lender with respect to any portion of the principal balance of this Note bearing interest based on the Adjusted LIBOR shall be made as though the Lender had actually funded such portion through the purchase of deposits in the London interbank market; provided, however, that the Lender may fund such portion of this Note in any manner it sees fit and the foregoing assumptions shall be used only for calculation of amounts which may be payable under this Note.

As used in this Note, the following terms shall have the following meanings: (a) "Adjusted LIBOR" shall mean, for any Interest Period, the rate per annum (rounded upwards to the nearest 1/16th of one percentage point (if necessary)) equal to the quotient obtained by dividing (x) the offered rate for United States dollar deposits for a period comparable to such Interest Period appearing on the Telerate Screen Page 3750 (or as quoted or published by such other recognized independent quote service as may be selected by the Lender from time to time) as of 11:00 a.m. (Atlanta time) on the date that is two (2) Business Days prior to the beginning of such Interest Period (but if at least two such rates appear on such screen or are so quoted at such time, the offered rate for such Interest Period shall be the arithmetic mean of such rates) by (y) a percentage equal to one (1) minus the then average stated maximum amount (stated as a decimal) of all reserve requirements applicable to any member of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D of the Board of Governors of the Federal Reserve System (or any successor categories for such liabilities under such Regulation D); (b) "Applicable LIBOR Margin" shall mean (i) one hundred seventy-five basis points (1.75%) during the period from the date of this Note through the Credit

Expiration Date (as defined in the Loan Agreement referred to below) and (ii) two hundred basis points (2.0%) thereafter; (c) "Business Day" shall mean any day excluding a Saturday, Sunday, any other day on which banks are required or permitted to be closed in the city in which Lender's address shown in this Note is located, and any other day on which trading is not carried on by and between banks in United States dollars in the London interbank market; (d) "Interest Period" shall mean, in the case of the determination of any Adjusted LIBOR, a one, two, three, four, six or twelve month period as selected by the Borrower but (i) in the event any Interest Period would end on a day which is not a Business Day, such Interest Period shall be deemed to end on the immediately succeeding Business Day unless such extension would cause such Interest Period to end on the next calendar month in which case such Interest Period shall be deemed to end on the immediately preceding Business Day, (ii) any Interest Period which begins on a day for which there is no numerically corresponding day in the calendar month in which such Interest Period ends shall expire on the immediately preceding Business Day, and (iii) the Borrower shall not be entitled to select any Interest Period which extends beyond the final maturity date of this Note; (e) "LIBOR Advance" means any portion of the principal balance of this Note which bears interest based on Adjusted LIBOR for a particular Interest Period; (f) "Prime Rate" shall mean the rate of interest announced by Lender from time to time as its "prime rate," "prime lending rate," "base rate" or similar reference rate (any such rate announced by Lender is a reference rate only and does not necessarily represent the best or lowest rate actually charged by it to any customer and the Lender may make loans at rates of interest which are at, above or below such reference rate) and the Prime Rate in effect at the close of business on each business day of Lender shall for the purposes of this Note be the Prime Rate for that day and any immediately succeeding non-business day or days of Lender, and in the event the Prime Rate is discontinued as a standard, the holder hereof shall designate a comparable reference rate as a substitute therefor; and (g) "Prime Rate Advances" means any and all portions of the principal balance of this Note which bear interest based on the Prime Rate.

This Note shall be payable as follows:

(a) Accrued interest on this Note shall be payable as follows: (i) during the period from the date of this Note to the Credit Expiration Date, accrued interest shall be payable monthly in arrears

on so much of the principal balance of this Note as then consists of Prime Rate Advances, which payments shall be due commencing on December 31, 1997, and shall continue to be on the last day of each month thereafter up to and including the Credit Expiration Date, and accrued interest shall be payable in arrears on so much of the principal balance of this Note as then consists of LIBOR Advances at the end of each Interest Period applicable thereto (and, in the case of any LIBOR Advance having an Interest Period in excess of three months, accrued interest thereon shall be due on each day which occurs every three months after the initial date of such Interest Period), and (ii) during the period from and after the Credit Expiration Date, accrued interest shall be payable in arrears on each date on which a payment of principal is due on this Note pursuant to paragraph (b) below; and

(b) The principal balance of this Note shall be repayable in sixty (60) consecutive monthly installments each in an amount equal to one-sixtieth (1/60th) of the outstanding principal balance of this Note as of the opening of the Lender's business on the Credit Expiration Date, which installments shall be due commencing on the last day of the next succeeding calendar month, and shall continue to be due on the last day of each succeeding month thereafter up to and including the Final Maturity Date (as defined in the Loan Agreement referred to below), except that in all cases the final installment of principal due hereunder on such Final Maturity Date shall be in an amount equal to the entire remaining unpaid principal balance of this Note.

This Note is the "Revolving Note" referred to in the Third Amended and Restated Loan Agreement, dated as of August 30, 1996, between Borrower and Lender (said agreement, as the same may be amended, supplemented, or restated from time to time, being herein called the "Loan Agreement"; capitalized terms used and not otherwise defined herein shall have the meanings given them in the Loan Agreement), and this Note evidences any and all Loans now or hereafter made by Lender to Borrower thereunder. This Note supersedes and replaces that certain Promissory Note, dated August 30, 1996, executed by Borrower in favor of Lender in the original principal amount of $10,000,000 (the "Prior Note"). This Note is not intended, nor shall it be construed, to be a novation or an accord and satisfaction of such Prior Note or of the indebtedness evidenced thereby.

Borrower shall pay a late charge of five percent (5%) of any installment payment hereunder which is not paid within ten (10) days after such payment is due. During the existence of any Event of Default under this Note, the unpaid principal and accrued interest balance of this Note shall bear

interest on each day until paid at the Prime Rate (as defined above) plus, in Lender's discretion, up to an additional two percentage points (2.0%), but in each such period only to the extent that payment of such interest on such principal or interest is enforceable under applicable law. All payments or prepayments on this Note shall be applied, first, to interest accrued on this Note through the date of such payment or prepayment and then to principal (and any partial principal prepayments on this Note made prior to the date shown above on which the initial principal installment is due hereunder shall be applied to such installments in the inverse order of their maturity).

Borrower may, upon thirty (30) days' prior written notice to Lender, prepay the principal balance of this Note in whole or in part without premium or penalty but any prepayment of any portion of this Note then bearing interest based on Adjusted LIBOR will be subject to certain additional provisions set forth above and any partial prepayment of this Note shall be applied as also provided above. In addition, in the event Borrower sells, transfers, assigns or otherwise conveys any of its property to another person, Borrower shall make a mandatory principal prepayment on this Note, without premium or penalty, within five (5) business days after the closing of such transaction, which prepayment shall be in an amount equal to one hundred percent (100%) of the proceeds of such transaction (net of the cost of such transaction, including any reasonable sales commissions paid to persons who are not affiliated with the Borrower and also net of any taxes payable by the Borrower on account of such transaction), except that this principal prepayment requirement shall not apply to (i) any sale by Borrower of its inventory in the ordinary course of its business, (ii) any sale or other disposition by Borrower of any of its obsolete or unnecessary equipment so long as the net proceeds of each such disposition are used by Borrower to replace such equipment or purchase other equipment, or (iii) any other sale or disposition of any property by Borrower which the Lender has

expressly agreed in writing will be exempt from this prepayment requirement. Notwithstanding the foregoing, however, no prepayment pursuant to this paragraph shall be due in any particular fiscal year of Borrower unless and until the total amount of such net proceeds for all such sales or other conveyances made during such fiscal year exceeds $500,000.

Upon the occurrence of an Event of Default under (and as such term is defined in) the Loan Agreement, Lender, at its option, without demand or notice of any kind, may declare this Note immediately due and payable. In case this Note is collected by or through an attorney-at-law, all costs of such collection incurred by the Lender, including reasonable attorney's fees, shall be paid by Borrower (but not to exceed actual fees and expenses incurred).

Time is of the essence of this Note. Demand, presentment, notice, notice of demand, notice for payment, protest and notice of dishonor are hereby waived by each and every maker, guarantor, surety and other person or entity primarily or secondarily liable on this Note. Lender shall not be deemed to waive any of its rights under this Note unless such waiver be in writing and signed by Lender. No delay or omission by Lender in exercising any of its rights under this Note shall operate as a waiver of such rights and a waiver in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion.

This Note shall be governed by and construed and enforced in accordance with the laws of the State of Georgia (without giving effect to its conflicts of law rules). Whenever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

Words importing the singular number hereunder shall include the plural number and vice versa, and any pronoun used herein shall be deemed to cover all genders. "Person" as used herein means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated association or government or any agency or political subdivision thereof. The word "Lender" as used herein shall include transferees, successors and assigns of Lender, and all rights of Lender hereunder shall inure to the benefit of its transferees, successors and assigns. All obligations of Borrower hereunder shall bind such Person's successors and assigns.

SIGNED, SEALED AND DELIVERED by the undersigned Borrower as of the day and year first above set forth.

CRYOLIFE, INC.

By:_____
Title:_____

(CORPORATE SEAL)

EXHIBIT A-2

TERM NOTE

DECEMBER 16, 1997 $5,000,000

FOR VALUE RECEIVED, the undersigned (hereinafter referred to as "Borrower") promises to pay to the order of NATIONSBANK, N.A., successor by merger to NationsBank, N.A. (South) (hereinafter referred to as "Lender"), at Lender's office located at 600 Peachtree Street, N.E., Atlanta, Georgia 30308, or at such other place as the holder hereof may designate, the principal sum of FIVE MILLION DOLLARS ($5,000,000), or so much thereof as shall have been advanced hereagainst and shall be outstanding, together with interest on so much of the principal balance of this Note as may be outstanding and unpaid from time to time, calculated on the basis of a 360-day year and actual days elapsed, at the rate or rates per annum provided below.

The unpaid principal balance of this Note shall bear interest at a rate per annum equal to the Prime Rate (as defined below); provided, however, that Borrower may, by a written notice (or by telephonic notice promptly

confirmed in writing) delivered to the Lender not later than 10:00 a.m. (Atlanta time) on the second Business Day prior to any Interest Period (as defined below) designated by the Borrower in such notice, direct that interest accrue on the unpaid principal balance of this Note (or any portion thereof which is in an amount of not less than $100,000 or any greater integral multiple thereof) outstanding from time to time during such Interest Period at a rate per annum equal to the sum of the Adjusted LIBOR (as defined below) for such Interest Period plus the Applicable LIBOR Margin (as defined below); provided, further, however, that upon the occurrence and during the continuation of any Event of Default (as defined below), the Lender may, upon notice to the Borrower, suspend Borrower's right to use the aforesaid Adjusted LIBOR option. Each such designation by the Borrower of an interest rate for this Note based on the Adjusted LIBOR and of an Interest Period applicable thereto shall be irrevocable and shall remain in effect throughout such Interest Period. Upon determining any interest rate based on the Adjusted LIBOR for an Interest Period requested by the Borrower, the Lender shall promptly notify the Borrower by telephone (which shall be promptly confirmed in writing by the Lender) of such determination, and such determination shall, in the absence of manifest error, be final, conclusive and binding for all purposes. Notwithstanding anything in this Note to the contrary, a prepayment of any portion of the principal balance of this Note which is then bearing interest based on the Adjusted LIBOR may be made without penalty by the Borrower only on the last day of the Interest Period applicable thereto and, if any such prepayment is made on a day that is not the last day of the applicable Interest Period, the Borrower shall pay to the Lender, upon the Lender's written request to the Borrower therefor (which request shall set forth the basis for the request of such payment in reasonable detail and, in the absence of manifest error, shall be final, conclusive and binding on the Lender and the Borrower), an amount equal to any and all losses, expenses and liabilities (including, without limitation, any interest paid by the Lender to the extent not recovered by the Lender in connection with its re-employment of the prepaid funds and including any loss of anticipated profits) which the Lender may sustain as a result of such prepayment. The calculation of any and all amounts payable to the Lender with respect to any portion of the principal balance of this Note bearing interest based on the Adjusted LIBOR shall be made as though the Lender had actually funded such portion through the purchase of deposits in the London interbank market; provided, however, that the Lender may fund such portion of this Note in any manner it sees fit and the foregoing assumptions shall be used only for calculation of amounts which may be payable under this Note.

As used in this Note, the following terms shall have the following meanings: (a) "Adjusted LIBOR" shall mean, for any Interest Period, the rate per annum (rounded upwards to the nearest 1/16th of one percentage point (if necessary)) equal to the quotient obtained by dividing (x) the offered rate for United States dollar deposits for a period comparable to such Interest Period appearing on the Telerate Screen Page 3750 (or as quoted or published by such other recognized independent quote service as may be selected by the Lender from time to time) as of 11:00 a.m. (Atlanta time) on the date that is two (2) Business Days prior to the beginning of such Interest Period (but if at least two such rates appear on such screen or are so quoted at such time, the offered rate for such Interest Period shall be the arithmetic mean of such rates) by (y) a percentage equal to one (1) minus the then average stated maximum amount (stated as a decimal) of all reserve requirements applicable to any member of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D of the Board of Governors of the Federal Reserve System (or any successor categories for such liabilities under such Regulation D); (b) "Applicable LIBOR Margin" shall mean two hundred basis points (2.0%); (c) "Business Day" shall mean any day excluding a Saturday, Sunday, any other day on

which banks are required or permitted to be closed in the city in which Lender's address shown in this Note is located, and any other day on which trading is not carried on by and between banks in United States dollars in the London interbank market; (d) "Interest Period" shall mean, in the case of the determination of any Adjusted LIBOR, a one, two, three, four, six or twelve month period as selected by the Borrower but (i) in the event any Interest Period would end on a day which is not a Business Day, such Interest Period shall be deemed to end on the immediately succeeding Business Day unless such extension would cause such Interest Period to end on the next calendar month in which case such Interest Period shall be deemed to end on the immediately preceding Business Day, (ii) any Interest Period which begins on a day for which there is no numerically corresponding day in the calendar month in which such Interest Period ends shall expire on the immediately preceding Business Day, and (iii) the Borrower shall not be entitled to select any Interest Period which extends beyond the final maturity date of this Note; (e) "LIBOR Advance" means any portion of the

principal balance of this Note which bears interest based on Adjusted LIBOR for a particular Interest Period; (f) "Prime Rate" shall mean the rate of interest announced by Lender from time to time as its "prime rate," "prime lending rate," "base rate" or similar reference rate (any such rate announced by Lender is a reference rate only and does not necessarily represent the best or lowest rate actually charged by it to any customer and the Lender may make loans at rates of interest which are at, above or below such reference rate) and the Prime Rate in effect at the close of business on each business day of Lender shall for the purposes of this Note be the Prime Rate for that day and any immediately succeeding non-business day or days of Lender, and in the event the Prime Rate is discontinued as a standard, the holder hereof shall designate a comparable reference rate as a substitute therefor; and (g) "Prime Rate Advances" means any and all portions of the principal balance of this Note which bear interest based on the Prime Rate.

This Note shall be payable as follows:

(a) The principal balance of this Note shall be repayable in sixty (60) consecutive monthly installments each in an amount equal to Eighty-Three Thousand Three Hundred Thirty-Three and 33/100 Dollars ($83,333.33), which installments shall be due commencing on January 31, 1998, and shall continue to be due on the last day of each succeeding month thereafter up to and including December 31, 2002, except that in all cases the final installment of principal due hereunder on December 31, 2002 shall be in an amount equal to the entire remaining unpaid principal balance of this Note; and

(b) Accrued interest shall be payable in arrears on December 31, 1997, and on each date on which a payment of principal is due on this Note pursuant to paragraph (a) above.

This Note is the "Additional Term Note" referred to in the Third Amended and Restated Loan Agreement, dated as of August 30, 1996, between Borrower and Lender (said agreement, as the same may be amended, supplemented, or restated from time to time, being herein called the "Loan Agreement"; capitalized terms used and not otherwise defined herein shall have the meanings given them in the Loan Agreement), and this Note evidences the Additional Term Loan made by Lender to Borrower thereunder.

Borrower shall pay a late charge of five percent (5%) of any installment payment hereunder which is not paid within ten (10) days after such payment is due. During the existence of any Event of Default under this Note, the unpaid principal and accrued interest balance of this Note shall bear interest on each day until paid at the Prime Rate (as defined above) plus, in Lender's discretion, up to an additional two percentage points (2.0%), but in each such period only to the extent that payment of such interest on such principal or interest is enforceable under applicable law. All payments or prepayments on this Note shall be applied, first, to interest accrued on this Note through the date of such payment or prepayment and then to principal (and any partial principal prepayments on this Note made prior to the date shown above on which the initial principal installment is due hereunder shall be applied to such installments in the inverse order of their maturity).

Upon the occurrence of an Event of Default under (and as such term is defined in) the Loan Agreement, Lender, at its option, without demand or notice of any kind, may declare this Note immediately due and payable. In case this Note is collected by or through an attorney-at-law, all costs of such collection incurred by the Lender, including reasonable attorney's fees, shall be paid by Borrower (but not to exceed actual fees and expenses incurred).

Time is of the essence of this Note. Demand, presentment, notice, notice of demand, notice for payment, protest and notice of dishonor are hereby waived by each and every maker, guarantor, surety and other person or entity primarily or secondarily liable on this Note. Lender shall not be deemed to waive any of its rights under this Note unless such waiver be in writing and signed by Lender. No delay or omission by Lender in exercising any of its rights

under this Note shall operate as a waiver of such rights and a waiver in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion.

This Note shall be governed by and construed and enforced in accordance with the laws of the State of Georgia (without giving effect to its conflicts of law rules). Whenever possible, each provision of this Note shall be

interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

Words importing the singular number hereunder shall include the plural number and vice versa, and any pronoun used herein shall be deemed to cover all genders. "Person" as used herein means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated association or government or any agency or political subdivision thereof. The word "Lender" as used herein shall include transferees, successors and assigns of Lender, and all rights of Lender hereunder shall inure to the benefit of its transferees, successors and assigns. All obligations of Borrower hereunder shall bind such Person's successors and assigns.

SIGNED, SEALED AND DELIVERED by the undersigned Borrower as of the day and year first above set forth.

CRYOLIFE, INC.

By:_____
Title:_____

(CORPORATE SEAL)

EXHIBIT 10.33

CONSULTING AGREEMENT

THIS AGREEMENT is made and entered into as of the 1st day of January, 1998, between Robert T. McNally and CryoLife, Inc., a Florida corporation (the "Company").

W I T N E S S E T H:

WHEREAS, Dr. McNally is a founder and Senior Vice President, Clinical Research of the Company;

WHEREAS, Dr. McNally has special knowledge and expertise relating to the Company's operations and technology;

WHEREAS, Dr. McNally desires to retire from full time employment on January 2, 1998; and,

WHEREAS, the Company desires to engage Dr. McNally and Dr. McNally desires to accept engagement after January 2, 1998 as a part-time consultant in order to maintain the benefit of Dr. McNally's special knowledge and expertise.

NOW THEREFORE, in consideration of the premises, the promises hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Duties.

(a) Engagement. The Company hereby engages Dr. McNally as an independent consultant to assist the Company as assigned by the Company President in (i) evaluating new ideas and concepts for services and products, (ii) maintaining and improving relationships with regulatory and governmental agencies, (iii) maintaining and improving professional and medical community relationships, (iv) making presentations to professional groups and governmental agencies, (v) providing expert advice or testimony, (vi) facilitating in any transition activities related to Dr. McNally's retirement from the Company's fulltime employ, and (vii) facilitating continuation of the Company's annual "Naugie" awards.

(b) Scope of Engagement. Dr. McNally accepts the engagement and agrees to make himself available when called upon to provide up to 60 days per year of consulting services to the Company throughout the Term; provided, however, that Dr. McNally may not be required to provide more than five days of service in any one calendar month.

(c) Liability Limitation. Company agrees not to hold Dr. McNally responsible for any inaccuracies, errors and omissions, however caused, in the information and advice given under this Agreement nor for loss or damage resulting from the use of the information or

advice so given, except for any information and advice given by Dr. McNally which is known to Dr. McNally to be false.

2. Duration. This Agreement shall commence on 3rd day of January, 1998 and, unless earlier terminated pursuant to Section 5 hereof, shall continue until the 2nd day of January, 2001 (the "Term").

3. Remuneration.

(a) Monetary Remuneration. Dr. McNally shall be compensated for all services rendered at the rate of $50,000 per year payable in bi-monthly installments of $2,083.33. Any services performed in excess of 60 days per calendar year must receive prior approval by the Company President and will be reimbursed at a rate of $1,000.00 per day.

(b) Expense Reimbursement. Subject to such policies as may from time to time be established by the Company, the Company shall pay or reimburse Dr. McNally for all reasonable and necessary expenses actually incurred or paid by

Dr. McNally during the Term in the performance of Dr. McNally's duties hereunder, upon submission and approval of expense statements or other supporting information in accordance with the then customary practices of the Company. Air travel in the U.S. will be reimbursed for coach fare. Air travel overseas will be reimbursed for business class.

(c) Other Remuneration. At the Company's December 1997 Compensation Advisory Committee meeting, the Company accelerated the vesting of options under Dr. McNally's December 15, 1995 Incentive Stock Option Grant (copy attached) by amending the vesting schedule in paragraph 2 thereof to read as follows:

Exercise Date	Cumulative Percentage of Option Shares Exercisable
First Anniversary of Grant Date	20%
Second Anniversary of Grant Date	60%
January 1, 1998	100%

In consideration of the foregoing acceleration, Dr. McNally agrees to the foregoing amendment and to waive his right to exercise any vested option more than three months after January 2, 1998, his last day of employment with the Company.

4. Independent Contractor. Dr. McNally is engaged hereunder as an independent contractor of the Company and, accordingly, the Company shall not withhold or be responsible for any federal or state income taxes, social security payments or engagement

taxes with respect to the payment of compensation to Dr. McNally hereunder. As an independent contractor, Dr. McNally shall not have any power or authority to bind the Company to any obligations whatsoever to third parties.

5. Termination. This Agreement may be terminated at any time by the mutual agreement of the parties or by delivery of 30 days written notice from either party to the other party. The provisions of Sections 4, 5, 6, 7, 8, 9, 10 and 11 shall survive any termination or expiration of this Agreement; provided, however, that Section 8 shall not survive a termination on 30 days notice by the Company if the Company's notice fails to identify a breach by Dr. McNally of the terms of this Agreement as a cause for the termination.

6. Notice. Any notice required to be given under the terms of this Agreement may be given by letter, addressed and mailed, with postage paid, to the other party at the address set forth below its signature below or such other address as such party shall notify the other party in writing. Notices may also be delivered by other means.

7. Proprietary Rights Covenants of Dr. McNally.

(a) Confidential Material. "Confidential Material", when used herein, means the confidential, proprietary information of the Company which was received, learned, produced or discovered by Dr. McNally during his prior employment by the Company or which is received, learned, produced or discovered by Dr. McNally in the course of his performing his duties under this Agreement. Dr. McNally agrees that all drawings, recordings, notes, tapes, disks, documents, and other media and all copies thereof relating to the Confidential Material shall be and remain the sole and exclusive property of the Company.

(b) Use Limitations. Dr. McNally agrees to utilize the Confidential Material only for the purposes of the Company and in the manner provided herein and not to disclose any of the Confidential Material to anyone other than Company employees without the prior written consent of the Company's President and then only under circumstances approved in writing by the Company.

(c) Inventions and Discoveries. Dr. McNally hereby assigns to the Company any and all rights he may have in and to the Confidential Material and agrees to promptly disclose all Confidential Material to the Company. Dr. McNally agrees to execute such further documents and instruments as the Company may reasonably request in order to further evidence the transfer contemplated hereunder. All inventions and designs relating to the Confidential Material and the benefit of all patents obtainable with respect thereto shall be included in the foregoing transfer and thereby belong to Company.

(d) Return of Information. Upon request, and in any event upon termination or expiration of this Agreement, Dr. McNally shall promptly deliver or destroy all Confidential Material in his possession or under his control, without retaining any copies or excerpts thereof.

(e) Exclusions to Confidential Material. Confidential Material shall not include information which (i) is or becomes generally available to the public other than as a result of any improper action of Dr. McNally, (ii) is known from a source independent of any restrictions imposed by the Company, or becomes known to Dr. McNally from such a source, (iii) is reasonably demonstrated to have been known to or hereafter developed by Dr. McNally independently of any disclosure of Confidential Material by the Company or (iv) is approved for release by the Company's publication review committee.

(f) Publication Review. Dr. McNally agrees to submit to the Company's publications review committee any articles or writings Dr. McNally proposes to publish relating to the Confidential Material, whether or not the Confidential Material is identified as the Company's in the article, and to permit the committee a reasonable period of time consistent with its general practices to review such material and to require deletions of Confidential Material prior to publication. The review committee shall also be entitled delay publication of any article up to nine months for the convenience of the Company or longer, if necessary, to protect the Company's ability to file for patent protection.

(g) Disclosure of Conflicting Activities. Dr. McNally agrees to disclose promptly any outside activities or interests that conflict or may conflict with the business of the Company.

8. Exclusivity. Until January 2, 2001, Dr. McNally will not, directly or indirectly, whether as owner, partner, shareholder, consultant, agent, employee, co-venturer or otherwise, (i) compete with the Company's business by assisting any other company or individual in the business of developing, producing or marketing any (A) homograft or allograft heart valves, (B) homograft vein or connective tissue, or (C) blood fraction derived adhesives or cross linking agents, or (ii) attempt to hire any employee or agent of the Company or any of its affiliates, assist in such hiring by any other person, encourage any such employee or agent to terminate his or her relationship with the Company or any of its affiliates, or solicit or encourage any customer of the Company or any of its affiliates to terminate its relationship with the Company or any of its affiliates or to conduct with any other person any business or activity which such customer conducts or could conduct with the Company or any of its affiliates. This exclusivity provision shall apply only within the United States, the European Common Market, Argentina or Japan. This exclusivity shall not prohibit Dr. McNally from assisting Kanto Biomedical in producing or marketing any of the products or services identified in subpart (i) of the first sentence of this paragraph provided those products or services are produced or marketed pursuant to a license granted by the Company.

9. Rights and Remedies Upon Breach. If Dr. McNally breaches any of provisions of Sections 7 or 8 (collectively, the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which shall be independent of the other and severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity:

(a) Specific Performance. Dr. McNally recognizes and agrees that the violation of any of the Restrictive Covenants may not be reasonably or adequately compensated in monetary damages and that, in addition to any other relief to which the Company may be entitled by reason of such violation, the Company shall also be entitled to permanent and temporary injunctive and equitable relief and, pending determination of any dispute with respect to such violation, no bond or security shall be required in connection therewith. Without limiting the generality of the foregoing, Dr. McNally specifically acknowledges that a showing by the Company of any breach of any Restrictive Covenant shall constitute, for the purposes of all judicial determinations on the issue of injunctive relief, conclusive proof of all of the elements

necessary to entitle the Company to interim and permanent injunctive relief against Dr. McNally with respect to such breach. Dr. McNally agrees that the Restrictive Covenants shall be enforceable by a decree of specific performance.

(b) Severability of Covenants. If any of the Restrictive Covenants, or any part thereof, or any of the other provisions of this Section 7, 8 or 9 is held by a court of competent jurisdiction or any other governmental authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the Restrictive Covenants or such other provisions shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and such court or authority shall be empowered to substitute, to the extent enforceable, provisions similar thereto or other provisions so as to provide to the Company to the fullest extent permitted by applicable law, the benefits intended by such provisions.

10. Lock-Up Agreement. Dr. McNally has been advised that the Company currently proposes to conduct an underwritten offering of securities during the first half of 1998. Dr. McNally agrees that he will not, directly or indirectly, without the prior written consent of the Company, from the date hereof through May 15, 1998 (the "Lock-Up Period"), offer, sell, contract to sell, pledge, grant any option for the sale of, or otherwise dispose or cause the disposition of, any shares of Company Common Stock, or any securities convertible into or exchangeable or exercisable for any shares of Company Common Stock, owned by the undersigned, whether owned on the date hereof or hereafter acquired (other than the disposal or disposition of any derivative securities upon the exercise of stock options). In addition, Dr. McNally agrees to enter into any lock-up arrangement required by the underwriters of any public offering of securities of the Company conducted during calendar 1998, for a period of up to 120 days from the date of the prospectus utilized in connection with such offering, or for such shorter period as shall be required of the officers and directors of the

Company. The Company agrees to use its reasonable best efforts to enable Dr. McNally to sell up to 24,000 shares of Company Common Stock during the Lock-Up Period, either on the open market or through participation in an underwritten public offering of the Company's Common Stock, to the extent that the underwriters thereof allow the participation of selling shareholders and do not object to the inclusion of Dr. McNally.

11. Miscellaneous. This Agreement, and Dr. McNally's rights and obligations hereunder, may not be assigned by Dr. McNally. If any provision of this Agreement is held invalid or otherwise unenforceable, the enforceability of the remaining provisions shall not be impaired thereby. This Agreement shall be construed in accordance with the laws of the State of Georgia and contains the entire agreement between the parties with respect to consulting services and supersedes all prior contracts and other agreements, written or oral, with respect thereto; provided, however, that this Agreement shall be in addition to and shall not supersede any agreement, if any exists, between the parties respecting confidentiality, invention rights, proprietary rights, nonsolicitation or noncompetition. This Agreement may be changed only by an agreement in writing. The waiver by one party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach of the same or any other provision by the other party. If any action at law or in equity is necessary to enforce the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and expenses, in addition to any other relief to which such prevailing party may be entitled.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first hereinabove set forth.

CryoLife, Inc.	Robert T. McNally, Ph.D.
/s/ Steven G. Anderson	/s/ Robert T. McNally
_____	_____
Steven G. Anderson Chairman, President and CEO 1655 Roberts Boulevard, NW Kennesaw, Georgia 30144 (770) 419-3355	Robert T. McNally, Ph.D. 4693 Karls Gate Drive Marietta, Georgia 30068-2025

EXHIBIT 10.34

CRYOLIFE, INC.

1998 Long-Term Incentive Plan

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CRYOLIFE, INC.
1998 LONG-TERM INCENTIVE PLAN

SECTION 1

GENERAL

1.1 Purpose. The CryoLife, Inc. 1998 Long-Term Incentive Plan (the "Plan") has been established by CryoLife, Inc. (the "Company") to (i) attract and retain persons eligible to participate in the Plan; (ii) motivate Participants, by means of appropriate incentives, to achieve long-range goals; (iii) provide incentive compensation opportunities that are competitive with those of other similar companies; and (iv) further identify Participants' interests with those of the Company's other stockholders through compensation that is based on the Company's common stock; and thereby promote the long-term financial interest of the Company and the Related Companies, including the growth in value of the Company's equity and enhancement of long-term stockholder return.

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

1.3 Operation, Administration, and Definitions. The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 4 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 7 of the Plan).

SECTION 2

OPTIONS AND SARS

2.1 Definitions of Options and SARS.

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

(b) To the extent that the aggregate fair market value of Stock with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and all Related Companies) exceeds $100,000, such options shall be treated as Non-Qualified Stock Options, to the extent required by section 422 of the Code.

(c) A stock appreciation right (an "SAR") entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 2.6), value equal to all or a portion of the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

2.2 Exercise Price. The "Exercise Price" of each Option and SAR granted under this Section 2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option or SAR is granted; except that the Exercise Price shall not be less than the greater of 100% of the Fair Market Value or the par value of a share of Stock as of the Pricing Date. However, if the Participant owns more than 10% of the total combined voting power of all classes of capital stock of the Company or any of its subsidiary or parent corporations, the Exercise Price of an Incentive Stock Option granted to such Participant shall not be less than 110% of the Fair Market Value of a share of Stock as of the Pricing Date. For purposes of the preceding sentences, the "Pricing Date" shall be the date on which the Option or SAR is granted, except that the Committee may provide that: (i) the Pricing Date is the date on which the recipient is hired or promoted (or similar event), if the grant of the Option or SAR occurs not more than 90 days after the date of such hiring, promotion or other event; and (ii) if an Option or SAR is granted in tandem with, or in substitution for, an outstanding Award, the Pricing Date is the date of grant of such outstanding Award.

2.3 Exercise. An Option and an SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee.

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

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

(b) The Exercise Price shall be payable in cash or by tendering shares of Stock (by either actual delivery of shares or by attestation, with such shares valued at Fair

Market Value as of the day of exercise), or in any combination thereof, as determined by the Committee.

(c) The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise, or the Company may choose to retain such shares in satisfaction of the Exercise Price and any tax withholding.

2.5 Expiration Date. The "Expiration Date" with respect to an Option means the date established as the Expiration Date by the Committee at the time of the grant; provided, however, that unless otherwise established by Committees at the time of grant, the Expiration Date with respect to any Option shall not be later than the earliest to occur of:

(a) the ten-year anniversary of the date on which the Option is granted;

(b) if the Participant's Date of Termination occurs for Cause, the Date of Termination; or

(c) if the Participant's Date of Termination occurs for reasons other than Cause, Retirement, Early Retirement, death or Disability, the 30-day anniversary of such Date of Termination.

2.6 Settlement of Award. Distribution following exercise of an Option or SAR, and shares of Stock distributed pursuant to such exercise, shall be subject to such conditions, restrictions and contingencies as the Committee may establish. Settlement of SARs may be made in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination

thereof, as determined in the discretion of the Committee. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Stock acquired pursuant to the exercise of an Option or an SAR as the Committee determines to be desirable.

SECTION 3

OTHER STOCK AWARDS

3.1 Definition. A Stock Award is a grant of shares of Stock or of a right to receive shares of Stock (or their cash equivalent or a combination of both) in the future.

3.2 Restrictions on Stock Awards. Each Stock Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine. These may include continuous service and/or the achievement of Performance Measures. The Performance

Measures that may be used by the Committee for such Awards shall be measured by revenues, income, or such other criteria as the Committee may specify. The Committee may designate a single goal criterion or multiple goal criteria for performance measurement purposes, with the measurement based on absolute Company or business unit performance and/or on performance as compared with that of other publicly-traded companies. If the right to become vested in a Stock Award granted under this Section 3 is conditioned on the completion of a specified period of service with the Company and the Related Companies, without achievement of Performance Measures or other objectives being required as a condition of vesting, then the required period of service for vesting shall be not less than three years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participant's death, disability, or involuntary termination or a Change in Control of the Company).

SECTION 4

OPERATION AND ADMINISTRATION

4.1 Effective Date. The Plan is subject to the approval of the stockholders of the Company at the Company's next annual meeting of its stockholders; therefore the Plan shall be effective as of the date such approval is obtained (the "Effective Date"). The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Awards under it are outstanding; provided, however, that, to the extent required by the Code, no Incentive Stock Options may be granted under the Plan on a date that is more than ten years from the date the Plan is approved by stockholders.

4.2 Shares Subject to Plan.

(a) (i) Subject to the following provisions of this subsection 4.2, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries under the Plan shall be 300,000.

(ii) Anyshares of Stock granted under the Plan that are forfeited because of the failure to meet an Award contingency or condition shall again be available for delivery pursuant to new Awards granted under the Plan. To the extent any shares of Stock covered by an Award are not delivered to a Participant or beneficiary because the Award is forfeited or cancelled, or the shares of Stock are not delivered because the Award is settled in cash, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

(iii) If the Exercise Price of any stock option granted under the Plan or any Prior Plan is satisfied by tendering shares of Stock to the Company (by either actual delivery or by attestation), only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered

for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

(iv) Shares of Stock delivered under the Plan in settlement, assumption or substitution of outstanding awards (or obligations to grant future awards) under the plans or arrangements of another entity shall not reduce the maximum number of shares of Stock available for delivery under the Plan, to the extent that such settlement, assumption or substitution is a result of the Company or a Related Company acquiring another entity (or an interest in another entity).

(b) Subject to paragraph 4.2(c), the following additional maximums are imposed under the Plan.

(i) The maximum number of shares of Stock that may be issued by Options intended to be Incentive Stock Options shall be 300,000 shares.

(ii) The maximum number of shares of Stock that may be issued in conjunction with Awards granted pursuant to Section 3 (relating to Stock Awards) shall be 100,000 shares.

(iii) The maximum number of shares that may be covered by Awards granted to any one individual pursuant to Section 2 (relating to Options and SARs) shall be 100,000 shares during any consecutive 12 month period.

(iv) The maximum payment that can be made for awards granted to any one individual pursuant to Section 3 (relating to Stock Awards) shall be $50,000 for any single or combined performance goals established for any fiscal year. If an Award granted under Section 3 is, at the time of grant, denominated in shares, the value of the shares of Stock for determining this maximum individual payment amount will be the Fair Market Value of a share of Stock on the first day of the applicable performance period.

(c) In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Committee may adjust Awards to preserve the benefits or potential benefits of the Awards. Action by the Committee may include adjustment of: (i) the number and kind of shares which may be delivered under the Plan; (ii) the number and kind of shares subject to outstanding Awards; and (iii) the Exercise Price of outstanding Options and SARs; as well as any other adjustments that the Committee determines to be equitable.

4.3 Limit on Distribution. Distribution of shares of Stock or other amounts under the Plan shall be subject to the following:

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

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

4.4 Tax Withholding. Whenever the Company proposes, or is required, to distribute Stock under the Plan, the Company may require the recipient to remit to the Company an amount sufficient to satisfy any Federal, state and local tax withholding requirements prior to the delivery of any certificate for such shares or, in the discretion of the Committee, the Company may withhold from the shares to be delivered shares sufficient to satisfy all or a portion of such tax withholding requirements. Whenever under the Plan payments are to be made in cash, such payments may be net of an amount sufficient to satisfy any Federal, state and local tax withholding requirements.

4.5 Payment in Shares. Subject to the overall limitation on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Related Company, including the plans and arrangements of the Company or a Related Company acquiring another entity (or an interest in another entity).

4.6 Dividends and Dividend Equivalents. An Award may provide the Participant with the right to receive dividends or dividend equivalent payments with respect to Stock which may be either paid currently or credited to an account for the Participant, and may be settled in cash or Stock as determined by the Committee. Any such settlements, and any such crediting of dividends or dividend equivalents or reinvestment in shares of Stock, may be subject to such conditions, restrictions and contingencies as the Committee shall establish, including the reinvestment of such credited amounts in Stock equivalents.

4.7 Payments. Awards may be settled through cash payments, the delivery of shares of Stock, the granting of replacement Awards, or any combination thereof as the Committee shall determine. Any Award settlement, including payment deferrals, may be subject to such rules and procedures as it may establish, which may include provisions for the payment or

crediting of interest, or dividend equivalents, including converting such credits into deferred Stock equivalents.

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

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

4.10 Agreement With Company. At the time of an Award to a Participant under the Plan, the Committee may require a Participant to enter into an agreement with the Company (the "Agreement") in a form specified by the Committee, agreeing to the terms and conditions of the Plan and to such additional terms and conditions, not inconsistent with the Plan, as the Committee may, in its sole discretion, prescribe.

4.11 Limitation of Implied Rights.

(a) Neither a Participant nor any other person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Company or any Related Company whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Related Company, in their sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the stock or amounts, if any, payable

under the Plan, unsecured by any assets of the Company or any Related Company. Nothing contained in the Plan shall constitute a guarantee that the assets of such companies shall be sufficient to pay any benefits to any person.

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

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

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

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

4.15 Change of Control. Unless otherwise determined by the Committee, if the Company is merged into or consolidated with another corporation under circumstances in which the Company is not the surviving corporation, or if the Company is liquidated, or sells or otherwise disposes of substantially all of its assets to another corporation (any such merger, consolidation, etc., being hereinafter referred to as a "Change of Control Transaction") while unexercised Options are outstanding under the Plan, after the effective date of a Change of Control Transaction, each holder of an outstanding Option shall be entitled, upon exercise of such Option, to receive such stock, or other securities as the holders of the same class of stock as those shares subject to the Option shall be entitled to receive in such Change of Control Transaction based upon the agreed upon conversion ratio or per share distribution. Unless otherwise determined by the Committee, any limitations on exercisability of Options owned by executive officers or the Company shall be waived, and Options of non-executive officers may be waived (in the discretion of the Committee), so that all such Options, from and after a date prior to the effective date of such Change of Control Transaction shall be exercisable in full. Furthermore, unless otherwise determined by the Committee, the right to exercise shall, in the case of executive officers, and may (in the discretion of the Committee), in the case of other option holders, be given to each holder (by written notice) of an Option during a 15-day period preceding the effective date of such Change of Control Transaction. Any outstanding Options not exercised within such 15-day period may be cancelled by the Committee as of the effective date of any such Change of Control Transaction, as specified in the 15-day notice. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

4.16 Liability for Cash Payment. Each Related Company shall be liable for payment of cash due under the Plan with respect to any Participant to the extent that such benefits are attributable to the services rendered for that Related Company by the Participant. Any disputes relating to liability of a Related Company for cash payments shall be resolved by the Committee.

4.17 Governing Law. This Plan and all awards made and actions taken hereunder shall be governed by and construed in accordance with (i) the laws of the State of Georgia, excluding its conflict of law provisions and its General Business Corporation Code, (ii) the applicable corporation law, which shall be

the general business corporation law of the State of Florida.

SECTION 5

COMMITTEE

5.1 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with this Section 5.

5.2 Selection of Committee. The Committee shall be selected by the Board, and shall consist of two or more members of the Board.

5.3 Powers of Committee. The authority to manage and control the operation and administration of the Plan shall be vested in the Committee, subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Persons those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards, and (subject to the restrictions imposed by Section 6) to cancel or suspend Awards. In making such Award determinations, the Committee may take into account the nature of services rendered by the individual, the individual's present and potential contribution to the Company's success and such other factors as the Committee deems relevant.

(b) Subject to the provisions of the Plan, the Committee will have the authority and discretion to determine the extent to which Awards under the Plan will be structured to conform to the requirements applicable to performance-based compensation as described in Code section 162(m), and to take such action, establish such procedures, and impose such restrictions at the time such Awards are granted as the Committee determines to be necessary or appropriate to conform to such requirements.

(c) The Committee will have the authority and discretion to establish terms and conditions of awards as the Committee determines to be necessary or appropriate to conform to applicable requirements or practices of jurisdictions outside of the United States.

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

(e) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding.

(f) Except as otherwise expressly provided in the Plan, where the Committee is authorized to make a determination with respect to any Award, such determination shall be made at the time the Award is made, except that the Committee may reserve the authority to have such determination made by the Committee in the future (but only if such reservation is made at the time the Award is granted and is expressly stated in the Agreement reflecting the Award).

(g) In controlling and managing the operation and administration

of the Plan, the Committee shall act by a majority of its then members, by meeting or by writing filed without a meeting. The Committee shall maintain and keep adequate records concerning the Plan and concerning its proceedings and acts in such form and detail as the Committee may decide.

5.4 Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

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

SECTION 6

AMENDMENT AND TERMINATION

6.1 Board of Directors. The Board may, at any time, amend or terminate the Plan, provided that, subject to subsection 4.2 (relating to certain adjustments to shares), no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Board; provided, however, that the Board may not amend the provisions of Section 2.2 hereof to reduce the minimum Exercise Price, nor may the Board increase the number of shares reserved under the Plan, unless it obtains stockholder approval. Subject to the foregoing, the Board shall have broad authority to amend the Plan to take into

account changes in applicable securities and tax laws and accounting rules, as well as other developments.

6.2 Committee. The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to subsection 4.2 (relating to certain adjustments to shares) no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Committee.

SECTION 7

DEFINED TERMS

7.1 For purposes of the Plan, the terms listed below shall be defined as follows:

(a) Award. The term "Award" shall mean any award or benefit granted to any Participant under the Plan, including, without limitation, the grant of Options, SARs, and Stock Awards.

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

(c) Cause. The term "Cause" means a felony conviction of a Participant or the failure of a Participant to contest prosecution for a felony, or a Participant's willful misconduct or dishonesty, or other unauthorized activity which, in the good faith opinion of the Committee, is directly and materially harmful to the business or reputation of the

Company or a Related Company.

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

(e) Eligible Person. The term "Eligible Person" shall mean any employee of the Company or a Related Company, any director of the Company, and any consultant or other person providing key services to the Company or a Related Company.

(f) Fair Market Value. For purposes of determining the "Fair Market Value" of a share of Stock, the following rules shall apply:

(i) If the Stock is at the time listed or admitted to trading on any stock exchange (including the Nasdaq National Stock Market), then the "Fair Market Value" shall be the mean between the lowest and highest reported sale prices of the Stock on the date in question on the principal exchange

on which the Stock is then listed or admitted to trading. If no reported sale of Stock takes place on the date in question on the principal exchange, then the reported closing asked price of the Stock on such date on the principal exchange shall be determinative of "Fair Market Value."

(ii) If the Stock is not at the time listed or admitted to trading on a stock exchange, the "Fair Market Value" shall be the mean between the lowest reported bid price and highest reported asked price of the Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Committee and regularly reporting the market price of Stock in such market.

(iii) If the Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, the "Fair Market Value" shall be as determined in good faith by the Committee.

(g) Related Company. The term "Related Company" means any subsidiary of the Company, and any business venture in which the Company has a significant interest, as determined in the discretion of the Committee.

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

SECTION 8

UNFUNDED STATUS OF THE PLAN

8.1 The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or optionee by the Company, nothing contained herein shall give any such Participant or optionee any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or payments in lieu of or with respect to awards hereunder; provided, however, that, unless the Committee otherwise determines with the consent of the affected Participant, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

EXHIBIT 21.1

SUBSIDIARIES OF CRYOLIFE, INC.

NAME	STATE OF INCORPORATION
CryoLife International Incorporated	Florida
Ideas for Medicine, Inc.	Florida

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of CryoLife, Inc. of our report dated February 9, 1998, included in the 1997 Annual Report to Shareholders of CryoLife, Inc.

Our audits also included the financial statement schedule of CryoLife, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, as of the date of our report referred to in the preceding paragraph, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in Registration Statement No. 333-16581 on Form S-3 and Registration Statement Nos. 33-83996, 33-84048, 333-03513, 333-06141 and 333-34025 on Form S-8, of our report dated February 9, 1998, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of CryoLife, Inc.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 16, 1998

EXHIBIT 23.2

ACCOUNTANTS' CONSENT

The Board of Directors
CryoLife, Inc.

We consent to incorporation by reference in the registration statements (Nos. 33-83996, 33-84048, 333-03513, 333-06141, and 333-34025) on Form S-8 and registration statement (No. 333-16581) on Form S-3 of CryoLife, Inc. of our reports dated February 14, 1996, relating to the consolidated statements of income, shareholders' equity and cash flows and related schedule for the year ended December 31, 1995, which reports are incorporated by reference in the December 31, 1997 annual report on Form 10-K of CryoLife, Inc.

/s/ KPMG Peat Marwick LLP

KPMG PEAT MARWICK LLP

Atlanta, Georgia
February 16, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF CRYOLIFE, INC. FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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