**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended **September 30, 2011**

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, NW, Kennesaw, Georgia** | **30144** |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| **Class** | **Outstanding at October 21, 2011** |
|---|---|
| Common Stock, $0.01 par value per share | 28,138,775 shares |

**Part I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | (Unaudited) | |
| **Revenues:** | | | | |
| Preservation services | $ 14,656 | $ 15,111 | $ 45,018 | $ 45,699 |
| Products | 14,923 | 13,175 | 43,932 | 41,276 |
| Other | 75 | 157 | 279 | 448 |
| **Total revenues** | **29,654** | **28,443** | **89,229** | **87,423** |
| **Cost of preservation services and products:** | | | | |
| Preservation services | 8,349 | 8,911 | 25,709 | 27,322 |
| Products | 2,393 | 4,310 | 7,051 | 9,318 |
| **Total cost of preservation services and products** | **10,742** | **13,221** | **32,760** | **36,640** |
| **Gross margin** | **18,912** | **15,222** | **56,469** | **50,783** |
| **Operating expenses:** | | | | |
| General, administrative, and marketing | 14,726 | 11,376 | 42,676 | 36,863 |
| Research and development | 1,690 | 1,590 | 5,099 | 4,122 |
| Acquired in-process research and development | -- | 3,513 | -- | 3,513 |
| **Total operating expenses** | **16,416** | **16,479** | **47,775** | **44,498** |
| **Operating income (loss)** | **2,496** | **(1,257)** | **8,694** | **6,285** |
| Interest expense | 49 | 29 | 116 | 145 |
| Interest income | (1) | (6) | (13) | (16) |
| Gain on valuation of derivative | -- | (143) | -- | (1,345) |
| Other than temporary investment impairment | -- | 3,638 | -- | 3,638 |
| Other expense (income), net | 159 | (187) | (12) | 44 |
| **Income (loss) before income taxes** | **2,289** | **(4,588)** | **8,603** | **3,819** |
| Income tax expense (benefit) | 270 | (1,557) | 3,098 | 1,990 |
| **Net income (loss)** | **$ 2,019** | **$ (3,031)** | **$ 5,505** | **$ 1,829** |
| **Income (loss) per common share:** | | | | |
| **Basic** | **$ 0.07** | **$ (0.11)** | **$ 0.20** | **$ 0.07** |
| **Diluted** | **$ 0.07** | **$ (0.11)** | **$ 0.20** | **$ 0.06** |
| **Weighted-average common shares outstanding:** | | | | |
| Basic | 27,523 | 27,783 | 27,431 | 28,086 |
| Diluted | 27,850 | 27,783 | 27,765 | 28,356 |

See accompanying Notes to Summary Consolidated Financial Statements.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 21,050 | $ 35,497 |
| Restricted securities | 5,313 | 5,309 |
| Receivables, net | 15,308 | 14,313 |
| Deferred preservation costs | 29,454 | 31,570 |
| Inventories | 6,995 | 6,429 |
| Deferred income taxes | 7,436 | 6,096 |
| Prepaid expenses and other current assets | 3,298 | 2,276 |
| **Total current assets** | **88,854** | **101,490** |
| Property and equipment, net | 12,634 | 13,086 |
| Investment in equity securities | 6,248 | 2,594 |
| Goodwill | 4,597 | -- |
| Patents, net | 2,973 | 3,282 |
| Trademarks and other intangibles, net | 17,951 | 5,601 |
| Deferred income taxes | 12,390 | 9,182 |
| Other long-term assets | 2,352 | 2,203 |
| **Total assets** | **$ 147,999** | **$ 137,438** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 5,021 | $ 4,243 |
| Accrued compensation | 3,254 | 3,357 |
| Accrued procurement fees | 3,906 | 3,081 |
| Accrued expenses and other current liabilities | 8,041 | 6,552 |
| Deferred income | 2,056 | 2,095 |
| **Total current liabilities** | **22,278** | **19,328** |
| Other long-term liabilities | 4,943 | 4,168 |
| **Total liabilities** | **27,221** | **23,496** |
| **Commitments and contingencies** | | |
| **Shareholders' equity:** | | |
| Preferred stock | -- | -- |
| Common stock (issued shares of 30,088 in 2011 and 29,950 in 2010) | 301 | 300 |
| Additional paid-in capital | 134,692 | 133,845 |
| Retained deficit | (2,903) | (8,408) |
| Accumulated other comprehensive loss | (27) | (32) |
| Treasury stock at cost (shares of 1,949 in 2011 and 2,049 in 2010) | (11,285) | (11,763) |
| **Total shareholders' equity** | **120,778** | **113,942** |
| **Total liabilities and shareholders' equity** | **$ 147,999** | **$ 137,438** |

See accompanying Notes to Summary Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| | (Unaudited) | |
| **Net cash from operating activities:** | | |
| Net income | $ 5,505 | $ 1,829 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 3,557 | 2,908 |
| Deferred income taxes | 41 | (801) |
| Other than temporary investment impairment | -- | 3,638 |
| Non-cash compensation | 2,140 | 1,938 |
| Acquired in-process research and development expense | -- | 3,513 |
| Write-down of deferred preservation costs and inventories | 270 | 1,965 |
| Gain on valuation of derivative | -- | (1,345) |
| Other non-cash adjustments to income | 217 | 170 |
| Changes in operating assets and liabilities: | | |
| Receivables | 1 | (738) |
| Deferred preservation costs and inventories | 2,300 | 2,495 |
| Prepaid expenses and other assets | (968) | (2,108) |
| Accounts payable, accrued expenses, and other liabilities | 644 | 358 |
| **Net cash flows provided by operating activities** | **13,707** | **13,822** |
| **Net cash from investing activities:** | | |
| Acquisition of Cardiogenesis, net of cash acquired | (21,062) | -- |
| Acquisition of PerClot intangible assets | -- | (5,392) |
| Capital expenditures | (1,993) | (1,475) |
| Purchases of restricted securities and investments | (3,569) | (2,705) |
| Other | (506) | (369) |
| **Net cash flows used in investing activities** | **(27,130)** | **(9,941)** |
| **Net cash from financing activities:** | | |
| Principal payments on debt | -- | (315) |
| Proceeds from financing of insurance policies | -- | 1,475 |
| Principal payments on short-term notes payable | -- | (1,086) |
| Proceeds from exercise of stock options and issuance of common stock | 703 | 236 |
| Repurchase of common stock | (1,607) | (4,295) |
| Other | (109) | 979 |
| **Net cash flows used in financing activities** | **(1,013)** | **(3,006)** |
| **(Decrease) Increase in cash and cash equivalents** | **(14,436)** | **875** |
| Effect of exchange rate changes on cash | (11) | 6 |
| Cash and cash equivalents, beginning of period | 35,497 | 30,121 |
| **Cash and cash equivalents, end of period** | **$ 21,050** | **$ 31,002** |
| **Supplemental disclosures of cash flow information - non-cash investing activities:** | | |
| Issuance of common stock for acquisition of PerClot intangible assets | $ -- | $ 989 |

See accompanying Notes to Summary Consolidated Financial Statements.

## 1. Basis of Presentation

The accompanying summary consolidated financial statements include the accounts of CryoLife, Inc. and its subsidiaries ("CryoLife," the "Company," "we," or "us"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying Summary Consolidated Balance Sheet as of December 31, 2010 has been derived from audited financial statements. The accompanying unaudited summary consolidated financial statements as of and for the three and nine months ended September 30, 2011 and 2010 have been prepared in accordance with (i) accounting principles generally accepted in the U.S. for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, such statements do not include all of the information and disclosures required by accounting principles generally accepted in the U.S. for a complete presentation of financial statements. In the opinion of management, all adjustments (including those of a normal, recurring nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These summary consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in CryoLife's Annual Report on Form 10-K for the year ended December 31, 2010.

## 2. Financial Instruments

The Company's financial instruments include cash equivalents, marketable securities, restricted securities, accounts receivable, and accounts payable. The Company typically values financial assets and liabilities such as receivables, accounts payable, and debt obligations at their carrying values, which approximate fair value due to their generally short-term duration.

The Company records certain financial instruments at fair value, including: cash equivalents, certain marketable securities, and certain restricted securities. These financial instruments are discussed in further detail in the notes below. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis, although as of September 30, 2011 the Company has not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair values in their broad levels. These levels from highest to lowest priority are as follows:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data; and
- Level 3: Unobservable inputs or valuation techniques that are used when little or no market data is available.

The determination of fair value and the assessment of a measurement's placement within the hierarchy require judgment. Although the Company believes that the recorded fair values of its financial instruments are appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

The following is a summary of the Company's financial instruments measured at fair value (in thousands):

| September 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents: | | | | |
| Money market funds | $ -- | $ 5,239 | $ -- | $ 5,239 |
| Restricted securities: | | | | |
| Money market funds | -- | 5,313 | -- | 5,313 |
| Total assets | $ -- | $ 10,552 | $ -- | $ 10,552 |

| December 31, 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents: | | | | |
| Money market funds | $ -- | $ 2,056 | $ -- | $ 2,056 |
| U.S. Treasury debt securities | 14,099 | -- | -- | 14,099 |
| Restricted securities: | | | | |
| Money market funds | -- | 309 | -- | 309 |
| U.S. Treasury debt securities | 5,000 | -- | -- | 5,000 |
| Total assets | $ 19,099 | $ 2,365 | $ -- | $ 21,464 |

The Company uses prices quoted from its investment management companies to determine the level 2 valuation of its investments in money market funds and securities.

### 3. Cash Equivalents and Restricted Securities

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

| September 30, 2011 | Cost Basis | Unrealized Holding Gains | Estimated Market Value |
|---|---|---|---|
| Cash equivalents: | | | |
| Money market funds | $ 5,239 | $ -- | $ 5,239 |
| Restricted securities: | | | |
| Money market funds | 5,313 | -- | 5,313 |
| **December 31, 2010** | | | |
| Cash equivalents: | | | |
| Money market funds | $ 2,056 | $ -- | $ 2,056 |
| U.S. Treasury debt securities | 14,099 | -- | 14,099 |
| Restricted securities: | | | |
| Money market funds | 309 | -- | 309 |
| U.S. Treasury debt securities | 5,000 | -- | 5,000 |

As of September 30, 2011 and December 31, 2010 $313,000 and $309,000, respectively, of the Company's money market funds were designated as short-term restricted securities due to a contractual commitment to hold the securities as pledged collateral relating to international tax obligations. As of September 30, 2011 $5.0 million of the Company's money market funds and as of December 31, 2010 $5.0 million of the Company's U.S. Treasury debt securities were designated as restricted securities due to a financial covenant requirement under the Company's credit agreement with General Electric Capital Corporation ("GE Capital") as discussed in Note 11.

There were no material realized gains or losses on cash equivalents in the nine months ended September 30, 2011 and 2010. At September 30, 2011 $5.0 million of restricted securities had a maturity date within three months and $313,000 of restricted securities had a maturity date of between three months and one year. As of December 31, 2010 $5.3 million of the Company's restricted securities had a maturity date within three months.

### 4. Investment in ValveXchange

In July 2011 the Company purchased approximately 2.4 million shares of series A preferred stock of ValveXchange, Inc. ("ValveXchange") for approximately $3.5 million. ValveXchange is a private medical device company that was spun off from Cleveland Clinic to develop a lifetime heart valve replacement technology platform featuring exchangeable bioprosthetic leaflets. The Company's carrying value of this investment includes the purchase price and certain transaction costs. CryoLife's investment represents an approximate 19% equity ownership in ValveXchange. As ValveXchange's stock is not actively traded on any public stock exchange and as the Company's investment is in preferred stock, the Company accounted for this investment using the cost method. The Company recorded its investment as a long-term asset, investment in equity securities, on the Company's Summary Consolidated Balance Sheet.

In July 2011 the Company entered into an agreement with ValveXchange to make available up to $2.0 million to ValveXchange in debt financing through a revolving credit facility ("ValveXchange Loan"). The ValveXchange Loan includes various affirmative

and negative covenants, including financial covenant requirements, and expires on July 30, 2018, unless terminated earlier. Amounts loaned under the ValveXchange Loan earn interest at an 8% annual rate and are secured by substantially all of the tangible and intangible assets of ValveXchange. The Company incurred loan origination costs, net of fees charged to ValveXchange, of approximately $117,000, which will be expensed on a straight-line basis over the life of the loan facility. The Company will record advances to ValveXchange as long-term notes receivable. As of September 30, 2011 there were no outstanding receivable balances under the ValveXchange Loan and the remaining availability was $2.0 million.

Concurrently with the ValveXchange Loan described above, CryoLife entered into an option agreement with ValveXchange through which CryoLife obtained the right of first refusal to acquire ValveXchange during a period that extends through the completion of initial commercialization milestones and the right to negotiate with ValveXchange for European distribution rights.

**5. Cardiogenesis Acquisition**

***Overview***

On May 17, 2011 CryoLife completed its acquisition of all of the outstanding shares of Cardiogenesis Corporation ("Cardiogenesis") for $0.457 per share or approximately $21.7 million. CryoLife used cash on hand to fund the transaction and operates Cardiogenesis as a wholly owned subsidiary.

Cardiogenesis is a leading developer of surgical products used in the treatment of patients with refractory angina resulting from diffuse coronary artery disease. Cardiogenesis markets the Cardiogenesis Transmyocardial Revascularization ("TMR") Holmium Laser System, which includes the holmium: YAG laser console and single use, fiber-optic handpieces, which are U.S. Food and Drug Administration ("FDA") approved for performing a surgical procedure known as TMR, used for treating patients with angina that is not responsive to standard medications. Patients undergoing TMR treatment with Cardiogenesis products have been shown to have angina reduction, longer event-free survival, reduction in cardiac related hospitalizations, and increased exercise tolerance.

***Accounting for the Transaction***

The Company has recorded a preliminary allocation of the $21.7 million purchase price to Cardiogenesis' tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of May 17, 2011. Goodwill has been recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired. The preliminary purchase price allocation is as follows (in thousands):

| | Balance Sheet May 17, 2011 |
|---|---|
| Cash and cash equivalents | $ 650 |
| Receivables | 1,055 |
| Inventory | 852 |
| Property and equipment | 248 |
| Intangible assets | 11,900 |
| Goodwill | 4,597 |
| Net deferred tax assets | 4,589 |
| Other assets | 230 |
| Liabilities assumed | (2,409) |
| Total purchase price | $ 21,712 |

The preliminary allocation of the purchase price to intangible assets is based on valuations performed to determine the fair value of such assets as of the acquisition date. The Company may adjust the amounts recorded as of September 30, 2011 to reflect any revised evaluations of the assets acquired or liabilities assumed.

CryoLife incurred approximately $3.0 million in transaction and integration costs related to the acquisition in the nine months ended September 30, 2011.

***Pro Forma***

Cardiogenesis' revenues of $3.3 million from the date of acquisition for the second and third quarters of 2011 are included in the Summary Consolidated Statement of Operations. Selected unaudited pro forma results of operations for the nine months ended

September 30, 2011 and 2010, assuming the Cardiogenesis acquisition had occurred as of January 1 of each respective period, are presented for comparative purposes below (in thousands, except per share amounts):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Total revenues | $ 93,554 | $ 95,849 |
| Net income | 3,999 | 1,487 |
| Pro forma income per common share—basic | $ 0.15 | $ 0.05 |
| Pro forma income per common share—diluted | $ 0.14 | $ 0.05 |

Pro forma results for the nine months ended September 30, 2011 include Cardiogenesis acquisition and integration related costs of approximately $3.0 million, on a pre-tax basis. Pro forma disclosures were calculated using a tax rate of approximately 36%.

**6. PerClot Technology Acquisition**

***Overview***

On September 28, 2010 CryoLife entered into a worldwide distribution agreement (the "Distribution Agreement") and a license and manufacturing agreement (the "License Agreement") with Starch Medical, Inc. ("SMI") of San Jose, California for PerClot®, a polysaccharide hemostatic agent used in surgery. PerClot is an absorbable powder hemostat that has CE Mark designation allowing commercial distribution into the European Community and other markets. It is indicated for use in surgical procedures, including cardiac, vascular, orthopaedic, spinal, neurological, gynecological, ENT, and trauma surgery, as an adjunct hemostat when control of bleeding from capillary, venous, or arteriolar vessels by pressure, ligature, and other conventional means is either ineffective or impractical. Under the terms of the agreements, CryoLife received the worldwide rights to commercialize PerClot for all approved surgical indications and a license to manufacture the PerClot product, subject to certain exclusions. CryoLife also received an assignment of the PerClot trademark from SMI as part of the terms of the agreements.

The Distribution Agreement contains certain minimum purchase requirements and has a term of 15 years. CryoLife may begin manufacturing PerClot under the terms of the License Agreement, which extends for an indefinite period. Following the start of manufacturing and U.S. regulatory approval, CryoLife may terminate the Distribution Agreement and sell PerClot pursuant to the License Agreement. CryoLife will pay royalties to SMI at stated rates on net revenues of products manufactured under the License Agreement. In addition to allowing CryoLife to manufacture PerClot, the License Agreement granted CryoLife a three-year option to purchase certain remaining related technology from SMI, which the Company exercised in September 2011. The Company's Distribution Agreement with SMI contains minimum purchase requirements for PerClot through the end of the contract term. Upon FDA approval, the Company may terminate such minimum purchase requirements.

As part of the initial transaction, CryoLife paid SMI $6.75 million in cash, which included $1.5 million in cash for prepaid royalties, and approximately 209,000 shares of restricted CryoLife common stock. CryoLife made an additional contingent payment of $250,000 in 2011 and will pay additional contingent amounts of up to $2.5 million to SMI if certain FDA regulatory and other commercial milestones are achieved.

***Accounting for the Transaction***

CryoLife accounted for the agreements discussed above as an asset acquisition. The initial consideration aggregated approximately $8.0 million, including: $6.75 million in cash, restricted common stock valued at approximately $1.0 million, and direct transaction costs. CryoLife recorded a non-current asset for the $1.5 million in prepaid royalties, a deferred tax asset of $145,000, and allocated the remaining consideration to the individual intangible assets acquired based on their relative fair values as determined by a valuation study. As a result, CryoLife recorded intangible assets of $327,000 for the PerClot trademark, $2.6 million for the PerClot distribution and manufacturing rights in certain international countries, and $3.5 million for the PerClot distribution and manufacturing rights in the U.S. and certain other countries which do not have current regulatory approvals. This $3.5 million was considered in-process research and development as it is dependent upon regulatory approvals which have not yet been obtained. Therefore, CryoLife expensed the $3.5 million as in-process research and development upon acquisition in the third quarter of 2010. The PerClot trademark acquired by the Company has an indefinite useful life; therefore, that asset will not be amortized, but will instead be subject to annual impairment testing. The $2.6 million intangible asset will be amortized over its useful life of 15 years. See additional disclosures in Note 9 below.

CryoLife expects to record future contingent payment amounts of up to $2.5 million initially as research and development expense or, after FDA approval or issuance of a patent, as acquired intangible assets. As of September 30, 2011 CryoLife recorded research and development expenses of $250,000 for the contractual milestone payment due to SMI upon filing of the Investigational Device Exemption.

The common stock issued to SMI will be held by CryoLife until March 31, 2012, when the restricted provisions of the stock lapse.

***Starch Technology Purchase***

On September 2, 2011 CryoLife entered into an additional license agreement with SMI to purchase the technology to produce and use modified starch, the key component for manufacturing PerClot, for $1.0 million plus transaction related expenses. The Company recorded the technology purchased as an intangible asset which will be amortized over its useful life of 14 years.

**7. Medafor Matters**

***Overview***

CryoLife began distributing HemoStase in 2008 for Medafor, Inc. ("Medafor") under an Exclusive Distribution Agreement ("EDA"). In November 2009 and in 2010 the Company executed stock purchase agreements to purchase a total of approximately 2.4 million shares of common stock in Medafor for $4.9 million. The Company's carrying value of this investment included the purchase price and adjustments to record certain of the stock purchase agreements' embedded derivative liabilities at the fair market value on the purchase date, as discussed further below. As Medafor's common stock is not actively traded on any public stock exchange, as Medafor is a non-reporting company for which financial information is not readily available, and as the Company does not exert significant influence over the operations of Medafor, the Company accounted for this investment using the cost method and recorded it as the long-term asset, investment in equity securities, on the Company's Summary Consolidated Balance Sheets.

***HemoStase Inventory***

Based on Medafor's final termination of the EDA in late September 2010, the Company performed a review of its HemoStase inventory to determine if the carrying value of the inventory had been impaired. At the time of the termination, CryoLife expected to continue to sell HemoStase for a six-month period following the final termination of the EDA. As a result, the Company determined that the carrying value of the HemoStase inventory was impaired and increased its cost of products by $1.6 million to write down related finished goods inventory in the third quarter of 2010. After the write-down as of September 30, 2010, the Company believed that the remaining $1.7 million of HemoStase inventory was recoverable over the six-month selling period following the termination of the EDA. The amount of this write-down reflected management's estimate based on information available at that time. As of September 30, 2011 and December 31, 2010 the Company had zero and $559,000, respectively, in remaining value of HemoStase inventory on its Summary Consolidated Balance Sheets.

The Company was able to sell more HemoStase than it originally estimated and that had previously been written down; therefore, cost of products in the first nine months of 2011 was favorably impacted by approximately $330,000.

***Investment in Medafor Common Stock***

During the quarter ended September 30, 2010, the Company reviewed available information to determine if factors indicated that a decrease in value of the investment in Medafor common stock had occurred. CryoLife determined that the available information, particularly Medafor's termination of its largest distributor, indicated that the Company should evaluate its investment in Medafor common stock for impairment.

CryoLife used a market based approach for the valuation, including comparing Medafor to a variety of comparable publicly traded companies, recent merger targets, and company groups. CryoLife considered both qualitative and quantitative factors that could affect the valuation of Medafor's common stock. Based on its analysis, the Company believed that its investment in Medafor was impaired and that this impairment was other than temporary. Therefore, in the third quarter of 2010 CryoLife recorded a non-operating expense, other than temporary investment impairment, of $3.6 million to write down its investment in Medafor common stock to $2.6 million. During the nine months ended September 30, 2011, the Company reviewed available information and determined that no factors were present indicating that the Company should evaluate its investment in Medafor

common stock for further impairment. The carrying value of the Company's 2.4 million shares of Medafor common stock was approximately $2.6 million as of both September 30, 2011 and December 31, 2010.

The Company will continue to evaluate the carrying value of this investment if changes to the factors discussed above or additional factors become known that indicate the Company should evaluate its investment in Medafor common stock for further impairment. If the Company subsequently determines that the value of its Medafor common stock has been impaired further, or if the Company decides to sell its Medafor common stock for less than the carrying value, the resulting impairment charge or realized loss on sale of the investment in Medafor could be material.

***Medafor Derivative***

Per the terms of certain of the stock purchase agreements for the Medafor shares discussed above, in the event that CryoLife acquires more than 50% of the diluted outstanding stock of Medafor or merges with Medafor within a three-year period from each respective agreement date (a "Triggering Event"), CryoLife is required to make a future per share payment (the "Purchase Price Make-Whole Payment") to such sellers. The payment would be equal to the difference between an amount calculated using the average cost of any subsequent shares purchased, as defined in each respective agreement, and the price of the shares purchased pursuant to each applicable stock purchase agreement. The Company was required to account for these Purchase Price Make-Whole Payment provisions as embedded derivatives (collectively the "Medafor Derivative").

CryoLife performed a valuation of the Medafor Derivative using a Black-Scholes model to estimate the future value of the shares on the purchase date. Management's assumptions as to the likelihood of a Triggering Event occurring coupled with the valuation of the Purchase Price Make-Whole Payment were then used to calculate the derivative liability. The fair value of the Medafor Derivative was initially recorded as an increase to the investment in equity securities and a corresponding derivative liability on the Company's Summary Consolidated Balance Sheets. The Medafor Derivative was revalued quarterly, and any change in the value of the derivative subsequent to the purchase date was recorded in the Company's Summary Consolidated Statements of Operations.

During the quarter ended March 31, 2010, the Company's estimate of the likelihood of a Triggering Event decreased significantly, largely due to the Company withdrawing its offer to purchase Medafor. As of September 30, 2011 and December 31, 2010 the Company believed that the likelihood of a Triggering Event was remote.

The value of the Medafor Derivative was zero as of both September 30, 2011 and December 31, 2010. The change in the value of the derivative recorded on the Summary Consolidated Statements of Operations was zero and a gain of $143,000 for the three months ended September 30, 2011 and 2010, respectively, and zero and a gain of $1.3 million for the nine months ended September 30, 2011 and 2010, respectively.

***Legal Action***

As previously reported, CryoLife filed a lawsuit against Medafor in 2009 in the U.S. District Court for the Northern District of Georgia ("Georgia Court"). In 2010 Medafor filed counterclaims against CryoLife. On August 2, 2011 Medafor withdrew, without prejudice, its Motion for Partial Summary Judgment with respect to its contention that CryoLife owes Medafor approximately $1.3 million plus prejudgment interest for product Medafor shipped to CryoLife, stating that it would renew its motion at a later date. On September 30, 2011 the Georgia Court denied CryoLife's motion for partial summary judgment regarding Medafor's alleged wrongful termination of the EDA. The Georgia Court found that, at this early stage of discovery, CryoLife had not established as a matter of law that the parties drafted a certain section of the EDA clearly so as to supplant a specific aspect of the Georgia Uniform Commercial Code. The Georgia Court also found that the evidence submitted did not establish as a matter of law that the letter on which Medafor based its termination of the EDA failed to comport with the Georgia Uniform Commercial Code.

As previously reported, on July 5, 2011 the Georgia Court appointed a Discovery Special Master to manage and supervise discovery pursuant to a Joint Motion for Appointment of Special Master filed by the parties. Pursuant to the appointment, the parties have met repeatedly with the Special Master since July regarding discovery issues. Both parties filed motions to compel certain discovery, and on October 14, 2011, the Special Master granted in part and denied in part both parties' motions. The Georgia Court has scheduled a status conference for November 29, 2011, at which the parties will discuss various discovery-related issues and deadlines. CryoLife expects discovery to continue for a significant period of time. CryoLife believes that the trial will not occur until 2013.

As previously reported, on July 14, 2011 Medafor filed a lawsuit against CryoLife in the U.S. District Court for the District of Minnesota ("Minnesota Court"). Medafor's lawsuit requests that the Minnesota Court grant a declaratory judgment that Medafor's

reverse stock split on December 31, 2010 reduced the number of Medafor shareholders to below 500 and that, therefore, Medafor is not required to comply with the registration requirements of Section 12(g) of the Securities Exchange Act of 1934 (i.e., not required to register as a public company with the SEC). Medafor's lawsuit also requests that the Minnesota Court award Medafor its costs and expenses in the lawsuit. On August 5, 2011 CryoLife filed a Motion to Dismiss Medafor's claims arguing that there was no private right cause of action under Section 12(g) of the Securities Exchange Act of 1934. The parties argued the Motion to Dismiss in front of the Minnesota Court on October 11, 2011. As of October 25, 2011 the Minnesota Court had not ruled on the Motion to Dismiss. At this time CryoLife is unable to predict the outcome of this matter.

**8. Inventories**

Inventories are comprised of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Raw materials | $ 4,466 | $ 4,301 |
| Work-in-process | 309 | 349 |
| Finished goods | 2,220 | 1,779 |
| Total inventories | $ 6,995 | $ 6,429 |

**9. Goodwill and Other Intangible Assets**

The Company's intangible assets consist of goodwill, patents, trademarks, and other intangible assets, as discussed further below. These assets include goodwill, acquired technology, customer lists, and other intangible assets from the acquisition of Cardiogenesis, as discussed in Note 5 above, and PerClot distribution and manufacturing rights acquired from SMI as discussed in Note 6 above.

***Indefinite Lived Intangible Assets***

The carrying values of the Company's indefinite lived intangible assets are as follows (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Goodwill | $ 4,597 | $ -- |
| Procurement contracts and agreements | 2,013 | 2,013 |
| Trademarks | 805 | 790 |
| Other | 250 | -- |

Based on its experience with similar agreements, the Company believes that its acquired contracts and procurement agreements have an indefinite useful life, as the Company expects to continue to renew these contracts for the foreseeable future. Accordingly, the Company's indefinite lived intangible assets do not amortize, but are instead subject to periodic impairment testing.

***Definite Lived Intangible Assets***

The Company generally amortizes its definite lived intangible assets over their expected useful lives using the straight-line method. The gross carrying values, accumulated amortization, and approximate amortization periods of the Company's definite lived intangible assets are as follows (in thousands):

| September 30, 2011 | Gross Carrying Value | Accumulated Amortization | Amortization Period |
|---|---|---|---|
| Acquired technology | $ 9,230 | $ 315 | 11 Years |
| Patents | 5,749 | 2,776 | 17 Years |
| Distribution and manufacturing rights and know-how | 3,559 | 171 | 15 Years |
| Customer lists | 2,370 | 68 | 13 Years |
| Non-compete agreement | 381 | 181 | 10 Years |
| Other | 114 | 36 | 2-3 Years |

| December 31, 2010 | Gross Carrying Value | Accumulated Amortization | Amortization Period |
|---|---|---|---|
| Patents | $ 5,885 | $ 2,603 | 17 Years |
| Distribution and manufacturing right | 2,559 | 43 | 15 Years |
| Non-compete agreements | 381 | 152 | 10 Years |
| Customer list | 64 | 11 | 3 Years |

***Amortization Expense***

The following is a summary of amortization expense (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Amortization expense | $ 436 | $ 132 | $ 917 | $ 395 |

As of September 30, 2011 scheduled amortization of intangible assets for the next five years is as follows (in thousands):

| | Remainder of 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Amortization expense | $ 453 | $ 1,801 | $ 1,696 | $ 1,598 | $ 1,570 | $ 1,558 |

**10. Deferred Income Taxes**

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax return purposes. The Company generates deferred tax assets primarily as a result of write-downs of deferred preservation costs, inventory, and in-process research and development; accruals for tissue processing and product liability claims; asset impairments; and operating losses. The Company acquired significant deferred tax assets from its acquisition of Cardiogenesis in the second quarter of 2011 as discussed below.

As of September 30, 2011 the Company maintained a total of $2.3 million in valuation allowances against deferred tax assets, related to state net operating loss carryforwards, and a net deferred tax asset of $19.8 million. As of December 31, 2010 the Company had a total of $1.8 million in valuation allowances against deferred tax assets and a net deferred tax asset of $15.3 million.

The increase in the Company's net deferred tax assets is due to the acquisition of Cardiogenesis in the second quarter of 2011, as Cardiogenesis had significant deferred tax assets, primarily due to its net operating loss carryforwards. The Company believes that the realizability of its acquired net operating loss carryforwards will be limited in future periods due to a change in control of its subsidiary Cardiogenesis, as mandated by Section 382 of the Internal Revenue Code of 1986, as amended. The Company believes that its acquisition of Cardiogenesis constitutes a change in control. The deferred tax assets recorded on the Company's Summary Consolidated Balance Sheets do not include amounts that it expects will not be realizable due to this change in control. A portion of the acquired net operating loss carryforwards is related to state income taxes and can only be used by the Company's subsidiary Cardiogenesis. Due to Cardiogenesis' history of losses when operated as a stand-alone company, management believes it is more likely than not that these deferred tax assets will not be realized. Therefore, the Company recorded a valuation allowance against these state net operating loss carryforwards. See also Note 5 above for a further discussion of the Company's acquisition of Cardiogenesis.

The Company's effective income tax rate was approximately 12% and 36% for the three and nine months ended September 30, 2011, respectively, as compared to a benefit of 34% for the three months ended September 30, 2010 and expense of 52% for the nine months ended September 30, 2010. The significant change in the Company's effective income tax rate for the three months ended September 30, 2011 as compared to the prior year period was due to the discrete and favorable effect of deductions taken on the Company's 2010 federal tax returns, which were filed in the third quarter of 2011. For the nine months ended September 30, 2011, this favorable effect was largely offset by the unfavorable tax treatment recognized in the second quarter of 2011 of certain acquisition related expenses, which the Company incurred related to its acquisition of Cardiogenesis.

The Company's tax years 2008 through 2010 generally remain open to examination by the major taxing jurisdictions to which the Company is subject. However, certain returns from years prior to 2008, in which net operating losses and tax credits have arisen, are still open for examination by the tax authorities.

## 11. Debt

***GE Credit Agreement***

On March 26, 2008 CryoLife entered into a credit agreement with GE Capital as lender (the "GE Credit Agreement"). The GE Credit Agreement provides for a revolving credit facility in an aggregate amount not to exceed the initial commitment of $15.0 million (including a letter of credit subfacility). The initial commitment may be reduced or increased from time to time pursuant to the terms of the GE Credit Agreement. The Company amended the GE Credit Agreement three times during 2011 to extend the term of the credit facility, which now expires on October 31, 2011.

The GE Credit Agreement places limitations on the amount that the Company may borrow and includes various affirmative and negative covenants, including financial covenants such as a requirement that CryoLife (i) not exceed a defined leverage ratio, (ii) maintain a minimum adjusted earnings subject to defined adjustments as of specified dates, and (iii) not make or commit capital expenditures in excess of a defined limitation. Further, since April 15, 2008, as required under the terms of the GE Credit Agreement, the Company has been maintaining cash and cash equivalents of at least $5.0 million in accounts in which GE Capital has a first priority perfected lien. These amounts are recorded as restricted securities as of September 30, 2011 and December 31, 2010 on the Company's Summary Consolidated Balance Sheets, as they are restricted for the term of the GE Credit Agreement. Also, the GE Credit Agreement requires that after giving effect to a stock repurchase the Company maintain liquidity, as defined within the agreement, of at least $20.0 million. The GE Credit Agreement includes customary conditions on incurring new indebtedness and prohibits payments of cash dividends on the Company's common stock. There is no restriction on the payment of stock dividends. Commitment fees are paid based on the unused portion of the facility. As of September 30, 2011 the Company was in compliance with the covenants of the GE Credit Agreement.

Amounts borrowed under the GE Credit Agreement are secured by substantially all of the tangible and intangible assets of CryoLife and its subsidiaries and bear interest at LIBOR, with a minimum rate of 3%, or GE Capital's base rate, with a minimum rate of 4% each, plus the applicable margin. As of September 30, 2011 and December 31, 2010 the outstanding balance of the GE Credit Agreement was zero, the aggregate interest rate was 6.25%, and the remaining availability was $14.8 million.

***Other***

Total interest expense was $49,000 and $29,000 for the three months ended September 30, 2011 and 2010, respectively, and $116,000 and $145,000 for the nine months ended September 30, 2011 and 2010, respectively, which included interest on debt, capital leases, and uncertain tax positions.

## 12. Commitments and Contingencies

***Liability Claims***

The estimated unreported loss liability and any related recoverable insurance amounts are as follows (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Short-term liability | $ 1,183 | $ 1,310 |
| Long-term liability | 1,094 | 1,310 |
| Total liability | 2,277 | 2,620 |
| Short-term recoverable | 379 | 500 |
| Long-term recoverable | 390 | 550 |
| Total recoverable | 769 | 1,050 |
| Total net unreported loss liability | $ 1,508 | $ 1,570 |

Further analysis indicated that the liability as of September 30, 2011 could be estimated to be as high as $4.3 million, after including a reasonable margin for statistical fluctuations calculated based on actuarial simulation techniques.

***Employment Agreement***

The Company has an employment agreement with its Chief Executive Officer ("CEO") that confers benefits which become payable upon a change in control or upon certain termination events. As of both September 30, 2011 and December 31, 2010 the

Company has recorded $2.1 million in accrued expenses and other current liabilities on the Summary Consolidated Balance Sheets representing benefits payable upon the CEO's voluntary retirement.

**13. Common Stock Repurchase**

On June 1, 2010 the Company announced that its Board of Directors authorized the purchase of up to $15.0 million of its common stock over the course of the following two years. The purchase of shares may be made from time to time in the open market or through privately negotiated transactions, on such terms as management deems appropriate, and will be dependent upon various factors, including: price, regulatory requirements, and other market conditions. For the nine months ended September 30, 2011 the Company purchased approximately 280,000 shares of its common stock for an aggregate purchase price of $1.5 million. For the twelve months ended December 31, 2010 the Company purchased approximately 1.0 million shares of its common stock for an aggregate purchase price of $5.8 million. These shares were accounted for as part of treasury stock, carried at cost, and reflected as a reduction of shareholders' equity on the Company's Summary Consolidated Balance Sheets.

**14. Stock Compensation**

***Overview***

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

***Equity Grants***

The Compensation Committee of the Company's Board of Directors authorized awards of RSAs from approved stock incentive plans to non-employee Directors and certain Company officers totaling 360,000 and 215,000 shares during the nine months ended September 30, 2011 and 2010, respectively, which had an aggregate market value of $1.9 million and $1.3 million, respectively.

The Compensation Committee of the Company's Board of Directors authorized grants of stock options from approved stock incentive plans to certain Company officers and employees totaling 599,000 and 427,000 shares during the nine months ended September 30, 2011 and 2010, respectively, with exercise prices equal to the stock prices on the respective grant dates.

Employees purchased common stock totaling 64,000 and 43,000 shares in the nine months ended September 30, 2011 and 2010, respectively, through the Company's ESPP.

***Stock Compensation Expense***

The Company values its RSAs and RSUs based on the stock price on the date of grant and expenses the related compensation cost using the straight-line method over the vesting period. The Company uses a Black-Scholes model to value its stock option grants and expenses the related compensation cost using the straight-line method over the vesting period. The fair value of the Company's ESPP options is also determined using a Black-Scholes model and is expensed over the vesting period. The fair value of stock options and ESPP options is determined on the grant date using assumptions for the expected term, expected volatility, dividend yield, and the risk-free interest rate. The period expense is then determined based on this valuation and, at that time, an estimated forfeiture rate is used to reduce the expense recorded. The Company's estimate of pre-vesting forfeitures is primarily based on the recent historical experience of the Company and is adjusted to reflect actual forfeitures at each vesting date.

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

| | Three Months Ended September 30, 2011 | | Nine Months Ended September 30, 2011 | |
|---|---|---|---|---|
| | Stock Options | ESPP Options | Stock Options | ESPP Options |
| Expected life of options | N/A | .50 Years | 4.00 Years | .50 Years |
| Expected stock price volatility | N/A | .355 | .650 | .406 |
| Risk-free interest rate | N/A | 0.10% | 1.25% | 0.16% |

| | Three Months Ended September 30, 2010 | | Nine Months Ended September 30, 2010 | |
|---|---|---|---|---|
| | Stock Options | ESPP Options | Stock Options | ESPP Options |
| Expected life of options | N/A | .50 Years | 3.75 Years | .34 Years |
| Expected stock price volatility | N/A | .467 | .650 | .472 |
| Risk-free interest rate | N/A | 0.22% | 1.29% | 0.16% |

The following table summarizes stock compensation expenses (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| RSA and RSU expense | $ 369 | $ 139 | $ 1,038 | $ 691 |
| Stock option and ESPP option expense | 388 | 424 | 1,270 | 1,464 |
| Total stock compensation expense | $ 757 | $ 563 | $ 2,308 | $ 2,155 |

Included in the total stock compensation expense, as applicable in each period, were expenses related to RSAs, RSUs, and stock options issued in each respective year as well as those issued in prior periods that continue to vest during the period, and compensation related to the Company's ESPP. These amounts were recorded as stock compensation expense and were subject to the Company's normal allocation of expenses to deferred preservation costs and inventory costs. The Company capitalized $61,000 and $80,000 in the three months ended September 30, 2011 and 2010, respectively, and $168,000 and $217,000 in the nine months ended September 30, 2011 and 2010, respectively, of the stock compensation expense into its deferred preservation costs and inventory costs.

As of September 30, 2011 the Company had a total of $2.1 million, $2.0 million, and $259,000 in unrecognized compensation costs related to unvested stock options, RSAs, and RSUs, respectively, before considering the effect of expected forfeitures. As of September 30, 2011 this expense is expected to be recognized over a weighted-average period of 1.8 years for stock options, 1.7 years for RSAs, and 2.1 years for RSUs.

## 15. Comprehensive Income (Loss)

The following is a summary of comprehensive income (loss) (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | $ 2,019 | $ (3,031) | $ 5,505 | $ 1,829 |
| Change in cumulative translation adjustment | (5) | 22 | 5 | 29 |
| Comprehensive income (loss) | $ 2,014 | $ (3,009) | $ 5,510 | $ 1,858 |

The tax effect on the cumulative translation adjustment is zero for each period presented. The accumulated other comprehensive loss of $27,000 as of September 30, 2011 and loss of $32,000 as of December 31, 2010, consisted solely of currency translation adjustments.

## 16. Income (Loss) Per Common Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Basic income (loss) per common share** | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | $ 2,019 | $ (3,031) | $ 5,505 | $ 1,829 |
| Basic weighted-average common shares outstanding | 27,523 | 27,783 | 27,431 | 28,086 |
| Basic income (loss) per common share | $ 0.07 | $ (0.11) | $ 0.20 | $ 0.07 |

| Diluted income (loss) per common share | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Net income (loss) | $ 2,019 | $ (3,031) | $ 5,505 | $ 1,829 |
| Basic weighted-average common shares outstanding | 27,523 | 27,783 | 27,431 | 28,086 |
| Effect of dilutive stock options [a] | 95 | -- | 118 | 126 |
| Effect of dilutive RSAs and RSUs [b] | 232 | -- | 216 | 144 |
| Diluted weighted-average common shares outstanding | 27,850 | 27,783 | 27,765 | 28,356 |
| Diluted income (loss) per common share | $ 0.07 | $ (0.11) | $ 0.20 | $ 0.06 |

[a] The Company excluded stock options from the calculation of diluted weighted-average common shares outstanding if the per share value, including the sum of (i) the exercise price of the options and (ii) the amount of the compensation cost attributed to future services and not yet recognized, was greater than the average market price of the shares, because the inclusion of these stock options would be antidilutive to income (loss) per common share. Accordingly, stock options to purchase a weighted average 2.1 million and 1.6 million shares for the three months ended September 30, 2011 and 2010, respectively, and 2.0 million and 1.5 million shares for the nine months ended September 30, 2011 and 2010, respectively, were excluded from the calculation of diluted weighted-average common shares outstanding.

[b] The Company excluded 145,000 in unvested restricted stock awards from the calculation of diluted weighted-average common shares outstanding for the three months ended September 30, 2010 because the inclusion of these stock awards would be antidilutive to income (loss) per common share.

## 17. Segment Information

The Company has two reportable segments organized according to its services and products: Preservation Services and Medical Devices. The Preservation Services segment includes external services revenues from the preservation of cardiac and vascular tissues. The Medical Devices segment includes external revenues from product sales of BioGlue® Surgical Adhesive ("BioGlue"), BioFoam® Surgical Matrix ("BioFoam"), PerClot, HemoStase, and revascularization technology, as well as sales of other medical devices. There are no intersegment revenues.

The primary measure of segment performance, as viewed by the Company's management, is segment gross margin, or net external revenues less cost of preservation services and products. The Company does not segregate assets by segment; therefore, asset information is excluded from the segment disclosures below. The following table summarizes revenues, cost of services and products, and gross margins for the Company's operating segments (in thousands):

| | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| Revenues: | | | | |
| Preservation services | $ 14,656 | $ 15,111 | $ 45,018 | $ 45,699 |
| Medical devices | 14,923 | 13,175 | 43,932 | 41,276 |
| Other [a] | 75 | 157 | 279 | 448 |
| Total revenues | 29,654 | 28,443 | 89,229 | 87,423 |
| Cost of preservation services and products: | | | | |
| Preservation services | 8,349 | 8,911 | 25,709 | 27,322 |
| Medical devices | 2,393 | 4,310 | 7,051 | 9,318 |
| Total cost of preservation services and products | 10,742 | 13,221 | 32,760 | 36,640 |
| Gross margin: | | | | |
| Preservation services | 6,307 | 6,200 | 19,309 | 18,377 |
| Medical devices | 12,530 | 8,865 | 36,881 | 31,958 |
| Other [a] | 75 | 157 | 279 | 448 |
| Total gross margin | $ 18,912 | $ 15,222 | $ 56,469 | $ 50,783 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Preservation services: | | | | |
| Cardiac tissue | $ 6,764 | $ 7,189 | $ 19,989 | $ 20,953 |
| Vascular tissue | 7,892 | 7,922 | 25,029 | 24,746 |
| Total preservation services | 14,656 | 15,111 | 45,018 | 45,699 |
| Products: | | | | |
| BioGlue and BioFoam | 12,190 | 11,046 | 36,936 | 35,219 |
| PerClot | 620 | -- | 1,911 | -- |
| HemoStase | -- | 2,129 | 1,795 | 6,127 |
| Revascularization technology | 2,113 | -- | 3,290 | -- |
| Other medical devices | -- | -- | -- | (70) |
| Total products | 14,923 | 13,175 | 43,932 | 41,276 |
| Other [a] | 75 | 157 | 279 | 448 |
| Total revenues | $ 29,654 | $ 28,443 | $ 89,229 | $ 87,423 |

[a] For the three and nine months ended September 30, 2011 and 2010, the "Other" designation includes grant revenue.

**PART I - FINANCIAL INFORMATION**

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

**Overview**

CryoLife, Inc. ("CryoLife," the "Company," "we," or "us"), incorporated January 19, 1984 in Florida, preserves and distributes human tissues and develops, manufactures, and commercializes medical devices for cardiac and vascular transplant applications. The human tissues distributed by CryoLife include the CryoValve® SG pulmonary heart valve ("CryoValve SGPV") and the CryoPatch® SG pulmonary cardiac patch tissue ("CryoPatch SG"), both processed using CryoLife's proprietary SynerGraft® technology. CryoLife's surgical sealants and hemostats include BioGlue® Surgical Adhesive ("BioGlue"), BioFoam® Surgical Matrix ("BioFoam"), and PerClot®, an absorbable powder hemostat, which the Company distributes for Starch Medical, Inc. ("SMI") in the European Community and other select international markets. CryoLife, through its subsidiary Cardiogenesis Corporation ("Cardiogenesis"), specializes in the treatment of cardiovascular disease using a laser console system and single-use, fiber-optic handpieces that are used to treat severe angina.

During the third quarter of 2011, CryoLife made a $3.5 million equity investment in ValveXchange, Inc. ("ValveXchange"). ValveXchange is a private medical device company currently developing a lifetime heart valve replacement technology platform featuring exchangeable bioprosthetic leaflets. Also during the third quarter, CryoLife purchased an additional technology related to the manufacture of PerClot. See further discussion under Recent Events below. In addition, CryoLife continued its integration efforts for the operations of its newly acquired subsidiary, Cardiogenesis.

For the third quarter ended September 30, 2011, CryoLife reported its highest revenues ever in a third quarter and in the first nine months of a year, with revenues of $29.7 million and $89.2 million, respectively, largely due to revenues from revascularization technology, as a result of the Company's acquisition of Cardiogenesis in the second quarter of 2011, and due to BioGlue revenues. CryoLife also reported its highest BioGlue revenues ever in a third quarter and first nine months of a year. Revenues from BioGlue in the first nine months of 2011 included $1.2 million in sales of BioGlue to Japan. However, the Company's operating expenses and earnings were negatively impacted by higher general, administrative, and marketing expenses due to the acquisition of Cardiogenesis and other business development expenses. See the "Results of Operations" section below for additional analysis of the results of operations for the three and nine months ended September 30, 2011.

**Recent Events**

***ValveXchange***

In July 2011 CryoLife announced it had purchased a $3.5 million equity investment in ValveXchange. Under the agreement, CryoLife received an approximate 19% equity ownership in ValveXchange and the right of first refusal to acquire ValveXchange during a period that extends through the completion of initial commercialization milestones, and the right to negotiate with ValveXchange for European distribution rights. Further, CryoLife has agreed to provide funding of up to $2.0 million to ValveXchange in additional debt financing through a revolving credit facility.

***PerClot Technology Purchase***

In September 2011 CryoLife entered into an additional license agreement with SMI to purchase the technology to produce and use modified starch, the key component for manufacturing PerClot, for $1.0 million plus transaction related expenses.

**Critical Accounting Policies**

A summary of the Company's significant accounting policies is included in Note 1 of the "Notes to Consolidated Financial Statements," contained in the Company's Form 10-K for the year ended December 31, 2010. Management believes that the consistent application of these policies enables the Company to provide users of the financial statements with useful and reliable information about the Company's operating results and financial condition. The summary consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions. The Company did not experience any significant changes during the quarter ended September 30, 2011 in any of its other Critical Accounting Policies from those contained in the Company's Form 10-K for the year ended December 31, 2010 and Form 10-Q for the quarter ended June 30, 2011.

**New Accounting Pronouncements**

There were no new accounting pronouncements relevant to the Company that management anticipates implementing during the year ending December 31, 2011.

**Results of Operations**
**(Tables in thousands)**

**Revenues**

| | Revenues for the Three Months Ended September 30, | | Revenues as a Percentage of Total Revenues for the Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Preservation services: | | | | |
| Cardiac tissue | $ 6,764 | $ 7,189 | 23% | 25% |
| Vascular tissue | 7,892 | 7,922 | 27% | 28% |
| Total preservation services | 14,656 | 15,111 | 50% | 53% |
| Products: | | | | |
| BioGlue and BioFoam | 12,190 | 11,046 | 41% | 39% |
| PerClot | 620 | -- | 2% | --% |
| HemoStase | -- | 2,129 | --% | 7% |
| Revascularization technology | 2,113 | -- | 7% | --% |
| Total products | 14,923 | 13,175 | 50% | 46% |
| Other | 75 | 157 | --% | 1% |
| Total | $ 29,654 | $ 28,443 | 100% | 100% |

| | Revenues for the Nine Months Ended September 30, | | Revenues as a Percentage of Total Revenues for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Preservation services: | | | | |
| Cardiac tissue | $ 19,989 | $ 20,953 | 23% | 24% |
| Vascular tissue | 25,029 | 24,746 | 28% | 28% |
| Total preservation services | 45,018 | 45,699 | 51% | 52% |
| Products: | | | | |
| BioGlue and BioFoam | 36,936 | 35,219 | 41% | 40% |
| PerClot | 1,911 | -- | 2% | --% |
| HemoStase | 1,795 | 6,127 | 2% | 7% |
| Revascularization technology | 3,290 | -- | 4% | --% |
| Other medical devices | -- | (70) | --% | --% |
| Total products | 43,932 | 41,276 | 49% | 47% |
| Other | 279 | 448 | --% | 1% |
| Total | $ 89,229 | $ 87,423 | 100% | 100% |

***Preservation Services***

Preservation service revenues decreased 3% for the three months and 1% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively. A detailed discussion of the changes in tissue preservation service revenues for both cardiac and vascular tissues is presented below.

*Cardiac Preservation Services*

Revenues from cardiac preservation services (consisting of revenues from the distribution of heart valves and cardiac patch tissues) decreased 6% for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. This decrease was primarily due to the aggregate impact of a decrease in volume and unfavorable tissue mix, which decreased revenues by 7%, partially offset by an increase in average service fees, which increased revenues by 1%.

Revenues from cardiac preservation services decreased 5% for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. This decrease was primarily due to the aggregate impact of a decrease in volume and unfavorable tissue mix, which decreased revenues by 6%, partially offset by an increase in average service fees, which increased revenues by 1%.

The reduction in revenues from the decrease in volume and cardiac tissue mix was primarily due to a decrease in volume of cardiac valve shipments, partially offset by increases in the volume of lower fee cardiac patch tissues. The Company believes that the decrease in unit shipments of cardiac valves was primarily due to increasing pressure from lower cost competitive products and to continuing cost containment practices at certain hospitals, and that this trend could continue into the fourth quarter of 2011.

Revenues from SynerGraft processed tissues, including the CryoValve SGPV and CryoPatch SG, accounted for 47% and 40% of total cardiac preservation services revenues for the three and nine months ended September 30, 2011, respectively, and 37% and 33% of total cardiac preservation services revenues for the three and nine months ended September 30, 2010, respectively. Domestic revenues accounted for 91% of total cardiac preservation services revenues for both the three and nine months ended September 30, 2011 and 93% of total cardiac preservation services revenues for both the three and nine months ended September 30, 2010.

*Vascular Preservation Services*

Revenues from vascular preservation services for the three months ended September 30, 2011 did not change significantly from revenues for the three months ended September 30, 2010. A 1% decrease in unit shipments of vascular tissues was largely offset by an increase in average service fees.

Revenues from vascular preservation services increased 1% for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010, primarily due to an increase in average service fees.

***Products***

Revenues from products increased 13% for the three months and 6% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively. These increases were primarily due to revenues from revascularization technology as a result of the Company's acquisition of Cardiogenesis in the second quarter of 2011 and due to an increase in PerClot and BioGlue revenues, partially offset by a decrease in HemoStase revenues. A detailed discussion of the changes in product revenues for BioGlue and BioFoam; PerClot and HemoStase; and revascularization technology is presented below.

*BioGlue and BioFoam*

Revenues from the sale of surgical sealants, consisting of BioGlue and BioFoam, increased 10% for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. This increase was primarily due to a 14% increase in the volume of milliliters sold, which increased revenues by 9% and the favorable impact of foreign exchange rates, which increased revenues by 1%.

Revenues from the sale of BioGlue and BioFoam increased 5% for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. This increase was primarily due to a 5% increase in the volume of milliliters sold, which increased revenues by 3%, the favorable impact of foreign exchange rates, which increased revenues by 1%, and an increase in average selling prices, which increased revenues by 1%.

The increase in sales volume for BioGlue and BioFoam for the three and nine months ended September 30, 2011 was primarily due to an increase in shipments of BioGlue in certain international markets, primarily Japan. The Company began shipping BioGlue to Japan in late April 2011, as BioGlue was recently approved in Japan for use in the repair of aortic dissections. Revenues from shipments to Japan for the three and nine months ended September 30, 2011 were $651,000 and $1.2 million, respectively. For the year to date period, this increase was partially offset by a volume decrease in the Company's more mature domestic market.

The impact of foreign exchange rates was due to changes in the exchange rates between the U.S. Dollar and both the British Pound and the Euro in both the three and nine months ended September 30, 2011 as compared to the respective periods in 2010. The Company's sales of BioGlue and BioFoam through its direct sales force to United Kingdom hospitals are denominated in British Pounds, and its sales to German hospitals and certain distributors are denominated in Euros.

Management believes that the decrease in BioGlue shipments in its domestic markets is a result of various factors, including: the U.S. market introduction of sealant products with approved indications for use in clinical applications in which BioGlue has been used off label previously, poor economic conditions and their constraining effect on hospital budgets, the resulting attempts by hospitals to control costs by reducing spending on consumable items such as BioGlue, and the efforts of some large competitors in imposing and enforcing contract purchasing requirements for competing non-CryoLife products.

Sales of BioGlue and BioFoam for the three and nine months ended September 30, 2011 included international sales of BioFoam following receipt of the CE Mark approval during the third quarter of 2009. BioFoam sales accounted for less than 1% of total BioGlue and BioFoam sales for the three and nine months ended September 30, 2011. Domestic revenues accounted for 63% and 64% of total BioGlue revenues for the three and nine months ended September 30, 2011, respectively, and 70% and 69% of total BioGlue revenues for the three and nine months ended September 30, 2010, respectively.

BioGlue is a mature product that has experienced increasing competitive pressures. Management believes that BioGlue revenues in future periods will be impacted by price increases and smaller volume increases in international markets and that BioGlue sales in domestic markets will continue to be impacted by the factors discussed above. As a result of these forces, management expects the decline in domestic sales to continue in the fourth quarter of 2011 as compared with the corresponding prior year period.

*PerClot and HemoStase*

Revenues from the sale of hemostats, consisting of PerClot and HemoStase, decreased 71% for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Revenues from the sale of PerClot and HemoStase decreased 40% for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The revenue decreases in the three and nine months ended September 30, 2011 were primarily due to a decrease in hemostat sales volume in domestic markets, partially offset by an increase in sales volume in international markets. The revenue decrease in the nine months ended September 30, 2011 was also impacted by a decrease in average selling prices, which decreased revenues by 6%.

International hemostat revenues increased 24% for the three months ended September 30, 2011 and 55% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively. This increase is primarily due to an increase in international sales of PerClot in the 2011 periods over the international sales of HemoStase in the corresponding 2010 periods. Management believes that international PerClot revenues have been favorably impacted by the Company's ability to market PerClot for all surgical specialties, expanding the direct European sales force into Austria, and PerClot's product performance when compared to other hemostatic agents.

The decrease in domestic sales volume for the three and nine months ended September 30, 2011 was due to the Company's planned discontinuation of sales of HemoStase in late March 2011. The Company recognized no domestic hemostat sales in the second or third quarters of 2011, subsequent to the discontinuance of HemoStase sales, as PerClot is not yet approved for commercial distribution in domestic markets. The Company anticipates this loss of domestic hemostat sales to result in a decrease in total hemostat sales for the remainder of 2011 when compared to the corresponding 2010 periods.

The decrease in average selling prices for the nine months ended September 30, 2011 was primarily due to discounting of HemoStase inventory in an attempt to sell off the Company's remaining inventory balances in the first quarter of 2011.

The Company will not be able to sell PerClot in the U.S. in future years until U.S. Food and Drug Administration ("FDA") approval is granted. On March 31, 2011 CryoLife filed an Investigational Device Exemption ("IDE") with the FDA seeking approval to begin clinical trials for the purpose of obtaining Premarket Approval to distribute PerClot in the U.S. On April 29, 2011 the FDA disapproved CryoLife's IDE filing with numerous comments and questions. CryoLife is currently addressing those comments and questions and anticipates refiling its IDE for PerClot in the fourth quarter of 2011.

*Revascularization Technology*

Revenues from revascularization technology for the three and nine months ended September 30, 2011 were a result of the Company's acquisition of Cardiogenesis in the second quarter of 2011. Revascularization technology includes revenues related to the sale of laser consoles, handpieces, and related products. Revascularization technology revenues for the three and nine months ended September 30, 2011 consisted primarily of handpiece sales.

The Company expects that revenues from revascularization technology will have a favorable impact on revenues in the fourth quarter of 2011 as compared to the prior year period.

***Other Revenues***

Other revenues for the three and nine months ended September 30, 2011 and 2010 included revenues related to funding allocated from U.S. Congress Defense Appropriations Conference Reports in 2005 through 2008, collectively the ("DOD Grants"). As of September 30, 2011 CryoLife has been awarded $6.1 million and has received a total of $5.4 million for the development of protein hydrogel technology, which the Company is currently developing for use in organ sealing. At September 30, 2011 CryoLife had $1.8 million included in deferred income on the Company's Summary Consolidated Balance Sheet from the DOD Grants, of which $1.4 million remains in unspent cash advances recorded as cash and cash equivalents.

**Cost of Preservation Services and Products**

***Cost of Preservation Services***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cost of preservation services | $ 8,349 | $ 8,911 | $ 25,709 | $ 27,322 |
| Cost of preservation services as a percentage of preservation service revenues | 57% | 59% | 57% | 60% |

Cost of preservation services decreased 6% for both the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010. Cost of preservation services includes costs for cardiac and vascular tissue preservation services.

The decrease in cost of preservation services and the decrease in cost of preservation services as a percentage of preservation services revenues in the three and nine months ended September 30, 2011 were primarily due to a decrease in the per unit cost of processing tissues. The decrease in the per unit cost of processing tissues in 2011 was largely a result of increased processing and packaging throughput, as fixed costs were allocated to a greater volume of processed tissues. To a lesser extent, the decrease in cost of preservation services was also due to a decrease in cardiac tissues shipped in the 2011 periods as compared to the corresponding 2010 periods.

***Cost of Products***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cost of products | $ 2,393 | $ 4,310 | $ 7,051 | $ 9,318 |
| Cost of products as a percentage of product revenues | 16% | 33% | 16% | 23% |

Cost of products decreased 44% for the three months and 24% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively. Cost of products in 2011 includes costs related to BioGlue, BioFoam, PerClot, and revascularization technology, distributed by CryoLife's subsidiary Cardiogenesis, and includes HemoStase for the year to date period. Cost of products in 2010 includes costs related to BioGlue, BioFoam, and HemoStase.

Cost of products for the three and nine months ended September 30, 2010 included a $1.6 million write-down of HemoStase inventory. The decrease in cost of products in the three and nine months ended September 30, 2011 was primarily due to the write-down of HemoStase in the prior year periods. To a lesser extent, cost of products decreased in 2011 from the prior year periods due to a decrease in shipments of HemoStase, partially offset by increased shipments of PerClot, which the Company began distributing in the third quarter of 2010, and revascularization technology handpieces, which the Company began distributing in the second quarter of 2011 through Cardiogenesis. The decrease in cost of products as a percentage of product revenues for the three and nine months ended September 30, 2011 was primarily due to the write-down of HemoStase in the prior year periods. To a lesser extent, the decrease was due to decreased revenues from HemoStase, partially offset by increased revenues from PerClot, as both of these hemostats have higher costs as a percentage of revenue than BioGlue and handpieces.

**Operating Expenses**

***General, Administrative, and Marketing Expenses***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| General, administrative, and marketing expenses | $ 14,726 | $ 11,376 | $ 42,676 | $ 36,863 |
| General, administrative, and marketing expenses as a percentage of total revenues | 50% | 40% | 48% | 42% |

General, administrative, and marketing expenses increased 29% for the three months and 16% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively.

The increase in general, administrative, and marketing expenses for the three and nine months ended September 30, 2011 was primarily due to expenses for business development activities and additional expenses related to the sales personnel and ongoing operations of Cardiogenesis, which the Company acquired in the second quarter of 2011. The Company's business development activities included transaction and integration expenses related to the Company's acquisition of Cardiogenesis and additional business development activities that are not currently ongoing and that the Company does not currently expect to result in completed transactions. The Company's business development expenses, including outgoing personnel costs, exit activities, legal, professional and regulatory fees, were $1.1 million and zero for the three months ended September 30, 2011 and 2010, respectively, and $4.1 million and $542,000 for the nine months ended September 30, 2011 and 2010, respectively.

The Company's general, administrative, and marketing expenses included $615,000 and $398,000 for the three months ended September 30, 2011 and 2010, respectively, and $1.9 million and $1.7 million for the nine months ended September 30, 2011 and 2010, respectively, related to the grant of stock options, restricted stock awards, and restricted stock units.

The Company expects that its expenses associated with lawsuits, including lawsuits with Medafor, Inc. ("Medafor"), will continue to have a material impact on the Company's general, administrative, and marketing expenses during the fourth quarter of 2011. The Company does not anticipate that it will incur significant additional acquisition related expenses in the fourth quarter of 2011 related to the acquisition of Cardiogenesis. The Company expects that its general, administrative, and marketing expenses will continue to be higher than in prior years due to the additional expenses related to the sales personnel and ongoing operations of Cardiogenesis. The Company continues to evaluate potential business development opportunities and may incur costs related to these activities; however, due to the early stage of these discussions, the Company does not believe that these additional costs will be material in the fourth quarter of 2011.

***Research and Development Expenses***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Research and development expenses | $ 1,690 | $ 1,590 | $ 5,099 | $ 4,122 |
| Research and development expenses as a percentage of total revenues | 6% | 6% | 6% | 5% |

Research and development spending in 2011 was primarily focused on PerClot; the Company's SynerGraft tissues and products, including: CryoValve SGPV, CryoValve SG aortic heart valves, CryoPatch SG, and xenograft SynerGraft tissue products; and the Company's BioGlue family of products, including: BioGlue and BioFoam. Research and development spending in 2010 was primarily focused on the Company's SynerGraft tissues and products and the BioGlue family of products.

***Acquired In-Process Research and Development***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Acquired in-process research and development | $ -- | $ 3,513 | $ -- | $ 3,513 |
| Acquired in-process research and development as a percentage of total revenues | --% | 12% | --% | 4% |

As part of the consideration paid to SMI, the Company allocated $3.5 million to an intangible asset for PerClot distribution and manufacturing rights in the U.S. and certain other countries which do not have current regulatory approvals. This $3.5 million is considered in-process research and development as it is dependent upon regulatory approvals which have not yet been obtained. Therefore, CryoLife expensed the $3.5 million as in-process research and development upon acquisition.

**Other Income and Expenses**

Interest expense was $49,000 and $116,000 for the three and nine months ended September 30, 2011, respectively, and $29,000 and $145,000 for the three and nine months ended September 30, 2010, respectively. Interest expense for the three and nine months ended September 30, 2011 and 2010 included interest incurred related to the Company's debt, capital leases, and interest related to uncertain tax positions.

Interest income was $1,000 and $13,000 for the three and nine months ended September 30, 2011, respectively, and $6,000 and $16,000 for the three and nine months ended September 30, 2010, respectively. Interest income for the three and nine months ended September 30, 2011 and 2010 was primarily due to interest earned on the Company's cash and investments.

The gain on valuation of derivative was zero for both the three and nine months ended September 30, 2011 and $143,000 and $1.3 million for the three and nine months ended September 30, 2010, respectively. The gain on valuation of derivative in the 2010 periods was due to the decrease in the value of embedded derivatives related to Medafor common stock previously purchased by the Company.

The other than temporary investment impairment was zero for both the three and nine months ended September 30, 2011 and $3.6 million for both the three and nine months ended September 30, 2010. This was due to the impairment in the value of the Company's investment in Medafor common stock during the third quarter of 2010.

**Earnings**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Income (loss) before income taxes | $ 2,289 | $ (4,588) | $ 8,603 | $ 3,819 |
| Income tax expense (benefit) | 270 | (1,557) | 3,098 | 1,990 |
| Net income (loss) | $ 2,019 | $ (3,031) | $ 5,505 | $ 1,829 |
| Diluted income (loss) per common share | $ 0.07 | $ (0.11) | $ 0.20 | $ 0.06 |
| Diluted weighted-average common shares outstanding | 27,850 | 27,783 | 27,765 | 28,356 |

Income before income taxes increased 150% for the three months and 125% for the nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, respectively. Income before income taxes for the three and nine months ended September 30, 2011 was primarily impacted by costs related to the acquisition of Cardiogenesis and an increase in other costs and expenses as discussed above. Income (loss) before income taxes for the three and nine months ended September 30, 2010 was negatively impacted primarily by the write-down of acquired in-process research and development, the other than temporary investment impairment, and the write-down of HemoStase inventory, partially offset by the gain on valuation of derivative for the nine months ended September 30, 2010.

The Company's effective income tax rate was approximately 12% and 36% for the three and nine months ended September 30, 2011, respectively, as compared to a benefit of 34% for the three months ended September 30, 2010 and expense of 52% for the nine months ended September 30, 2010. The significant change in the Company's effective income tax rate for the three months ended September 30, 2011 was due to the discrete and favorable effect of deductions taken on the Company's 2010 federal tax returns, which were filed in the third quarter of 2011. For the nine months ended September 30, 2011, this favorable effect was largely offset by the unfavorable tax treatment, recognized in the second quarter of 2011, of certain acquisition related expenses, which the Company incurred related to its acquisition of Cardiogenesis.

Net income and diluted income per common share for the three and nine months ended September 30, 2011 increased compared to the corresponding periods in 2010 due to the increase in income before income taxes, adjusted by the effect of income tax expense, as discussed above.

Basic and diluted income per common share could be impacted in future periods unfavorably by the issuance of additional shares of common stock and favorably by the Company's repurchase of its common stock. Stock repurchases are impacted by many factors,

including: stock price, available funds, and competing demands for such funds, and as a result, may be suspended or discontinued at any time.

**Seasonality**

The Company's demand for its cardiac preservation services has traditionally been seasonal, with peak demand generally occurring in the third quarter. Management believes this trend for cardiac preservation services is primarily due to the high number of surgeries scheduled during the summer months for school-aged patients. Management believes that this trend is lessening in recent years as the Company is distributing a higher percentage of its tissues to adult populations.

The Company believes the demand for its vascular preservation services is seasonal, with lowest demand generally occurring in the fourth quarter. Management believes this trend for vascular preservation services is primarily due to fewer surgeries being scheduled during the winter holiday months.

The Company believes the demand for BioGlue is seasonal, with a decline in demand generally occurring in the third quarter followed by stronger demand in the fourth quarter. Management believes that this trend for BioGlue may be due to the summer holiday season in Europe and fewer surgeries being performed on adult patients in the summer months in the U.S.

The Company is uncertain whether the demand for PerClot will be seasonal. As PerClot is in a growth phase generally associated with a recently introduced product that has not fully penetrated the marketplace, the nature of any seasonal trends in PerClot sales may be obscured.

The Company is uncertain whether the demand for revascularization technology will be seasonal, as the Company only recently acquired this product line in May 2011 and the historical data does not indicate a significant trend.

**Liquidity and Capital Resources**

***Net Working Capital***

At September 30, 2011 net working capital (current assets of $88.9 million less current liabilities of $22.3 million) was $66.6 million, with a current ratio (current assets divided by current liabilities) of 4 to 1, compared to net working capital of $82.2 million and a current ratio of 5 to 1 at December 31, 2010.

***Overall Liquidity and Capital Resources***

The Company's largest cash requirement for the nine months ended September 30, 2011 was the acquisition of all of the outstanding common stock of Cardiogenesis and related transaction costs. On May 17, 2011 CryoLife completed its acquisition of all of the outstanding shares of Cardiogenesis for $0.457 per share or approximately $21.7 million. CryoLife used cash on hand to fund the transaction and will operate Cardiogenesis as a wholly owned subsidiary. In July 2011 the Company paid $3.5 million to purchase an equity investment in ValveXchange, a private medical device company that was spun off from Cleveland Clinic to develop a lifetime heart valve replacement technology platform featuring exchangeable bioprosthetic leaflets. CryoLife used cash on hand to fund this investment. The Company's other cash requirements included cash for general working capital needs, the payment of legal and professional fees, and repurchases of the Company's common stock. Legal and professional fees during the three and nine months ended September 30, 2011 included business development costs, primarily costs associated with the Company's acquisition of Cardiogenesis, other business development activities, and costs associated with the Company's litigation with Medafor. The Company funded its cash requirements primarily through its existing cash reserves and its operating activities, which generated cash during the period.

CryoLife entered into a credit agreement with GE Capital in March of 2008, as amended (the "GE Credit Agreement"), which provides for up to $15.0 million in revolving credit for working capital, acquisitions, and other corporate purposes, of which $14.8 million was available for borrowing as of September 30, 2011. As of September 30, 2011 the outstanding balance under this agreement was zero. As required under the terms of the GE Credit Agreement, the Company is maintaining cash and cash equivalents of at least $5.0 million in accounts in which GE Capital has a first priority perfected lien. As a result, these funds will not be available to meet the Company's liquidity needs during the term of the GE Credit Agreement and, as such, have been recorded in restricted securities on the Company's Summary Consolidated Balance Sheets. Also, the GE Credit Agreement requires that after giving effect to a stock repurchase the Company maintain liquidity, as defined in the agreement, of at least $20.0 million. During the third quarter of 2011, the Company amended the GE Credit Agreement to extend the expiration date of the credit facility to October 31, 2011. CryoLife anticipates entering into a new credit agreement with GE Capital in the fourth quarter of 2011; however, there is no guarantee that a new or extended line of credit can be obtained.

The Company's cash equivalents include advance funding received under the DOD Grants for the continued development of protein hydrogel technology. As of September 30, 2011 $1.4 million of the Company's cash equivalents were related to these DOD Grants, which must be used for the specified purposes.

The Company has agreed to provide funding of up to $2.0 million in debt financing to ValveXchange through a revolving credit facility. The Company cannot currently anticipate if or when ValveXchange may draw funding from this credit facility.

The Company believes that its anticipated cash from operations and existing cash and cash equivalents will enable the Company to meet its current operational liquidity needs for at least the next twelve months. The Company's future cash requirements may include cash to fund clinical trials, including the PerClot and Cardiogenesis clinical trials, to fund other business development activities, to purchase license agreements, for general working capital needs, to fund the Medafor litigation, to fund the ValveXchange revolving credit facility, to repurchase the Company's common stock, and for other corporate purposes. The Company expects that these items will have a significant impact on its cash flows in the remainder of 2011. The Company expects to seek additional borrowing capacity to fund additional business development activities or other future cash requirements, and will be required to obtain such funding to finance any significant future business development activities. The Company acquired net operating loss carryforwards from its acquisition of Cardiogenesis that the Company believes will reduce required cash payments for federal income taxes by approximately $500,000 for the 2011 tax year.

***Net Cash from Operating Activities***

Net cash provided by operating activities was $13.7 million for the nine months ended September 30, 2011 as compared to $13.8 million for the nine months ended September 30, 2010. The Company uses the indirect method to prepare its cash flow statement and, accordingly, the operating cash flows are based on the Company's net income, which is then adjusted to remove non-cash items and for changes in operating assets and liabilities from the prior year end. For the nine months ended September 30, 2011 these non-cash items included a favorable $3.6 million in depreciation and amortization expense and $2.1 million in non-cash stock based compensation.

The Company's working capital needs, or changes in operating assets and liabilities, also affected cash from operations. For the nine months ended September 30, 2011 these changes included a favorable $2.3 million due to decreases in deferred preservation costs and inventory balances and a favorable $644,000 due to the timing differences between the recording of accounts payable, accrued expenses, and other liabilities and the actual payment of cash, partially offset by an unfavorable $968,000 due to the timing difference between making cash payments and the expensing of assets, including prepaid insurance policy premiums.

***Net Cash from Investing Activities***

Net cash used in investing activities was $27.1 million for the nine months ended September 30, 2011 as compared to $9.9 million for the nine months ended September 30, 2010. The current year cash used was primarily due to the payment of $21.1 million for the acquisition of Cardiogenesis, net of cash acquired, the investment of $3.6 million for ValveXchange preferred stock, and $2.0 million in capital expenditures.

***Net Cash from Financing Activities***

Net cash used in financing activities was $1.0 million for the nine months ended September 30, 2011 as compared to $3.0 million for the nine months ended September 30, 2010. The current year cash used was primarily due to $1.6 million in purchases of treasury stock, largely related to the Company's publicly announced stock repurchase plan.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Scheduled Contractual Obligations and Future Payments**

Scheduled contractual obligations and the related future payments as of September 30, 2011 are as follows (in thousands):

| | Total | Remainder of 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 27,558 | $ 441 | $ 2,695 | $ 2,631 | $ 2,604 | $ 2,589 | $ 16,598 |
| Purchase commitments | 9,743 | 1,556 | 2,506 | 3,554 | 2,127 | -- | -- |
| Research obligations | 4,955 | 1,796 | 1,304 | 554 | 1,301 | -- | -- |
| PerClot contingent payments | 2,000 | -- | 500 | -- | 1,500 | -- | -- |
| Compensation payments | 1,985 | -- | -- | 993 | 992 | -- | -- |
| Total contractual obligations | $ 46,241 | $ 3,793 | $ 7,005 | $ 7,732 | $ 8,524 | $ 2,589 | $ 16,598 |

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

The Company's purchase commitments include minimum purchase requirements for PerClot related to the Company's transaction with SMI. These minimum purchases are included through 2014, as the Company expects to receive FDA approval for PerClot no later than 2014. Upon FDA approval, the Company may terminate its minimum purchase requirements, which it expects to do. However, if the Company does not terminate this provision, it will have minimum purchase obligations of $1.75 million per year through the end of the contract term in 2025. The Company's purchase commitments also include obligations from agreements with suppliers and contractual payments for licensing computer software and telecommunication services.

The Company's research obligations represent commitments for ongoing studies and payments to support research and development activities, which will be partially funded by the advances received under the DOD Grants.

The obligation for PerClot contingent payments represents the contingent milestone payments that the Company will pay if certain FDA regulatory approvals and other commercial milestones are achieved. The schedule excludes one contingent milestone payment of $500,000, as the Company cannot make a reasonably reliable estimate of timing of this future payment.

The Company's compensation payment obligations represent estimated payments for post-employment benefits for the Company's Chief Executive Officer ("CEO"). The timing of the CEO's post-employment benefits is based on the December 2012 expiration date of the CEO's employment agreement. Payment of this benefit may be accelerated by a change in control or by the voluntary retirement of the CEO.

The schedule of contractual obligations above excludes (i) obligations for estimated liability claims unless they are due as a result of a pending settlement agreement or other contractual obligation and (ii) any estimated liability for uncertain tax positions and interest and penalties, currently estimated to be $1.9 million, because the Company cannot make a reasonably reliable estimate of the amount and period of related future payments as no specific assessments have been made for specific litigation or by any taxing authorities.

**Capital Expenditures**

Capital expenditures for the nine months ended September 30, 2011 were $2.0 million compared to $1.5 million for the nine months ended September 30, 2010. Capital expenditures in the nine months ended September 30, 2011 were primarily related to the routine purchases of tissue processing, manufacturing, computer, and office equipment; computer software; and renovations to the Company's corporate headquarters needed to support the Company's business.

**Forward-Looking Statements**

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements give the Company's current expectations or forecasts of future events. The words "could," "may," "might," "will," "would," "shall," "should," "pro forma," "potential," "pending," "intend," "believe," "expect," "anticipate," "estimate," "plan," "future," and other similar expressions generally identify forwarding-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date of this Form 10-Q. Such forward-looking statements reflect the views of management at the time such statements are made and are subject to a number of risks, uncertainties, estimates, and assumptions, including, without limitation, in addition to those identified in the text surrounding such statements, those identified under "Risks and Uncertainties" and elsewhere in this Form 10-Q.

All statements, other than statements of historical facts, included herein that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, are forward-looking statements, including statements regarding:

- Beliefs regarding BioGlue revenues in future periods and the factors that may impact domestic and international BioGlue sales;
- Expectations regarding revenues from PerClot and HemoStase and total hemostat sales for 2011;
- Expectations regarding when CryoLife will commence manufacturing PerClot;
- Expectations regarding revenues from revascularization technology and the resultant impact on CryoLife's revenues for the remainder of 2011;
- Expectations regarding unit shipments of cardiac valves in the fourth quarter of 2011;
- Expectations regarding transaction and integration expenses associated with the acquisition of Cardiogenesis;
- Expectations regarding acquisition related expenses in the remainder of 2011;
- Expectations regarding business development activities and related costs;
- Expectations regarding the Company's tax treatment of items related to acquisitions;
- Anticipated uses of cash in the remainder of 2011 and the resulting impact on cash flows;
- The adequacy of the Company's financial resources;
- The Company's belief that it may seek additional borrowing capacity and that it anticipates that it will enter into a new credit agreement with GE Capital in the fourth quarter of 2011;
- The Company's belief that it will have sufficient cash to meet its operational liquidity needs for at least the next twelve months;
- Issues that may impact the Company's future financial performance and cash flows;
- Expectations regarding net operating loss carryforwards;
- Expectations regarding general, administrative, and marketing expenses;
- Expectations regarding the timing of future payments to SMI and the accounting treatment of those payments;
- Plans and costs related to regulatory approval for the distribution of PerClot in the U.S. and international markets;
- Anticipated timing of CryoLife's refiling of the IDE for PerClot and anticipated timing of obtaining FDA approval of the IDE;
- Expectations regarding minimum purchase requirements related to PerClot;
- The Company's expectations regarding the timing of court rulings in its legal proceedings and the length of various stages of legal proceedings;
- The Company's estimated future liability for existing tissue processing and product liability lawsuits and for claims incurred but not yet reported;
- Expectations regarding unreported loss liability and any related recoverable insurance amounts;
- The Company's intentions with respect to lawsuits and the expected impact of current litigation;
- The Company's beliefs regarding the seasonal nature of the demand for some of its preservation services and products;
- Anticipated impact of changes in interest rates and foreign currency exchange rates;
- The Company's expectations regarding the renewal of certain contracts;

- Expectations regarding the impact of new accounting pronouncements; and
- Other statements regarding future plans and strategies, anticipated events, or trends.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from the Company's expectations, including, without limitation, in addition to those specified in the text surrounding such statements, the risk factors set forth below, the risks set forth under Part II, Item 1A of the Company's Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011, the risk factors set forth under Part I, Item 1A of the Company's Form 10-K for the year ended December 31, 2010, and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise.

**Risks and Uncertainties**

The risks and uncertainties which might impact the forward-looking statements and the Company, its ability to continue as a going concern, and the trading value of its common stock include concerns that:

- We are significantly dependent on our revenues from BioGlue and are subject to a variety of risks affecting this product;
- Our tissues and products allegedly have caused and may in the future cause injury to patients, and we have been and may be exposed to tissue processing and product liability claims, including one currently outstanding product liability lawsuit, and additional regulatory scrutiny as a result;
- Demand for our tissues and products could decrease in the future, which could have a material adverse impact on our business;
- We are currently involved in significant litigation with Medafor and that litigation cost may have a material adverse impact on our profitability;
- Our investment in Medafor may have been impaired due to Medafor's termination of the EDA, which could have a material adverse impact on our financial condition and profitability;
- Medafor has filed counterclaims against us with respect to our lawsuit against Medafor, and if Medafor is successful in its claims, our revenues and profitability may be materially, adversely impacted;
- We are subject to stringent domestic and foreign regulation which may impede the approval process of our tissues and products, hinder our development activities and manufacturing processes, and, in some cases, result in the recall or seizure of previously cleared or approved tissues and products;
- Uncertainties related to patents and protection of proprietary technology may adversely impact the value of our intellectual property;
- Intense competition may impact our ability to operate profitably;
- We may not be successful in obtaining necessary clinical results and regulatory approvals for services and products in development, and our new services and products may not achieve market acceptance;
- If we are not successful in expanding our business activities in international markets, we may be unable to increase our revenues;
- We are dependent on the availability of sufficient quantities of tissue from human donors;
- The loss of any of our sole-source suppliers could have a material adverse impact on our revenues, financial condition, profitability, and cash flows;
- We may be unsuccessful in our efforts to market and sell PerClot in the U.S. and internationally;
- Our short-term liquidity and earnings in 2011 will be impacted by our substantial investment in our distribution and license and manufacturing agreements with SMI, and we will not fully realize the benefit of our investment in future years unless we are able to obtain FDA approval for PerClot in the U.S., which will require an additional commitment of funds;
- Key growth strategies may not generate the anticipated benefits;
- Investments in new technologies and acquisitions of products or distribution rights may not be successful;
- We may expand through acquisitions or licenses of, or investments in, other companies or technologies, which may result in additional dilution to our stockholders and consume resources that may be necessary to sustain our business;
- We may find it difficult to integrate recent acquisitions of technology and potential future acquisitions of technology or business combinations, which could disrupt our business, dilute stockholder value, and adversely impact our operating results;
- We may not realize the anticipated benefits from an acquisition;
- Regulatory action outside of the U.S. has affected our business in the past and may affect our business in the future;
- Extensive government regulation may adversely impact our ability to develop and market services and products;
- Healthcare policy changes, including recent federal legislation to reform the U.S. healthcare system, may have a material adverse impact on us;
- Consolidation in the healthcare industry could lead to demands for price concessions, limits on the use of our tissues and products, or eliminate our ability to sell to certain of our significant market segments;
- The success of many of our tissues and products depends upon strong relationships with physicians;
- Our CryoValve SGPV post-clearance study may not provide expected results;
- Our existing insurance policies may not be sufficient to cover our actual claims liability;
- We may not be able to obtain adequate insurance at a reasonable cost, if at all;

- We are not insured against all potential losses. Natural disasters or other catastrophes could adversely affect our business, financial condition, and profitability;
- Our credit facility which expires on October 31, 2011 limits our ability to pursue significant acquisitions;
- Our ability to borrow under our credit facility which expires on October 31, 2011 may be limited;
- We may not be able to enter into a new credit facility after our current credit facility expires on October 31, 2011;
- Continued fluctuation of foreign currencies relative to the U.S. Dollar could materially adversely impact our business;
- Rapid technological change could cause our services and products to become obsolete;
- We are dependent on our key personnel; and
- The integration of Cardiogenesis' business into our business may be slower than expected or unsuccessful, and our revenues and operating expenses may be materially adversely impacted as a result.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**Interest Rate Risk**

The Company's interest income and interest expense are sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on the Company's cash and cash equivalents of $21.1 million and restricted securities of $5.0 million and interest paid on the Company's variable rate line of credit as of September 30, 2011. A 10% adverse change in interest rates as compared to the rates experienced by the Company in the nine months ended September 30, 2011, affecting the Company's cash and cash equivalents, restricted securities, and line of credit would not have a material impact on the Company's financial position, profitability, or cash flows.

**Foreign Currency Exchange Rate Risk**

The Company has balances, such as cash, accounts receivable, accounts payable, and accruals that are denominated in foreign currencies. These foreign currency denominated balances are sensitive to changes in exchange rates. In this regard, changes in exchange rates could cause a change in the U.S. Dollar equivalent of cash or funds that the Company will receive in payment for assets or that the Company would have to pay to settle liabilities. As a result, the Company could be required to record these changes as gains or losses on foreign currency translation.

The Company has revenues and expenses that are denominated in foreign currencies. Specifically, a significant portion of the Company's international BioGlue revenues are denominated in British Pounds and Euros, and a portion of the Company's general, administrative, and marketing expenses are denominated in British Pounds and Euros. These foreign currency transactions are sensitive to changes in exchange rates. In this regard, changes in exchange rates could cause a change in the U.S. Dollar equivalent of net income from transactions conducted in other currencies. As a result, the Company could recognize a reduction in revenues or an increase in expenses related to a change in exchange rates.

An additional 10% adverse change in exchange rates from the exchange rates in effect on September 30, 2011 affecting the Company's balances denominated in foreign currencies would not have had a material impact on the Company's financial position or cash flows. An additional 10% adverse change in exchange rates from the weighted-average exchange rates experienced by the Company for the nine months ended September 30, 2011 affecting the Company's revenue and expense transactions denominated in foreign currencies, would not have had a material impact on the Company's financial position, profitability, or cash flows.

**Item 4. Controls and Procedures.**

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

The Company's management, including the Company's President and CEO and the Company's Executive Vice President of Finance, Chief Operating Officer, and CFO, does not expect that its Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. The Company's Disclosure Controls have been designed to provide reasonable assurance of achieving their objectives.

Based upon the most recent Disclosure Controls evaluation conducted by management with the participation of the CEO and CFO, as of September 30, 2011 the CEO and CFO have concluded that the Company's Disclosure Controls were effective at the reasonable assurance level to satisfy their objectives and to ensure that the information required to be disclosed by the Company in its periodic reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

The Securities and Exchange Commission's general guidance permits the exclusion of an assessment of the effectiveness of a registrant's disclosure controls and procedures as they relate to its internal control over financial reporting for an acquired business during the first year following such acquisition if, among other circumstances and factors, there is not adequate time between the acquisition date and the date of assessment. As previously noted in the Form 10-Q, the Company completed the acquisition of Cardiogenesis Corporation ("Cardiogenesis") during the second quarter of 2011. Management's assessment and conclusion on the effectiveness of the Company's disclosure controls and procedures as of September 30, 2011 excludes an assessment of the internal control over financial reporting of Cardiogenesis.

During the quarter ended September 30, 2011, there were no other changes in the Company's internal control over financial reporting that materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

**Medafor**

As previously reported, CryoLife filed a lawsuit against Medafor, Inc. ("Medafor") in 2009 in the U.S. District Court for the Northern District of Georgia ("Georgia Court"). In 2010 Medafor filed counterclaims against CryoLife. On August 2, 2011 Medafor withdrew, without prejudice, its Motion for Partial Summary Judgment with respect to its contention that CryoLife owes Medafor approximately $1.3 million plus prejudgment interest for product Medafor shipped to CryoLife, stating that it would renew its motion at a later date. On September 30, 2011 the Georgia Court denied CryoLife's motion for partial summary judgment regarding Medafor's alleged wrongful termination of the Exclusive Distribution Agreement ("EDA"). The Georgia Court found that, at this early stage of discovery, CryoLife had not established as a matter of law that the parties drafted a certain section of the EDA clearly so as to supplant a specific aspect of the Georgia Uniform Commercial Code. The Georgia Court also found that the evidence submitted did not establish as a matter of law that the letter on which Medafor based its termination of the EDA failed to comport with the Georgia Uniform Commercial Code.

As previously reported, on July 5, 2011 the Georgia Court appointed a Discovery Special Master to manage and supervise discovery pursuant to a Joint Motion for Appointment of Special Master filed by the parties. Pursuant to the appointment, the parties have met repeatedly with the Special Master since July regarding discovery issues. Both parties filed motions to compel certain discovery, and on October 14, 2011, the Special Master granted in part and denied in part both parties' motions. The Georgia Court has scheduled a status conference for November 29, 2011, at which the parties will discuss various discovery-related issues and deadlines. CryoLife expects discovery to continue for a significant period of time. CryoLife believes that the trial will not occur until 2013.

As previously reported, on July 14, 2011 Medafor filed a lawsuit against CryoLife in the U.S. District Court for the District of Minnesota ("Minnesota Court"). Medafor's lawsuit requests that the Minnesota Court grant a declaratory judgment that Medafor's reverse stock split on December 31, 2010 reduced the number of Medafor shareholders to below 500 and that, therefore, Medafor is not required to comply with the registration requirements of Section 12(g) of the Securities Exchange Act of 1934 (i.e., not required to register as a public company with the U.S. Securities and Exchange Commission). Medafor's lawsuit also requests that the Minnesota Court award Medafor its costs and expenses in the lawsuit. On August 5, 2011 CryoLife filed a Motion to Dismiss Medafor's claims arguing that there was no private right cause of action under Section 12(g) of the Securities Exchange Act of 1934. The parties argued the Motion to Dismiss in front of the Minnesota Court on October 11, 2011. As of October 25, 2011 the Minnesota Court had not ruled on the Motion to Dismiss. At this time CryoLife is unable to predict the outcome of this matter. The Company believes that the outcome of this Minnesota Court matter will not have a material adverse effect on its financial position, result of operations, or cash flow. However, as this matter is ongoing, there is no assurance that this matter will be resolved in the Company's favor.

**CardioFocus**

As previously reported, in February 2008 CardioFocus, Inc. ("CardioFocus") filed a complaint in the U.S. District Court for the District of Massachusetts (the "Massachusetts Court") against Cardiogenesis Corporation, a wholly owned subsidiary of CryoLife, acquired on May 17, 2011 and a number of other companies. In the complaint CardioFocus alleges that Cardiogenesis and the other defendants had previously violated patent rights allegedly held by CardioFocus directed to the use of holmium-doped

YAG lasers in connection with low-hydroxyl content silica fibers for use in performing surgery. All of the asserted patents have now expired and the Company is the sole remaining defendant in the action. CardioFocus seeks a royalty for Cardiogenesis' sales of the products in question, namely, the Solargen, TMR, and New Star lasers and lasers systems, during the period 2002 to 2007.

Since the filing of the lawsuit in February of 2008, Cardiogenesis has filed numerous requests for reexamination of the patents being asserted against Cardiogenesis with the U.S. Patent and Trademark Office ("USPTO"). Through these reexaminations three claims from two patents of CardioFocus have survived. Claim 2 of U.S. Patent No. 6,547,780 (the " '780 Patent") and Claims 2 and 7 of U.S. Patent No. 5,843,073 (the " '073 Patent") were confirmed by the USPTO. CryoLife and Cardiogenesis believe that the reinstatement of these claims supports their position of non-infringement and that significant issues concerning the validity of the asserted patents continue to exist. On March 24, 2011 the Massachusetts Court ordered a stay. In addition, Cardiogenesis recently filed additional reexamination requests for the three claims, based on additional new prior art, which the USPTO has not yet determined whether to grant.

On August 15, 2011, at the request of both parties, the Massachusetts Court lifted the stay and entered a Scheduling Order. Pursuant to the Scheduling Order, the claims construction hearing or so-called "Markman Hearing" occurred on October 21, 2011. The court has not yet ruled on the claims construction. Trial is scheduled for May 14, 2012.

The Company intends to defend itself vigorously in this action. At this time, the Company is unable to predict the outcome of this matter and believes that the outcome of this matter will not have a material adverse effect on the Company's result of operations or cash flow. However, as this matter is ongoing, there is no assurance that this matter will be resolved favorably by the Company or will not result in a material liability to the Company, which could materially affect its results of operations and cash flows.

**Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors as previously disclosed in Part I, Item 1A, "Risk Factors" in our 10-K for the year ended December 31, 2010, as updated by Part II, Item 1A, "Risk Factors" in our Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(c) The following table provides information about purchases by the Company during the quarter ended September 30, 2011 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

**Common Stock**

| Period | Total Number of Common Shares Purchased | Average Price Paid per Common Share | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Common Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 07/01/11 – 07/31/11 | 41,510 | $ 5.83 | -- | $ 7,739,911 |
| 08/01/11 – 08/31/11 | 77,635 | 5.33 | -- | 7,739,911 |
| 09/01/11 – 09/30/11 | -- | -- | -- | 7,739,911 |
| Total | 119,145 | 5.50 | -- | 7,739,911 |

On June 1, 2010 the Company announced that its Board of Directors authorized the purchase of up to $15.0 million of its common stock over the course of the following two years. The purchase of shares may be made from time to time in the open market or through privately negotiated transactions, on such terms as management deems appropriate, and will be dependent upon various factors, including: price, regulatory requirements, and other market conditions. From June 1, 2010 to September 30, 2011 the Company had purchased a total of 1.3 million shares of its common stock for an aggregate purchase price of $7.3 million. The common shares purchased that were not part of a publically announced plan or program were tendered to the Company in payment of the exercise price of outstanding options and taxes on stock compensation.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other information.**

None.

**Item 6. Exhibits.**

The exhibit index can be found below.

| Exhibit Number | Description |
|---|---|
| 2.1*+ | Series A Preferred Stock Purchase Agreement Among CryoLife, Inc., The Cleveland Clinic Foundation, and ValveXchange, Inc. dated July 6, 2011. |
| 3.1 | Amended and Restated Articles of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 10-K for the year ended December 31, 2007.) |
| 3.2 | Amended and Restated By-Laws. (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 27, 2011.) |
| 4.1 | Form of Certificate for the Company's Common Stock. (Incorporated herein by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.) |
| 4.2 | First Amended and Restated Rights Agreement, dated as of November 2, 2005, between CryoLife, Inc. and American Stock Transfer & Trust Company. (Incorporated herein by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed November 3, 2005.) |
| 10.1*+ | Loan and Security Agreement by and between ValveXchange, Inc., and CryoLife, Inc. dated July 6, 2011. |
| 10.2* | Seventh Amendment, dated August 30, 2011, to the Credit Agreement by and among CryoLife, Inc. and certain of its subsidiaries, as borrowers, General Electric Capital Corporation, as lender, letter of credit issuer, and agent for all lenders, and GE Capital Markets, Inc., as sole lead arranger and bookrunner. |
| 31.1* | Certification by Steven G. Anderson pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification by D. Ashley Lee pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32* | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

** Furnished herewith. Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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

**SIGNATURES**

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

CRYOLIFE, INC.
(Registrant)

| | |
|---|---|
| /s/ STEVEN G. ANDERSON | /s/ D. ASHLEY LEE |
| STEVEN G. ANDERSON<br>Chairman, President, and<br>Chief Executive Officer<br>(Principal Executive Officer) | D. ASHLEY LEE<br>Executive Vice President,<br>Chief Operating Officer, and<br>Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) |
| October 27, 2011 | |
| DATE | |

**CONFIDENTIAL TREATMENT REQUESTED**

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

# SERIES A PREFERRED STOCK PURCHASE AGREEMENT

## VALVEXCHANGE, INC.

**July 6, 2011**

TABLE OF CONTENTS

**SERIES A PREFERRED STOCK PURCHASE AGREEMENT**

THIS SERIES A PREFERRED STOCK PURCHASE AGREEMENT is made as of the 6th day of July, 2011 by and among ValveXchange, Inc, a Delaware corporation (the "**Company**"), the investors listed on Exhibit A attached to this Agreement (each a "**Purchaser**" and together the "**Purchasers**").

The parties hereby agree as follows:

1. Purchase and Sale of Preferred Stock.

1.1. Sale and Issuance of Series A Preferred Stock.

(a) The Company shall adopt and file with the Secretary of State of the State of Delaware on or before the Initial Closing (as defined below) the Amended and Restated Certificate of Incorporation in the form of Exhibit B attached to this Agreement (the "**Restated Certificate**").

(b) Subject to the terms and conditions of this Agreement, each Purchaser agrees to purchase at the Closing and the Company agrees to sell and issue to each Purchaser at the Closing that number of shares of Series A Preferred Stock, $$0.001 par value per share (the **"Series A Preferred Stock**"), set forth opposite each Purchaser's name on Exhibit A, at a purchase price of $1.46973 per share. The shares of Series A Preferred Stock issued to the Purchasers pursuant to this Agreement (including any shares issued at the Initial Closing and any Additional Shares, as defined below) shall be referred to in this Agreement as the "**Shares**."

1.2. Closing; Delivery.

(a) The initial purchase and sale of the Shares shall take place remotely via the exchange of documents and signatures, at 10:00 a.m. on July 6, 2011, or at such other time and place as the Company and the initial Purchaser mutually agree upon, orally or in writing (which time and place are designated as the "**Initial Closing**"). In the event there is more than one closing, the term "**Closing**" shall apply to each such closing unless otherwise specified.

(b) At each Closing, the Company shall deliver to each Purchaser a certificate representing the Shares being purchased by such Purchaser at such Closing against payment of the purchase price therefor by check payable to the Company, by wire transfer to a bank account designated by the Company, by cancellation or conversion of indebtedness of the Company to Purchaser, or by any combination of such methods.

1.3. Sale of Additional Shares of Preferred Stock. After the Initial Closing, the Company may sell, pursuant to this Agreement, up to 2,801,128 additional shares (subject to

appropriate adjustment in the event of any stock dividend, stock split, combination or similar recapitalization affecting such shares) of Series A Preferred Stock (the "**Additional Shares**"), to one or more purchasers (the "**Additional Purchasers**") reasonably acceptable to Company and CryoLife, Inc. ("**CryoLife**"), provided that (i) such subsequent sale is consummated on or prior to August 5, 2011, (ii) each Additional Purchaser shall become a party to the Transaction Agreements, (as defined below) (other than the Management Rights Letter), by executing and delivering a counterpart signature page to each of the Transaction Agreements, and (iii) Dorsey & Whitney, LLP, counsel for the Company, provides an opinion dated as of the date of such Closing that the offer, issuance, sale and delivery of the Additional Shares to the Additional Purchasers do not require registration under the Securities Act of 1933, as amended, or applicable state securities laws. Exhibit A to this Agreement shall be updated to reflect the number of Additional Shares purchased at each such Closing and the parties purchasing such Additional Shares.

1.4. Use of Proceeds. In accordance with the directions of the Company's Board of Directors, the Company will use the proceeds from the sale of the Shares for development of the Company's proprietary exchangeable heart valve system and other working capital purposes.

1.5. Defined Terms Used in this Agreement. In addition to the terms defined above, the following terms used in this Agreement shall be construed to have the meanings set forth or referenced below.

(a) "**Affiliate**" means, with respect to any specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such Person, including, without limitation, any general partner, managing member, officer or director of such Person or any venture capital fund now or hereafter existing that is controlled by one or more general partners or managing members of, or shares the same management company with, such Person.

(b) "**Code**" means the Internal Revenue Code of 1986, as amended.

(c) "**Company Intellectual Property**" means all patents, patent applications, trademarks, trademark applications, service marks, service mark applications, tradenames, copyrights, trade secrets, domain names, mask works, information and proprietary rights and processes, similar or other intellectual property rights, subject matter of any of the foregoing, tangible embodiments of any of the foregoing, licenses in to and under any of the foregoing, and any and all such cases that are owned or used by the Company in the conduct of the Company's business as now conducted and as presently proposed to be conducted.

(d) "**Distribution Agreement**" means the First Refusal, Distribution and License Option Agreement dated as of the date of the Initial Closing between CryoLife and the Company.

(e) "**Investors' Rights Agreement**" means the agreement among the Company and the Purchasers and certain other stockholders of the Company dated as of the date of the Initial Closing, in the form of Exhibit D attached to this Agreement.

(f) "**Key Employee**" means any executive-level employee (including division director and vice president-level positions) as well as any employee or consultant who either alone or in concert with others develops, invents, programs or designs any Company Intellectual Property.

(g) **"Key Executives"** means, collectively, Larry Blankenship and Ivan Vesely; and **"Key Executive"** means any of them, individually.

(h) **"Knowledge,"** including the phrase **"to the Company's knowledge,"** shall mean the actual knowledge of the Key Executives after reasonable inquiry into such matters. As used herein, actual knowledge includes constructive knowledge of matters the Key Executives would have been aware of had they conducted reasonable inquiry into such matters.

(i) **"Loan Agreements"** means the loan agreement for up to $2 million and related security agreements between the Company and CryoLife dated as of the date of the Initial Closing.

(j) "**Material Adverse Effect**" means a material adverse effect on the business, assets (including intangible assets), liabilities, financial condition, property, or results of operations of the Company.

(k) **"Person"** means any individual, corporation, partnership, trust, limited liability company, association or other entity.

(l) "**Purchaser**" means each of the Purchasers who is initially a party to this Agreement and any Additional Purchaser who becomes a party to this Agreement at a subsequent Closing under Subsection 1.3.

(m) "**Right of First Refusal and Co-Sale Agreement**" means the agreement among the Company, the Purchasers, and certain other stockholders of the Company, dated as of the date of the Initial Closing, in the form of Exhibit E attached to this Agreement.

(n) "**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(o) "**Shares**" means the shares of Series A Preferred Stock issued at the Initial Closing and any Additional Shares issued at a subsequent Closing under Subsection 1.3.

(p) "**Transaction Agreements**" means this Agreement, the Investors' Rights Agreement, the Right of First Refusal and Co-Sale Agreement, and the Voting Agreement.

(q) **"Voting Agreement**" means the agreement among the Company, the Purchasers and certain other stockholders of the Company, dated as of the date of the Initial Closing, in the form of Exhibit F attached to this Agreement.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Purchaser that, except as set forth on the Disclosure Schedule attached as Exhibit C to this Agreement, which exceptions shall be deemed to be part of the representations and warranties made hereunder, the following representations are true and complete as of the date of the Initial Closing, except as otherwise indicated. The Disclosure Schedule shall be arranged in sections corresponding to the numbered and lettered sections and subsections contained in this Section 2, and the disclosures in any section or subsection of the Disclosure Schedule shall qualify other sections and subsections in this Section 2 only to the extent it is readily apparent from a reading of the disclosure that such disclosure is applicable to such other sections and subsections.

For purposes of these representations and warranties (other than those in Subsections 2.2, 2.3, 2.4, 2.5, and 2.6), the term "the Company" shall include any subsidiaries of the Company, unless otherwise noted herein.

2.1. Organization, Good Standing, Corporate Power and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as presently conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect.

2.2. Capitalization.

(a) The authorized capital of the Company consists, immediately prior to the Initial Closing, of:

(i) 20,000,000 shares of common stock, $0.001 par value per share (the "Common Stock"), 9,529,968 shares of which are issued and outstanding immediately prior to the Initial Closing. All of the outstanding shares of Common Stock have been duly authorized, are fully paid and nonassessable and were issued in compliance with all applicable federal and state securities laws.

(ii) 5,705,000 shares of Preferred Stock, all of which shares have been designated Series A Preferred Stock, none of which are issued and outstanding immediately prior to the Initial Closing. The rights, privileges and preferences of the Preferred Stock are as stated in the Restated Certificate and as provided by the Delaware General Corporation Law.

(b) The Company has reserved 1,223,397 shares of Common Stock for issuance to officers, directors, employees and consultants of the Company pursuant to its Amended and Restated 2008 Stock Incentive Plan duly adopted by the Board of Directors and approved by the Company stockholders (the "**Stock Plan**"). Of such reserved shares of Common Stock, [***] options to purchase shares of Common Stock have been granted and are currently outstanding, 9,000 shares of Common Stock have been issued upon exercise of options to purchase Common Stock previously granted have been issued pursuant to restricted stock purchase agreements and [***] shares of Common Stock remain available for issuance to officers, directors, employees and consultants pursuant to the Stock Plan. The Company has furnished to the Purchasers complete and accurate copies of the Stock Plan and forms of agreements used thereunder.

(c) Subsection 2.2(c) of the Disclosure Schedule sets forth the capitalization of the Company immediately following the Initial Closing including the number of shares of the following: (i) issued and outstanding Common Stock, including, with respect to restricted Common Stock, vesting schedule and repurchase price; (ii) granted stock options, including vesting schedule and exercise price; (iii) shares of Common Stock reserved for future award grants under the Stock Plan; (iv) each series of Preferred Stock; and (v) warrants or stock purchase rights, if any. Except for (A) the conversion privileges of the Shares to be issued under this Agreement, (B) the rights provided in Section 4 of the Investors' Rights Agreement, and (C) the securities and rights described in Subsection 2.2(b) of this Agreement and Subsection 2.2(c) of the Disclosure Schedule, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal or similar rights) or agreements, orally or in writing, to purchase or acquire from the Company any shares of Common Stock or Series A Preferred Stock, or any securities convertible into or exchangeable for shares of Common Stock or Series A Preferred Stock. All outstanding shares of the Company's Common Stock and all shares of the Company's Common Stock underlying outstanding options are subject to (i) a right of first refusal in favor of the Company upon any proposed transfer (other than transfers for estate planning purposes); and (ii) a lock-up or market standoff agreement of not less than 180 days following the Company's initial public offering pursuant to a registration statement filed with the Securities and Exchange Commission under the Securities Act.

(d) None of the Company's stock purchase agreements or stock option documents contains a provision for acceleration of vesting (or lapse of a repurchase right) or other changes in the vesting provisions or other terms of such agreement or understanding upon the occurrence of any event or combination of events, including without limitation in the case where the Company's Stock Plan is not assumed in an acquisition. The Company has never adjusted or amended the exercise price of any stock options previously awarded, whether

through amendment, cancellation, replacement grant, repricing, or any other means. Except as set forth in the Restated Certificate, the Company has no obligation (contingent or otherwise) to purchase or redeem any of its capital stock.

(e) 409A. The Company believes in good faith that any "nonqualified deferred compensation plan" (as such term is defined under Section 409A(d)(1) of the Code and the guidance thereunder) under which the Company makes, is obligated to make or promises to make, payments (each, a "**409A Plan**") complies in all material respects, in both form and operation, with the requirements of Section 409A of the Code and the guidance thereunder. To the knowledge of the Company, no payment to be made under any 409A Plan is, or will be, subject to the penalties of Section 409A(a)(1) of the Code.

(f) The Company has obtained valid waivers of any rights by other parties to purchase any of the Shares covered by this Agreement.

2.3. Subsidiaries. The Company does not currently own or control, directly or indirectly, any interest in any other corporation, partnership, trust, joint venture, limited liability company, association, or other business entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

2.4. Authorization. All corporate action required to be taken by the Company's Board of Directors and stockholders in order to authorize the Company to enter into the Transaction Agreements, and to issue the Shares at the Closing and the Common Stock issuable upon conversion of the Shares, has been taken or will be taken prior to the Closing. All action on the part of the officers of the Company necessary for the execution and delivery of the Transaction Agreements, the performance of all obligations of the Company under the Transaction Agreements to be performed as of the Closing, and the issuance and delivery of the Shares has been taken or will be taken prior to the Closing. The Transaction Agreements, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their respective terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, or (iii) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable law, including but not limited to federal or state securities laws.

2.5. Valid Issuance of Shares. The Shares, when issued, sold and delivered in accordance with the terms and for the consideration set forth in this Agreement, will be validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under the Transaction Agreements, applicable state and federal securities laws and liens or encumbrances created by or imposed by a Purchaser. Assuming the accuracy of the representations of the Purchasers in Section 3 of this Agreement and subject to the filings described in Subsection 2.6(ii) below, the Shares will be issued in compliance with all applicable federal and state securities laws. The Common Stock issuable upon conversion of the Shares has

been duly reserved for issuance, and upon issuance in accordance with the terms of the Restated Certificate, will be validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under the Transaction Agreements, applicable federal and state securities laws and liens or encumbrances created by or imposed by a Purchaser. Based in part upon the representations of the Purchasers in Section 3 of this Agreement, and subject to Subsection 2.6 below, the Common Stock issuable upon conversion of the Shares will be issued in compliance with all applicable federal and state securities laws.

2.6. Governmental Consents and Filings. Assuming the accuracy of the representations made by the Purchasers in Section 3 of this Agreement, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required on the part of the Company in connection with the consummation of the transactions contemplated by this Agreement, except for (i) the filing of the Restated Certificate, which will have been filed as of the Initial Closing, and (ii) filings pursuant to Regulation D of the Securities Act, and applicable state securities laws, which have been made or will be made in a timely manner.

2.7. Litigation. There is no claim, action, suit, proceeding, arbitration, complaint , charge pending or, to the Company's knowledge, currently threatened (i) against the Company or any officer, director or Key Employee of the Company; (ii) that questions the validity of the Transaction Agreements or the right of the Company to enter into them, or to consummate the transactions contemplated by the Transaction Agreements; or (iii) to the Company's knowledge, that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Neither the Company nor, to the Company's knowledge, any of its officers, directors or Key Employees is a party or is named as subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality (such as would affect the Company). There is no action, suit, proceeding or investigation by the Company pending or which the Company intends to initiate. The foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened in writing (or any basis therefor known to the Company) involving the prior employment of any of the Company's employees, their services provided in connection with the Company's business, or any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers.

2.8. Intellectual Property. The Company owns or possesses or can acquire on commercially reasonable terms sufficient legal rights to all Company Intellectual Property without any known conflict with, or infringement of, the rights of others. To the Company's knowledge, no product or service marketed or sold (or presently proposed to be marketed or sold) by the Company violates any license or infringes any intellectual property rights of any other party. Other than with respect to commercially available software products under standard end-user object code license agreements, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership interests of any kind relating to the Company Intellectual Property, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, proprietary rights and processes of any other

Person. The Company has not received any communications alleging that the Company has violated or, by conducting its business, would violate any of the patents, trademarks, service marks, tradenames, copyrights, trade secrets, mask works or other proprietary rights or processes of any other Person. The Company has obtained and possesses valid licenses to use all of the software programs present on the computers and other software-enabled electronic devices that it owns or leases or that it has otherwise provided to its employees for their use in connection with the Company's business. To the Company's knowledge, it will not be necessary to use any inventions of any of its employees or consultants (or Persons it currently intends to hire) made prior to their employment by the Company. Each employee and consultant has assigned to the Company all intellectual property rights he or she owns that are related to the Company's business as now conducted and as presently proposed to be conducted. Subsection 2.8 of the Disclosure Schedule lists all registered Company Intellectual Property.

2.9. Compliance with Other Instruments. The Company is not in violation or default (i) of any provisions of its Restated Certificate or Bylaws, (ii) of any instrument, judgment, order, writ or decree, (iii) under any note, indenture or mortgage, or (iv) under any lease, agreement, contract or purchase order to which it is a party or by which it is bound that is required to be listed on the Disclosure Schedule, or of any provision of federal or state statute, rule or regulation applicable to the Company, the violation of which would have a Material Adverse Effect. The execution, delivery and performance of the Transaction Agreements and the consummation of the transactions contemplated by the Transaction Agreements will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either (i) a default under any such provision, instrument, judgment, order, writ, decree, contract or agreement or (ii) an event which results in the creation of any lien, charge or encumbrance upon any assets of the Company or the suspension, revocation, forfeiture, or nonrenewal of any material permit or license applicable to the Company.

2.10. Agreements; Actions.

(a) Except for the Transaction Agreements, the Distribution Agreement, or the Loan Agreements, there are no agreements, understandings, instruments, contracts or proposed transactions to which the Company is a party or by which it is bound that involve (i) obligations (contingent or otherwise) of, or payments to, the Company in excess of $25,000.00, (ii) the license of any patent, copyright, trademark, trade secret or other proprietary right to or from the Company, (iii) the grant of rights to manufacture, produce, assemble, license, market, or sell its products to any other Person that limit the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell its products, or (iv) indemnification by the Company with respect to infringements of proprietary rights.

(b) The Company has not (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock, (ii) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of $25,000.00 or in excess of $25,000.00 in the aggregate, (iii) made any loans or advances to any Person, other than ordinary advances for travel expenses, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory

in the ordinary course of business. For the purposes of subsections (b) and (c) of this Subsection 2.10, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same Person (including Persons the Company has reason to believe are affiliated with each other) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsection.

(c) The Company is not a guarantor or indemnitor of any indebtedness of any other Person.

2.11. Certain Transactions.

(a) Other than (i) standard employee benefits generally made available to all employees, (ii) standard director and officer indemnification agreements approved by the Board of Directors, and (iii) the purchase of shares of the Company's capital stock and the issuance of options to purchase shares of the Company's Common Stock, in each instance, approved in the written minutes of the Board of Directors (previously provided to the Purchasers or their counsel), there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, consultants or Key Employees, or any Affiliate thereof.

(b) The Company is not indebted, directly or indirectly, to any of its directors, officers or employees or to their respective spouses or children or to any Affiliate of any of the foregoing, other than in connection with expenses or advances of expenses incurred in the ordinary course of business or employee relocation expenses and for other customary employee benefits made generally available to all employees. None of the Company's directors, officers or employees, or any members of their immediate families, or any Affiliate of the foregoing are, directly or indirectly, indebted to the Company or, to the Company's knowledge, have any (i) material commercial, industrial, banking, consulting, legal, accounting, charitable or familial relationship with any of the Company's customers, suppliers, service providers, joint venture partners, licensees and competitors, (ii) direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation which competes with the Company except that directors, officers or employees or stockholders of the Company may own stock in (but not exceeding two percent (2%) of the outstanding capital stock of) publicly traded companies that may compete with the Company or (iii) financial interest in any material contract with the Company.

2.12. Rights of Registration and Voting Rights. Except as provided in the Investors' Rights Agreement, the Company is not under any obligation to register under the Securities Act any of its currently outstanding securities or any securities issuable upon exercise or conversion of its currently outstanding securities. To the Company's knowledge, except as contemplated in the Voting Agreement, no stockholder of the Company has entered into any agreements with respect to the voting of capital shares of the Company.

2.13. Property. Other than the Loan Agreements, the property and assets that the Company owns are free and clear of all mortgages, deeds of trust, liens, loans and encumbrances, except for statutory liens for the payment of current taxes that are not yet

delinquent and encumbrances and liens that arise in the ordinary course of business and do not materially impair the Company's ownership or use of such property or assets. With respect to the property and assets it leases, the Company is in compliance with such leases and, to its knowledge, holds a valid leasehold interest free of any liens, claims or encumbrances other than those of the lessors of such property or assets. The Company does not own any real property.

2.14. Financial Statements. The Company has delivered to each Purchaser its unaudited financial statements as of December 31, 2010 and for the fiscal year ended December 31, 2010 and its unaudited financial statements (including balance sheet, income statement and statement of cash flows) as of March 31, 2011 and for the three-month period ended March 31, 2011 (collectively, the "**Financial Statements**"). The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated, except that the unaudited Financial Statements may not contain all footnotes required by generally accepted accounting principles. The Financial Statements fairly present in all material respects the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject in the case of the unaudited Financial Statements to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material direct or contingent obligations or liabilities or any material unrealized or anticipated losses. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with generally accepted accounting principles.

2.15. Changes. Since March 31, 2011 there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not caused, in the aggregate, a Material Adverse Effect;

(b) any damage, destruction or loss, whether or not covered by insurance, that would have a Material Adverse Effect;

(c) any waiver or compromise by the Company of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim, or encumbrance or payment of any obligation by the Company, except in the ordinary course of business and the satisfaction or discharge of which would not have a Material Adverse Effect;

(e) any material change to a material contract or agreement by which the Company or any of its assets is bound or subject;

(f) any material change in any compensation arrangement or agreement with any employee, officer, director or stockholder;

(g) any resignation or termination of employment of any officer or Key Employee of the Company;

(h) any mortgage, pledge, transfer of a security interest in, or lien, created by the Company, with respect to any of its material properties or assets, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair the Company's ownership or use of such property or assets;

(i) any loans or guarantees made by the Company to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(j) any declaration, setting aside or payment or other distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase, or other acquisition of any of such stock by the Company;

(k) any sale, assignment or transfer of any Company Intellectual Property that could reasonably be expected to result in a Material Adverse Effect;

(l) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(m) to the Company's knowledge, any other event or condition of any character, other than events affecting the economy or the Company's industry generally, that could reasonably be expected to result in a Material Adverse Effect; or

(n) any arrangement or commitment by the Company to do any of the things described in this Subsection 2.15.

2.16. Employee Matters.

(a) As of the date hereof, the Company employs seven full-time employees and one part-time employee and engages the consultants or independent contractors pursuant to the contracts listed on Schedule 2.11 of the Disclosure Schedule. The Company has previously delivered to CryoLife, Inc. a detailed description of all compensation, including salary, bonus, severance obligations and deferred compensation paid or payable for each officer, employee, consultant and independent contractor of the Company who received compensation in the fiscal year ended December 31, 2010 or is anticipated to receive compensation in the fiscal year ending December 31, 2011.

(b) To the Company's knowledge, none of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would materially interfere with such employee's ability to promote the interest of the Company or that would conflict with the Company's business. Neither the execution or delivery of the Transaction Agreements, nor the carrying on of the Company's business by the employees

of the Company, nor the conduct of the Company's business as now conducted and as presently proposed to be conducted, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant or instrument under which any such employee is now obligated. Each Key Executive that continues to be employed by the Company is working full-time in his activities for the Company and has no other professional activities which might materially interfere with or adversely affect the fulfillment of his full-time obligations to the Company.

(c) The Company is not delinquent in payments to any of its employees, consultants, or independent contractors for any wages, salaries, commissions, bonuses, or other direct compensation for any service performed for it to the date hereof or amounts required to be reimbursed to such employees, consultants, or independent contractors. The Company has complied in all material respects with all applicable state and federal equal employment opportunity laws and with other laws related to employment, including those related to wages, hours, worker classification, and collective bargaining. The Company has withheld and paid to the appropriate governmental entity or is holding for payment not yet due to such governmental entity all amounts required to be withheld from employees of the Company and is not liable for any arrears of wages, taxes, penalties, or other sums for failure to comply with any of the foregoing.

(d) To the Company's knowledge, no Key Employee intends to terminate employment with the Company, nor does the Company have a present intention to terminate the employment of any of the foregoing. The employment of each employee of the Company is terminable at the will of the Company. Except as set forth in Subsection 2.16 of the Disclosure Schedule or as required by law, upon termination of the employment of any such employees, no severance or other payments will become due. Except as set forth in Subsection 2.16 of the Disclosure Schedule, the Company has no policy, practice, plan, or program of paying severance pay or any form of severance compensation in connection with the termination of employment services.

(e) The Company has not made any representations regarding equity incentives to any officer, employees, director or consultant that are inconsistent with the share amounts and terms set forth in the minutes of meetings of the Company's board of directors.

(f) Each former Key Employee whose employment was terminated by the Company has entered into an agreement with the Company providing for the full release of any claims against the Company or any related party arising out of such employment.

(g) Subsection 2.16 of the Disclosure Schedule sets forth each employee benefit plan maintained, established or sponsored by the Company, or which the Company participates in or contributes to, which is subject to the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"). The Company has made all required contributions and has no liability to any such employee benefit plan, other than liability for health plan continuation coverage described in Part 6 of Title I(B) of ERISA, and has complied in all material respects with all applicable laws for any such employee benefit plan.

(h) The Company is not bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or has sought to represent any of the employees, representatives or agents of the Company. There is no pending, or threatened, strike or other labor dispute involving the Company, nor is there any labor organization activity involving the Company's employees.

(i) To the Company's knowledge, none of the Key Employees or directors of the Company has been (a) subject to voluntary or involuntary petition under the federal bankruptcy laws or any state insolvency law or the appointment of a receiver, fiscal agent or similar officer by a court for his business or property; (b) convicted in a criminal proceeding or named as a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (c) subject to any order, judgment, or decree (not subsequently reversed, suspended, or vacated) of any court of competent jurisdiction permanently or temporarily enjoining him from engaging, or otherwise imposing limits or conditions on his engagement in any securities, investment advisory, banking, insurance, or other type of business or acting as an officer or director of a public company; or (d) found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated any federal or state securities, commodities, or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended, or vacated.

2.17. Tax Returns and Payments. There are no federal, state, county, local or foreign taxes dues and payable by the Company which have not been timely paid. There are no accrued and unpaid federal, state, country, local or foreign taxes of the Company which are due, whether or not assessed or disputed. There have been no examinations or audits of any tax returns or reports by any applicable federal, state, local or foreign governmental agency. The Company has duly and timely filed all federal, state, county, local and foreign tax returns required to have been filed by it and there are in effect no waivers of applicable statutes of limitations with respect to taxes for any year.

2.18. Insurance. The Company has in full force and effect fire and casualty insurance policies with extended coverage, sufficient in amount (subject to reasonable deductions) to allow it to replace any of its properties that might be damaged or destroyed.

2.19. Employee Agreements. Each current and former employee, consultant and officer of the Company has executed an agreement with the Company regarding confidentiality and proprietary information substantially in the form or forms delivered to the counsel for the Purchasers (the "**Confidential Information Agreements**"). No current or former Key Employee has excluded works or inventions from his or her assignment of inventions pursuant to such Key Employee's Confidential Information Agreement. Each current and former Key Executive has executed a non-competition and non-solicitation agreement substantially in the form or forms delivered to counsel for the Purchasers. The Company is not aware that any of its Key Employees is in violation of any agreement covered by this Subsection 2.19.

2.20. Permits. The Company has all franchises, permits, licenses and any similar authority necessary for the conduct of its business, the lack of which could reasonably be expected to have a Material Adverse Effect. The Company is not in default in any material respect under any of such franchises, permits, licenses or other similar authority.

2.21. Corporate Documents. The Restated Certificate and Bylaws of the Company are in the form provided to the Purchasers. The copy of the minute books of the Company provided to the Purchasers contains minutes of all meetings of directors and stockholders and all actions by written consent without a meeting by the directors and stockholders since the date of incorporation and accurately reflects in all material respects all actions by the directors (and any committee of directors) and stockholders with respect to all transactions referred to in such minutes.

2.22. 83(b) Elections. To the Company's knowledge, all elections and notices under Section 83(b) of the Code have been or will be timely filed by all individuals who have acquired unvested shares of the Company's Common Stock.

2.23. Environmental and Safety Laws. Except as could not reasonably be expected to have a Material Adverse Effect (a) the Company is and has been in compliance with all Environmental Laws; (b) there has been no release, or to the Company's knowledge, threatened release of any pollutant, contaminant or toxic or hazardous material, substance or waste, or petroleum or any fraction thereof, (each a "**Hazardous Substance**") on, upon, into or from any site currently or heretofore owned, leased or otherwise used by the Company; (c) there have been no Hazardous Substances generated by the Company that have been disposed of or come to rest at any site that has been included in any published U.S. federal, state or local "superfund" site list or any other similar list of hazardous or toxic waste sites published by any governmental authority in the United States; and (d) there are no underground storage tanks located on, no polychlorinated biphenyls ("**PCBs**") or PCB-containing equipment used or stored on, and no hazardous waste as defined by the Resource Conservation and Recovery Act, as amended, stored on, any site owned or operated by the Company, except for the storage of hazardous waste in compliance with Environmental Laws. The Company has made available to the Purchasers true and complete copies of all material environmental records, reports, notifications, certificates of need, permits, pending permit applications, correspondence, engineering studies, and environmental studies or assessments.

For purposes of this Section 3, "Environmental Laws" means any law, regulation, or other applicable requirement relating to (a) releases or threatened release of Hazardous Substance; (b) pollution or protection of employee health or safety, public health or the environment; or (c) the manufacture, handling, transport, use, treatment, storage, or disposal of Hazardous Substances.

2.24. Disclosure. The Company has made available to the Purchasers all the information reasonably available to the Company that the Purchasers have requested for deciding whether to acquire the Shares, including certain of the Company's projections describing its proposed business plan (the "**Business Plan**"). No representation or warranty of the Company

contained in this Agreement, as qualified by the Disclosure Schedule, and no certificate furnished or to be furnished to Purchasers at the Closing contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. The Business Plan was prepared in good faith; however, the Company does not warrant that it will achieve any results projected in the Business Plan. It is understood that this representation is qualified by the fact that the Company has not delivered to the Purchasers, and has not been requested to deliver, a private placement or similar memorandum or any written disclosure of the types of information customarily furnished to purchasers of securities.

3 . Representations and Warranties of the Purchasers. Each Purchaser hereby represents and warrants to the Company, severally and not jointly, that:

3.1. Authorization. The Purchaser has full power and authority to enter into the Transaction Agreements. The Transaction Agreements to which the Purchaser is a party, when executed and delivered by the Purchaser, will constitute valid and legally binding obligations of the Purchaser, enforceable in accordance with their terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, or (b) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws.

3.2. Purchase Entirely for Own Account. This Agreement is made with the Purchaser in reliance upon the Purchaser's representation to the Company, which by the Purchaser's execution of this Agreement, the Purchaser hereby confirms, that the Shares to be acquired by the Purchaser will be acquired for investment for the Purchaser's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Purchaser further represents that the Purchaser does not presently have any contract, undertaking, agreement or arrangement with any Person to sell, transfer or grant participations to such Person or to any third Person, with respect to any of the Shares. The Purchaser has not been formed for the specific purpose of acquiring the Shares.

3.3. Disclosure of Information. The Purchaser has had an opportunity to discuss the Company's business, management, financial affairs and the terms and conditions of the offering of the Shares with the Company's management and has had an opportunity to review the Company's facilities. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Purchasers to rely thereon.

3.4. Restricted Securities. The Purchaser understands that the Shares have not been, and will not be, registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the

bona fide nature of the investment intent and the accuracy of the Purchaser's representations as expressed herein. The Purchaser understands that the Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Purchaser must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The Purchaser acknowledges that the Company has no obligation to register or qualify the Shares, or the Common Stock into which it may be converted, for resale except as set forth in the Investors' Rights Agreement. The Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Shares, and on requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

3.5. No Public Market. The Purchaser understands that no public market now exists for the Shares, and that the Company has made no assurances that a public market will ever exist for the Shares.

3.6. Legends. The Purchaser understands that the Shares and any securities issued in respect of or exchange for the Shares, may bear one or all of the following legends:

(a) "THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933."

(b) Any legend set forth in, or required by, the other Transaction Agreements.

(c) Any legend required by the securities laws of any state to the extent such laws are applicable to the Shares represented by the certificate so legended.

3.7. Accredited Investor. The Purchaser is an accredited investor as defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

3.8. Foreign Investors. If the Purchaser is not a United States person (as defined by Section 7701(a)(30) of the Code), the Purchaser hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Shares or any use of this Agreement, including (i) the legal requirements within its jurisdiction for the purchase of the Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained, and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase,

holding, redemption, sale, or transfer of the Shares. The Purchaser's subscription and payment for and continued beneficial ownership of the Shares will not violate any applicable securities or other laws of the Purchaser's jurisdiction.

3.9. No General Solicitation. Neither the Purchaser, nor any of its officers, directors, employees, agents, stockholders or partners has either directly or indirectly, including through a broker or finder (a) engaged in any general solicitation, or (b) published any advertisement in connection with the offer and sale of the Shares.

3.10. Exculpation Among Purchasers. The Purchaser acknowledges that it is not relying upon any Person, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. The Purchaser agrees that neither any Purchaser nor the respective controlling Persons, officers, directors, partners, agents, or employees of any Purchaser shall be liable to any other Purchaser for any action heretofore taken or omitted to be taken by any of them in connection with the purchase of the Shares.

3.11. Residence. If the Purchaser is an individual, then the Purchaser resides in the state or province identified in the address of the Purchaser set forth on Exhibit A; if the Purchaser is a partnership, corporation, limited liability company or other entity, then the office or offices of the Purchaser in which its principal place of business is identified in the address or addresses of the Purchaser set forth on Exhibit A.

3.12. Satisfaction of Notes. Purchaser represents that, to the extent that Purchaser acquired any of the Shares by cancellation or conversion of indebtedness of the Company to Purchaser such underlying indebtedness, including any and all interest accrued thereon, has been paid and satisfied in full.

4. Conditions to the Purchasers' Obligations at Closing. The obligations of each Purchaser to purchase Shares at the Initial Closing or any subsequent Closing are subject to the fulfillment, on or before such Closing, of each of the following conditions, unless otherwise waived:

4.1. Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true and correct in all material respects as of such Closing.

4.2. Performance. The Company shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by the Company on or before such Closing.

4.3. Compliance Certificate. The President of the Company shall deliver to the Purchasers at such Closing a certificate certifying that the conditions specified in Subsections 4.1 and 4.2 have been fulfilled.

4.4. Qualifications. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be obtained and effective as of such Closing.

4.5. Opinion of Company Counsel. The Purchasers shall have received from Dorsey & Whitney LLP, counsel for the Company, an opinion, dated as of the Initial Closing, in substantially the form of Exhibit G attached to this Agreement.

4.6. Investors' Rights Agreement. The Company and each Purchaser (other than a Purchaser relying upon this condition to excuse such Purchaser's performance hereunder) shall have executed and delivered the Investors' Rights Agreement.

4.7. Right of First Refusal and Co-Sale Agreement. The Company, each Purchaser (other than a Purchaser relying upon this condition to excuse such Purchaser's performance hereunder), and the other stockholders of the Company named as parties thereto shall have executed and delivered the Right of First Refusal and Co-Sale Agreement.

4.8. Voting Agreement. The Company, each Purchaser (other than a Purchaser relying upon this condition to excuse such Purchaser's performance hereunder), and the other stockholders of the Company named as parties thereto shall have executed and delivered the Voting Agreement.

4.9. Restated Certificate. The Company shall have filed the Restated Certificate with the Secretary of State of Delaware on or prior to the Closing, which shall continue to be in full force and effect as of the Closing.

4.10. Secretary's Certificate. The Secretary of the Company shall have delivered to the Purchasers at the Closing a certificate certifying (i) the Bylaws of the Company, (ii) resolutions of the Board of Directors of the Company approving the Transaction Agreements and the transactions contemplated under the Transaction Agreements, and (iii) resolutions of the stockholders of the Company approving the Restated Certificate.

4.11. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to each Purchaser, and each Purchaser (or its counsel) shall have received all such counterpart original and certified or other copies of such documents as reasonably requested. Such documents may include good standing certificates.

4.12. Preemptive Rights. The Company shall have fully satisfied (including with respect to rights of timely notification) or obtained enforceable waivers in respect of any preemptive or similar rights directly or indirectly affecting any of its securities.

4.13. Loop Issuance. The Company shall have delivered an agreement, in a form reasonably satisfactory to the initial Purchaser, executed by the Company and Dr. Loop acknowledging full satisfaction of all agreements and promises regarding issuances of capital stock or rights to acquire capital stock made to Dr. Loop.

5. Conditions of the Company's Obligations at Closing. The obligations of the Company to sell Shares to the Purchasers at the Initial Closing are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

5.1. Representations and Warranties**.** The representations and warranties of each Purchaser contained in Subsection 4.1 shall be true and correct in all respects as of such Closing.

5.2. Performance. The Purchasers shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by them on or before such Closing.

5.3. Qualifications. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be obtained and effective as of the Closing.

5.4. Investors' Rights Agreement. Each Purchaser shall have executed and delivered the Investors' Rights Agreement.

5.5. Right of First Refusal and Co-Sale Agreement. Each Purchaser and the other stockholders of the Company named as parties thereto shall have executed and delivered the Right of First Refusal and Co-Sale Agreement.

5.6. Voting Agreement. Each Purchaser and the other stockholders of the Company named as parties thereto shall have executed and delivered the Voting Agreement.

6. Miscellaneous.

6.1. Survival of Warranties. Unless otherwise set forth in this Agreement, the representations and warranties of the Company and the Purchasers contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation or knowledge of the subject matter thereof made by or on behalf of the Purchasers or the Company.

6.2. Remedies for Capitalization Breach. In addition to any other remedies available to the Purchaser under this Agreement or applicable law, the Company hereby covenants and agrees that if, after the date hereof, the Company issues any capital stock to any Person in satisfaction of or related to any claim or right to capital stock made prior to the date hereof and which stock was not accounted for in or disclosed in the capitalization representation made in Section 2.2 hereof (such stock, the "**Claim Securities**"), the Company shall promptly notify the Purchasers and within five (5) business days of written request from any Purchaser issue to such Purchaser a number of additional shares of Series A Preferred Stock equal to the difference between (a) and (b) where (a) equals the number of shares of Series A Preferred Stock determined by dividing (i) the aggregate monetary amount such Purchaser invested in all Closings by (ii) a per share purchase price of Series A Preferred Stock equal to (A) $[***] divided by (B) the sum of [***] plus the number of Claim Securities and (b) equals the number of shares of Series A Preferred Stock issued to such Purchaser in all Closings (including any shares issued to such Purchaser pursuant to a prior adjustment under this Section 6.2).

6.3. Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

6.4. Governing Law. This Agreement shall be governed by the internal law of the State of Delaware.

6.5. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including .pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

6.6. Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

6.7. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or: (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to the respective parties at their address as set forth on the signature page or Exhibit A, or to such address as subsequently modified by written notice given in accordance with this Subsection 6.8. If notice is given to the Company, a copy shall also be sent to Dorsey & Whitney LLP, 1400 Wewatta Street, Suite 400, Denver, CO 80111, Attention: Michael L. Weiner and if notice is given to the Purchasers, a copy shall also be given to Purchaser's CryoLife, Inc., 1655 Roberts Boulevard, NW, Kennesaw, Georgia 30144.

6.8. No Finder's Fees. Each Purchaser agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's or broker's fee arising out of this transaction (and the costs and expenses of defending against such liability or asserted liability) for which each Purchaser or any of its officers, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Purchaser from any liability for any commission or compensation in the nature of a finder's or broker's fee arising out of this transaction (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

6.9. Fees and Expenses. At the Closing, the Company shall pay all legal and administrative costs of this financing including reasonable attorney fees and expenses of Purchasers' counsel, in an amount not to exceed, in the aggregate, $[***].

6.10. Amendments and Waivers. Except as set forth in Subsection 1.3 of this Agreement, any term of this Agreement may be amended, terminated or waived only with the written consent of the Company and (i) the holders of at a majority of the then-outstanding Shares or (ii) for an amendment, termination or waiver effected prior to the Initial Closing, Purchasers obligated to purchase a majority of the Shares to be issued at the Initial Closing. Any amendment or waiver effected in accordance with this Subsection 6.10 shall be binding upon the Purchasers and each transferee of the Shares (or the Common Stock issuable upon conversion thereof), each future holder of all such securities, and the Company.

6.11. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

6.12. Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

6.13. Entire Agreement. This Agreement (including the Exhibits hereto), the Restated Certificate and the other Transaction Agreements constitute the full and entire understanding and agreement between the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties are expressly canceled.

6.14. Dispute Resolution. The parties (a) hereby irrevocably and unconditionally submit to the jurisdiction of the state or federal courts of Delaware for the purpose of any suit, action or other proceeding arising out of or based upon this Agreement, (b) agree not to commence any suit, action or other proceeding arising out of or based upon this Agreement except in the state or federal courts of Delaware, and (c) hereby waive, and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court.

WAIVER OF JURY TRIAL: EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS, THE SECURITIES OR THE SUBJECT MATTER HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES HERETO AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY HERETO HEREBY FURTHER WARRANTS AND REPRESENTS THAT SUCH PARTY HAS REVIEWED THIS WAIVER

WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

[Signatures appear on following page.]

IN WITNESS WHEREOF, the parties have executed this Series A Preferred Stock Purchase Agreement as of the date first written above.

COMPANY:

**VALVEXCHANGE, INC.**

By: /s/ Larry Blankenship
Name: Larry Blankenship
Title: Chief Executive Officer

PURCHASERS:

**CRYOLIFE, INC.**

By: /s/ D. Ashley Lee
Name: D. Ashley Lee
Title: Chief Operating Officer, Executive Vice President, and Chief Financial Officer

**THE CLEVELAND CLINIC FOUNDATION**

By: /s/ Joseph F. Hahn
Name: Joseph F. Hahn
Title: Chief of Staff

**LIST OF OMITTED SCHEDULES AND EXHIBITS**

| | |
|---|---|
| Exhibit A - | **SCHEDULE OF PURCHASERS** |
| Exhibit B - | **FORM OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION** |
| Exhibit C - | **DISCLOSURE SCHEDULE** |
| Exhibit D - | **FORM OF INVESTORS' RIGHTS AGREEMENT** |
| Exhibit E - | **FORM OF RIGHT OF FIRST REFUSAL AND CO-SALE AGREEMENT** |
| Exhibit F - | **FORM OF VOTING AGREEMENT** |
| Exhibit G - | **FORM OF LEGAL OPINION OF COMPANY COUNSEL** |

**Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Commission upon request.**

**CONFIDENTIAL TREATMENT REQUESTED**

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

# LOAN AND SECURITY AGREEMENT

**by and between**

# VALVEXCHANGE, INC.

**as the "Borrower"**

**and**

# CRYOLIFE, INC.

**as the "Lender"**

**July 6, 2011**

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**EXHIBITS:**

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| Exhibit A-2 | - | Form of PIK Note |
| Exhibit B | - | Form of Notice of Borrowing |
| Exhibit C | - | Form of Compliance and No Default Certificate |

**SCHEDULES:**

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**LOAN AND SECURITY AGREEMENT**

THIS LOAN AND SECURITY AGREEMENT (the "Agreement"), dated as of July 6, 2011, by and between VALVEXCHANGE, INC., a Delaware corporation ("Borrower"), and CRYOLIFE, INC., a Florida corporation (together with its successors and assigns, "Lender").

**W I T N E S S E T H :**

In consideration of the premises and of the mutual covenants herein contained and to induce Lender to extend credit to Borrower, the parties agree as follows:

**1. DEFINITIONS; RELATED TERMS.**

1.1. Certain UCC Terms. Any term used in this Agreement or in any financing statement filed in connection herewith which is defined in the UCC and not otherwise defined in this Agreement or in any other Loan Document shall have the meaning given to the term in the UCC, including, without limitation, Accession, Account, Account Debtor, Chattel Paper, Account, Commercial Tort Claim, Deposit Account, Document, Electronic Chattel Paper, Equipment, Fixture, Instrument, Inventory, Investment Property, Letter-of-Credit Right, Proceeds, Supporting Obligation, and Tangible Chattel Paper.

1.2. Defined Terms. Capitalized terms that are not otherwise defined herein shall have the meanings set forth in this Section 1.2.

"Advance" means any advance made by Lender of any portion of the Commitment under Section 2.1 of this Agreement.

"Affiliate" means, with respect to any Person other than Lender, (a) any other Person other than Lender directly or indirectly owning 5% or more of the Equity Interests of such Person or of which such Person owns 5% or more of such Equity Interests; (b) any other Person other than Lender controlling, controlled by, or under common control with such Person; (c) any officer, director, or employee of such Person or any Affiliate of such Person; and (d) any family member or Affiliate of such Person.

"Business Day" means any weekday on which Lender is open for business in Atlanta, Georgia.

"Capital Expenditures" means, for any period, the aggregate cost of all capital assets acquired by Borrower during such period (including gross leases to be capitalized under GAAP and leasehold improvements), as determined in accordance with GAAP.

"Change in Control" means the occurrence after the Closing Date of any of the following: (i) any Person, or two or more Persons acting in concert (excluding the Persons that are officers and directors of Borrower on the Closing Date), shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50% or more of the outstanding shares of the voting stock of Borrower, other than in connection with the Equity Raise; (ii) as of any date a majority of the board of directors of Borrower consists of individuals who were not either (A) directors of Borrower as of the corresponding date of the previous year, (B) selected or nominated to become directors by the board of directors of Borrower of which a majority consisted of individuals described in clause (A), or (C) selected or nominated to become directors by (1) the board of directors of Borrower of which a majority consisted of individuals described in clause (A) and individuals described in clause (B) or (2) the holders of the Series A Preferred Stock; or (iii) a sale, transfer or conveyance of all or substantially all of Borrower's assets.

"Charter" means Borrower's Amended and Restated Certificate of Incorporation in effect as the date hereof, as the same may be amended or restated from time to time subject to Section 7.7(e) hereof.

"Closing Date" means the earliest date on which all of the conditions precedent in Section 4 of this Agreement are satisfied (or waived by Lender in accordance with the terms of this Agreement) and the initial extensions of credit are made under this Agreement.

"Closing Note" means the promissory note due on the Termination Date, or Term-Out Maturity Date if applicable, in the original principal amount of $2,000,000, substantially in the form of Exhibit A-1 attached hereto and made a part hereof, as the same may be amended, restated, modified or supplemented from time to time.

"Collateral" means all property of Borrower, wherever located and whether now owned by Borrower or hereafter acquired, including but not limited to (a) all Inventory; (b) all General Intangibles; (c) all Accounts; (d) all Chattel Paper; (e) all Instruments and Documents and any other instrument or intangible representing payment for goods or services; (f) all Equipment; (g) all Investment Property; (h) all Commercial Tort Claims; (i) all Letter-of-Credit Rights; (j) all Deposit Accounts and funds on deposit therein; (k) all Goods; (l) all Fixtures; (m) all collateral described in the IP Security Agreement and (n) all parts, replacements, substitutions, profits, products, Accessions, cash and non-cash Proceeds, and Supporting Obligations of any of the foregoing (including, but not limited to, insurance proceeds) in any form and wherever located. Collateral also includes (x) all written or electronically recorded books and records relating to any such Collateral and other rights relating thereto and (y) any other real or personal property as to which Lender, at any time of determination, has a Lien to secure the Obligations.

"Commitment" means the commitment of Lender, subject to the terms and conditions herein, to make Advances in accordance with the provisions of Section 2 in an aggregate amount not to exceed $2,000,000 at any one time.

"Control" means, with respect to any asset, right, or property with respect to which a security interest therein is perfected by a secured party's having "control" thereof (whether pursuant to the terms of an agreement or through the existence of certain facts and circumstances), that Lender has "control" of such asset, right, or property in accordance with the terms of Article 9 of the UCC.

"Debt" means, without duplication, all liabilities of a Person as determined under GAAP and all obligations which such Person has guaranteed or endorsed or is otherwise secondarily or jointly liable for, and shall include, without limitation, (a) all obligations for borrowed money or purchased assets; (b) obligations secured by assets whether or not any personal liability exists; (c) the capitalized amount of any capital or finance lease obligations; (d) obligations as a general partner; (e) contingent obligations pursuant to guaranties, endorsements, letters of credit and other secondary liabilities; (f) obligations for deposits; and (g) obligations under Hedge Agreements.

"Default" means any event or circumstance which, upon satisfaction of any requirement for the giving of notice or the lapse of time, or the happening of any further condition, event, or act, would constitute an Event of Default.

"Default Rate" means, as of any date, a rate per annum that is equal to 3.00% in excess of the rate otherwise applicable to such Obligations on such date.

"Environmental Laws" means, collectively, the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Superfund Amendments and Reauthorization Act of 1986; the Resource Conservation and Recovery Act; the Toxic Substances Act; the Clean Water Act; the Clean

Air Act; the Oil Pollution and Hazardous Substances Control Act of 1978; and any other "Superfund" or "Superlien" law or any other Federal, state, or local statute, law, ordinance, code, rule, regulation, order, or decree relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance, or material, as now or at any time hereafter in effect, in each case, as the same may be amended from time to time.

"Equity Interest" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) equity of such Person, including, without limitation, any common stock, preferred stock, limited or general partnership interests, and limited liability company membership interests, whether voting or non-voting.

"Equity Raise" means the issuance of up to $8,000,000 of Equity Interest of Borrower in the form of Series A preferred stock pursuant to that certain Series A Preferred Stock Agreement dated of even date herewith among Borrower and the Purchasers named therein.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Termination Event" means a "reportable event" as defined in Section 4043(b) of ERISA, or the filing of a notice of intent to terminate under Section 4041 of ERISA.

"Event of Default" has the meaning given such term in Section 9.1.

"First Rights Agreement" means that certain First Refusal, Distribution and License Option Agreement between Borrower and Lender of even date herewith.

"Fiscal Quarter" and "Fiscal Year" means each of Borrower's fiscal quarters or years, as applicable.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time.

"General Intangibles" has the meaning set forth in the UCC, and includes, without limitation, general intangibles of Borrower, whether now owned or hereafter created or acquired by Borrower, including all choses in action, causes of action, company or other business records, inventions, blueprints, designs, patents, patent applications, trademarks, trademark applications, trade names, trade secrets, service marks, unfiled patent applications, unfiled trademark applications, goodwill, brand names, copyrights, registrations, licenses, franchises, customer lists, permits, tax refund claims, computer programs, operational manuals, internet addresses and domain names, insurance refunds and premium rebates, all claims under guaranties, security interests or other security held by or granted to Borrower to secure payment of any of any of Borrower's Accounts by an Account Debtor, all rights to indemnification and all other intangible property of Borrower of every kind and nature (other than Accounts).

"Governmental Entity" means (a) any court (whether in law or at equity or trial or appellate), tribunal, or arbitrator or arbitration proceeding and (b) any local, city, state, Federal, municipal or quasi-municipal, foreign, or international government or any subdivision, agency, authority, commission, bureau, branch, regulatory body, or other body thereof.

"Healthcare Laws" means, collectively, any and all federal, state or local laws, rules, regulations, codes, ordinances and administrative manuals, orders, decrees, judgments, injunctions, guidelines and requirements issued under or in connection with Medicare, Medicaid, any other government payment

program or any law governing the licensing or regulation of healthcare providers, professionals, facilities or payors or otherwise governing or regulating the provision of, or payment for, medical services or the sale of medical supplies, including HIPAA.

"Hedge Agreement" has the meaning for swap agreement as defined in 11 U.S.C. § 101, as in effect from time to time, or any successor statute, and includes, without limitation, any rate swap agreement, forward rate agreement, commodity swap, commodity option, interest rate option, forward foreign exchange agreement, spot foreign exchange agreement, rate cap agreement, rate floor agreement, rate collar agreement, currency swap agreement, cross-currency rate swap agreement, currency option and any other similar agreement.

"HIPAA" means the Health Insurance Portability and Accountability Act of 1996.

"Interest Payment Date" means the first Business Day of each Fiscal Quarter.

"IP Security Agreement" means that certain Patent, Copyright, License and Trademark Security Agreement executed by Borrower in favor of Lender of even date herewith.

"Item" means any "item" as defined in Section 4-104 of the UCC, and shall also mean and include checks, drafts, money orders or other media of payment.

"Key Employees" means, collectively, Larry Blankenship and Ivan Vesely; and "Key Employee" means any of them, individually.

"Lien" means any lien (statutory or otherwise), mortgage, deed of trust, deed to secure debt, pledge, hypothecation, security interest, trust arrangement, security deed, financing lease, collateral assignment, encumbrance, conditional sale or title retention agreement, or any other interest in property designed to secure the repayment or performance of any obligation, whether arising by agreement or under any statute or law or otherwise.

"Life Insurance Policy" means a life insurance policy from an insurer, which is acceptable to Lender, on the life of the following Key Employee and in the following amount, listing Borrower as the beneficiary of any proceeds thereof: $2,000,000 on the life of Ivan Vesely.

"Loan" means, collectively, all Advances and PIK Amounts evidenced by the Notes.

"Loan Documents" means this Agreement and each other now existing or hereafter arising document, agreement, or instrument evidencing, describing, or securing the Obligations or delivered in connection with this Agreement, including, without limitation, each Note, Security Agreement, Notice of Borrowing, and UCC financing statement, as the same may be amended, restated, supplemented, or otherwise modified from time to time.

"Loan Term" means the period from and including the Closing Date to but not including the Termination Date or Term-Out Maturity Date, if Lender shall have exercised its right under Section 2.11 hereof.

"Loss" has the meaning given such term in Section 6.3.

"Material Adverse Effect" means any (a) material adverse effect upon the validity, performance, or enforceability of any of the Loan Documents or any of the transactions contemplated hereby or thereby; (b) material adverse effect upon the properties, operations, business, or condition (financial or otherwise) of Borrower; (c) material adverse effect upon the ability of Borrower to fulfill any obligation under any of the Loan Documents; or (d) material adverse effect on the Collateral.

"Material Agreement" means each contract, lease, instrument, guaranty, license or other agreement listed on Schedule 5.19 hereto and any other agreement to which Borrower is a party (other than the Loan Documents) and for which breach, termination, cancellation, nonperformance, or failure to renew could reasonably be expected to have a Material Adverse Effect.

"Medicaid" means, collectively, the healthcare assistance program established by Title XIX of the Social Security Act (42 U.S.C. §§1396 et seq.) and all laws applicable to such program and plans for medical assistance enacted in connection with such program.

"Medicare" means, the health insurance program for the aged and disabled established by Title XVIII of the Social Security Act (42 U.S.C. §§1395 et seq.) and all laws applicable to such program.

"Net Proceeds" means, with respect to the disposition of any property, (a) the proceeds (including cash receivable (when received) by way of deferred payment) received by Borrower in cash from the sale, lease, transfer, or other disposition of such property, including insurance proceeds and awards of compensation received with respect to any Loss affecting all or part of such property, minus (b) (i) the reasonable and customary costs and expenses of such sale, lease, transfer, or other disposition (including legal fees and sales commissions) not to exceed 5% of the total purchase price; (ii) amounts applied to repayment of Debt for borrowed money (other than the Obligations) secured by a Permitted Lien on such property which is senior to Lender's Liens; and (iii) in connection with any sale of such property, a reasonable reserve (not to exceed 5% of the total purchase price) for post-closing adjustments to the purchase price (provided that upon the expiration of 90 days after the sale, any remaining reserve balance shall constitute Net Proceeds).

"Notes" means the Closing Note and all PIK Notes.

"Notice of Borrowing" means each written request for an Advance substantially in the form of Exhibit B, attached hereto and made a part hereof.

"OFAC" means the United States Department of the Treasury's Office of Foreign Assets Control or any successor thereto.

"Obligations" means all obligations and covenants now or hereafter from time to time owed to Lender or any Affiliate of Lender by Borrower, related to the Loan, this Agreement, or the Loan Documents, including, without limitation or duplication, (a) the Loan; and (b) all other amounts now owed or hereafter from time to time owed under the terms of this Agreement and the other Loan Documents, or arising out of the transactions described herein or therein, including, without limitation, principal, interest, commissions, fees (including, without limitation, attorneys' fees), charges, costs, expenses, and all amounts due or from time to time becoming due under the indemnification and reimbursement provisions of this Agreement and the other Loan Documents (including, without limitation, Section 10.3), together, in each of the foregoing cases in this definition, with all interest accruing thereon, including any interest on pre-petition Debt accruing after bankruptcy (whether or not allowable in such bankruptcy), and whether any of the foregoing amounts are now due or from time to time hereafter become due, are direct or indirect, or are certain or contingent, and whether such amounts due are from time to time reduced or entirely extinguished and thereafter re-incurred.

"Permitted Acquisition" means the acquisition by Borrower of all or a portion of the capital stock or assets of a Person organized under the laws of the United States of America or any state thereof so long as each of the following conditions is satisfied:

(a) any Person whose stock is directly or indirectly purchased shall be, after giving effect to such purchase, a direct or an indirect wholly-owned Subsidiary of Borrower;

(b) with respect to any Person that is or becomes a direct or indirect Subsidiary within thirty (30) days of such acquisition, such Person (i) executes and delivers to Lender a joinder agreement to this Agreement to add such Person as an additional Borrower, and (ii) takes all actions deemed necessary by Lender to cause the Lien created by this Agreement to be a duly perfected, Lien against the assets of such Person, including the filing of financing statements in such jurisdictions as may be requested by Lender;

(c) Borrower has made available to Lender, not later than 15 days prior to the proposed dated of such acquisition, copies of lien search results and copies of the acquisition documents (including a copy of the purchase and sale agreement with all schedules and exhibits thereto), organizational documents (if applicable), and other due diligence information as reasonably requested by Lender, which Lender shall have reviewed promptly and found reasonably acceptable in all respects; provided that Lender shall use such information for review purposes only and shall keep the substance and terms of such materials confidential;

(d) Within thirty (30) days of such acquisition, Borrower shall have executed and delivered such amendments or supplements to this Agreement or the other Security Agreements or such other documents as Lender deems necessary to grant Lender a Lien on all of the acquired assets; and

(e) at the time of such acquisition and immediately after giving effect thereto, no Default or Event of Default shall exist.

"Permitted Debt" has the meaning set forth in Section 7.1 hereof.

"Permitted Liens" has the meaning set forth in Section 7.2 hereof.

"Permitted Location" means (a) any location described on Schedule 5.9 hereto and (b) any location as to which Lender shall have received prior written notice of from Borrower.

"Permitted Merger" means (a) a merger, consolidation, statutory share exchange or similar transaction in which (i) the Borrower is a constituent party or (ii) a Subsidiary of the Borrower is a constituent party and the Borrower issues shares of its capital stock pursuant to such merger or consolidation, except any such merger or consolidation involving the Borrower or a Subsidiary in which the shares of capital stock of the Borrower outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting Borrower or (2) if the surviving or resulting Borrower is a wholly-owned Subsidiary of another Borrower immediately following such merger or consolidation, the parent Borrower of such surviving or resulting Borrower; or (b) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Borrower or any Subsidiary of the Borrower of all or substantially all the assets of the Borrower and its Subsidiaries taken as a whole (including, without limitation, the sale, lease, transfer, exclusive license or other disposition of the Borrower's current or future proprietary exchangeable heart valve system), or the sale or disposition

(whether by merger or otherwise) of one or more Subsidiaries of the Borrower if substantially all of the assets of the Borrower and its Subsidiaries taken as a whole are held by such Subsidiary or Subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly-owned Subsidiary of the Borrower

"Person" means any natural person, corporation, unincorporated organization, trust, joint-stock company, joint venture, association, company, limited or general partnership, limited liability company, any government or any agency or political subdivision of any government, or any other entity or organization.

"PIK Amount" has the meaning set forth in Section 2.3(a) hereof.

"PIK Notes" means the promissory notes due on the Termination Date, or the Term-Out Maturity Date if applicable, to be executed by Borrower in satisfaction of the accrued interest owing by Borrower in accordance with Section 2.3 hereof, substantially in the form of Exhibit A-2 attached hereto and made a part hereof, as the same may be amended, restated, modified or supplemented from time to time.

"Plan" means any employee benefit plan or other plan maintained for employees of Borrower or any Subsidiary and covered by Title IV of ERISA.

"Projections" means, for any period and as to such period, Borrower's and its Subsidiaries' forecasted consolidated (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a month-by-month basis and on a basis consistent with Borrower's and its Subsidiaries' historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Regulated Materials" means any hazardous, toxic, or dangerous waste, substance, or material, the generation, handling, storage, disposal, treatment, or emission of which is subject to any Environmental Law.

"Restricted Payment" means (a) any cash dividend or other cash distribution, direct or indirect, on account of any Equity Interests issued by Borrower, now or hereafter outstanding, (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any Equity Interests issued by Borrower now or hereafter outstanding by Borrower, except for any redemption, retirement, sinking funds or similar payment payable solely in such other shares or units of the same class of Equity Interests or any class of Equity Interests which are junior to that class of Equity Interests, or (c) any cash payment made to redeem, purchase, repurchase or retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire any Equity Interests issued by Borrower now or hereafter outstanding.

"Sanctioned Country" means a country subject to the sanctions programs identified on the list maintained by OFAC and available at the following website or as otherwise published from time to time: http://www.treas.gov/offices/enforcement/ofac/programs/.

"Sanctioned Person" means (a) any Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/eotffc/ofac/sdn/index.html or as otherwise published from time to time, (b) any agency, authority, or subdivision of the government of a Sanctioned Country, (c) any Person or organization controlled by a Sanctioned Country, or (d) any Person resident in a Sanctioned Country, to the extent subject to a sanctions program administered by OFAC.

"Security Agreement" means this Agreement as it relates to a security interest in the Collateral, the IP Security Agreement, and any other mortgage instrument, deed of trust, pledge agreement, life insurance assignment, security agreement, or similar agreement or instrument now or hereafter executed by any Person granting Lender a Lien in any property to secure the Obligations.

"Series A Preferred Stock" has the meaning ascribed to such term in the Charter.

"Solvent" means, as to any Person, that such Person has capital sufficient to carry on its business and transactions in which it is currently engaged and all business and transactions in which it is about to engage, is able to pay its Debts as they mature, and has assets having a value greater than its liabilities, at fair valuation.

"Stated Termination Date" means July 30, 2018.

"Subordinated Debt" means any Debt (other than trade Debt incurred in the ordinary course of business) payable by Borrower which is subordinate in right of payment and Lien priority to the Obligations and Lender's Lien on the Collateral pursuant to a subordination agreement in form and substance satisfactory to Lender.

"Subsidiary" means, as to any Person, (a) any other Person of which more than 50% of the Equity Interests issued by such other Person are directly or indirectly owned or effectively controlled by such Person or (b) any other Person of which such Person is a general partner. Any unqualified reference to "Subsidiary" shall be deemed a reference to Borrower's Subsidiaries (if any), unless the context requires otherwise.

"Termination Date" means the earliest to occur of (a) the Stated Termination Date, (b) the date on which Lender terminates its Commitment pursuant to Section 2.11 or Section 9.2(a) hereof; and (c) the effective date of Borrower's notice of termination pursuant to Section 2.10 hereof.

"Term-Out Maturity Date" has the meaning set forth in Section 2.11 hereof.

"Third Party" means (a) any lessor, mortgagee, mechanic or repairman, warehouse operator, processor, packager, consignee, or other third party which may have possession of any Collateral or lienholders' enforcement rights against any Collateral or (b) any licensor whose rights in or with respect to any intellectual property or Collateral limit or restrict or may, in Lender's reasonable determination, limit or restrict Borrower's or Lender's right to sell or otherwise dispose of such Collateral.

"Third Party Agreement" means an agreement in form and substance satisfactory to Lender pursuant to which a Third Party, as applicable and as reasonably required by Lender, (i) waives or subordinates in favor of Lender any Liens such Third Party may have in and to any Collateral; (ii) grants Lender access to Collateral which may be located on such Third Party's premises or in the custody, care, or possession of such Third Party for purposes of allowing Lender to inspect, repossess, sell, or otherwise exercise its rights under the Loan Documents with respect to such Collateral; (iii) authorizes Lender to complete the manufacture of work-in-process (if the manufacturing of such Goods requires the use or exploitation of a Third Party's intellectual property); (iv) authorizes Lender to dispose of Collateral bearing or consisting of, in whole or in part, such Third Party's intellectual property; (v) agrees to terms regarding Collateral held on consignment by such Third Party, or (vi) consents to Lender's security interest in Collateral that is otherwise restricted by an anti-assignment provision, in each case containing terms reasonably acceptable to Lender and as the same may be amended, restated, supplemented, or otherwise modified from time to time.

"UCC" means the Uniform Commercial Code (or any successor statute), as adopted and in force in the State of Georgia or, when the laws of any other state govern the method or manner of the perfection or enforcement of any Lien in any of the Collateral, the Uniform Commercial Code (or any successor statute) of such other state.

"U.S." means the United States of America.

"USA Patriot Act" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, as the same may be amended, restated, supplemented, or otherwise modified from time to time.

1.3. Financial Terms. All financial terms used herein shall have the meanings assigned to them under GAAP unless another meaning shall be specified. When determining the amount of any Debt for purposes of this Agreement, any election by Borrower to measure an item of Debt using fair value (as permitted by Statement of Financial Accounting Standards No. 159 or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made.

1.4. Rules of Construction. The terms "herein", "hereof," and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph, or subdivision. Any pronoun used shall be deemed to cover all genders. In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding." The section titles, table of contents, and list of exhibits appear as a matter of convenience only and shall not affect the interpretation of this Agreement. All references to (a) statutes and related regulations shall include all related rules and implementing regulations and any amendments of same and any successor statutes, rules, and regulations; (b) any agreement, instrument, or other documents (including any of the Loan Documents) shall include any and all modifications and supplements thereto and any and all restatements, extensions, or renewals thereof to the extent such modifications, supplements, restatements, extensions, or renewals of any such documents are permitted by the terms thereof; (c) any Person (including Borrower or Lender) shall mean and include the successors and permitted assigns of such Person; (d) "Borrower" in the singular shall be deemed to be a reference to Borrower named herein and any other Person joined as a borrower hereunder at any time; (e) "applicable law" shall be deemed to include Healthcare Laws to the extent applicable in a particular context; (f) "including" and "include" shall be understood to mean "including, without limitation," regardless of whether the "without limitation" is included in some instances and not in others (and, for purposes of each Loan Document, the parties agree that the rule of *ejusdem generis* shall not be applicable to limit a general statement, which is followed by or referable to an enumeration of specific matters to matters similar to the matters specifically mentioned); or (g) the "discretion" of Lender shall mean the sole and absolute discretion of Lender, unless otherwise specified. A Default or an Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing by Lender pursuant to this Agreement or, in the case of a Default, is cured within any period of cure expressly provided in this Agreement. An Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by Lender. Whenever the phrase "to Borrower's knowledge" or words of similar import relating to the knowledge or the awareness of Borrower are used in this Agreement or other Loan Documents, such phrase shall mean and refer to (i) the actual knowledge of a Key Employee of Borrower or (ii) the knowledge that a Key Employee of Borrower would have obtained after reasonable inquiry into such matters.

**2. THE CREDIT FACILITY.**

2.1. The Commitment. Subject to the terms and conditions of this Agreement, Lender agrees to make Advances to Borrower from time to time during the Loan Term; provided that, immediately after each Advance is made, the aggregate principal amount of outstanding Advances shall not exceed the Commitment; provided further that each Advance shall be in the amount of $500,000 or any larger multiple of $500,000. Lender shall have no obligation to make any Advance if doing so would, after giving effect thereto, cause the Advances made to exceed the Commitment. Within the foregoing limits, Borrower may borrow Advances under this Section, repay or prepay Advances and reborrow any principal amounts under the Commitment at any time before the Termination Date. Borrower shall use the proceeds of the Advances only for its working capital, general corporate purposes, development of Borrower's proprietary exchangeable heart valve system, closing costs in respect of Lender's counsel's fees up to $25,000, closing costs in respect of the Equity Raise up to $50,000, and other fees and expenses payable by Borrower pursuant to Section 10.3(a) hereof; provided that in no event shall proceeds of the Advances be used to finance (whether directly or indirectly) any Permitted Acquisitions.

2.2. The Notes.

(a) Closing Note. On the Closing Date, Borrower shall execute and deliver to Lender the Closing Note, which Closing Note, together with Lender's records, shall evidence the Advances and interest accruing thereon.

(b) PIK Notes. Subject to the terms and conditions herein contained herein, on each Interest Payment Date, in the event Borrower elects to pay a portion of the interest due on the Notes in kind pursuant to Section 2.3(a), then Borrower will issue to Lender a PIK Note on such date, which PIK Note shall (i) be in the original principal amount of the PIK Amount then due on such date and (ii) be in the form attached hereto as Exhibit A-2 hereto and appropriately completed in conformity herewith. The failure of Borrower to execute a PIK Note shall not discharge the obligation of Borrower to pay the principal and interest due on the Notes.

2.3. Interest.

(a) Agreement to Pay Interest. Borrower shall pay interest on all unpaid principal amounts of the Notes from the respective date each Advance is made and the date of each PIK Note, as applicable, until the Loan is paid in full (whether at stated maturity, upon acceleration, or otherwise), at the rate of interest set forth herein below on each Interest Payment Date and on the Termination Date or, if applicable, the Term-Out Maturity Date. On each Interest Payment Date, interest on the principal amount of the Notes that shall have accrued and remain unpaid as of such date (for any such date, a "PIK Amount") shall be paid by Borrower on such date either in cash or by the issuance of a PIK Note.

(b) Interest Rate: The Notes shall bear interest at a rate per annum equal to eight percent (8.00%).

(c) All interest on the Loan and on all other Obligations shall be calculated on the presumed basis of a year of 360 days, for the actual number of days elapsed.

(d) Default Rate. At Lender's option, during the existence of any Event of Default, the principal amount of all Obligations shall bear interest at the Default Rate. In any event, the Default Rate shall automatically and without notice to Borrower apply from the time the Obligations have become due and payable under Section 9.2 (whether because of Lender's exercising its right to accelerate the Obligations under Section 9.2 or because the Obligations have automatically become due and payable under Section 9.2) until the Obligations or any judgment thereon are paid in full.

2.4. [Reserved].

2.5. Requests for Borrowings.

(a) Making Requests for New Advances. Each request for the making of a new Advance shall be in writing, and Borrower shall submit a Notice of Borrowing therefor. Each request shall specify (i) the date for the making of the applicable Advance, which date must be a Business Day; (ii) the principal amount of the applicable Advance to be made; (iii) lawful instructions for the disbursement of the proceeds of such Advance; and (iv) such other information Lender may require from time to time.

(b) Timing and Acceptance of Requests. Requests made under this Section 2.5 are irrevocable. Requests under this Section 2.5 which Lender receives after 11:00 a.m. (Atlanta, Georgia, time) shall be deemed received on the next Business Day. Lender's acceptance of a request for the making of a new Advance under this Section 2.5 shall be indicated by its making the Advance requested. Lender shall make such Advances in immediately available funds on the date that is three (3) Business Days after it receives or is deemed to have received the request therefor.

2.6. [Reserved].

2.7. Repayment of Loan.

(a) Repayment of Obligations Generally. Borrower shall pay all outstanding principal amounts and accrued interest under the Notes in accordance with the terms of the Notes and this Agreement.

(b) Final Repayment of Loan.

(i) All outstanding principal of the Loan shall be due and payable on the Termination Date, or if applicable, the Term-Out Maturity Date.

(ii) Interest accrued on the Loan shall be due and payable, in arrears, on the, or if applicable, the Term-Out Maturity Date.

(iii) Upon the occurrence of an Event of Default, Borrower shall thereafter (unless and until otherwise notified by Lender) promptly repay the principal amount of the Loan.

(c) Optional Prepayments of Loan. From time to time, Borrower may prepay the principal amount of the Loan, in whole or in part, on one Business Days' written notice. Each such notice shall be irrevocable and must be in writing. Each prepayment shall be in a minimum amount of $100,000. Lender shall apply each prepayment on the Loan first to accrued but unpaid interest thereon, second to the PIK Notes, and then to installments of principal in such order as Lender shall determine in its sole discretion.

(e) Mandatory Prepayments of Loan. Borrower shall prepay the principal balance of the Loan promptly upon (i) a Change in Control or (ii) receipt of, and in an amount equal to, the Net Proceeds in excess of $100,000 received with respect to (A) any real property or Equipment, except to the extent otherwise permitted under Section 6.3(b) or Section 7.12(d), and (B) any issuance of Debt of Borrower or any of its Subsidiaries, other than Debt permitted by and set forth in Section 7.1(a) and

7.1(d) hereof. Nothing in this subsection constitutes Lender's consent to any disposition of any Equipment or real property or issuance of Debt. Lender shall apply any payments made under this subsection to any accrued interest on the Loan and then to principal of the Loan or in such other order as Lender shall determine in its sole discretion.

2.8. Additional Payment Provisions. Borrower shall pay Lender the amount owing in respect of any Obligations under the Loan Documents on the terms set forth in the Loan Documents, or, if no date of payment is otherwise specified in the Loan Documents, **ON DEMAND**.

(a) Time and Location of Payment. Borrower shall make each payment of principal of and interest and other Obligations which are due and payable not later than 12:00 noon (Atlanta, Georgia, time) on the date due, without set-off, counterclaim, or other deduction, in immediately available funds to Lender at its address referred to in Section 10.4. If any payment of any Obligations shall be due on a day which is not a Business Day, such payment shall be due and payable the next Business Day, and interest shall accrue during such time.

2.9. Statement of Account. If Lender provides Borrower with a statement of account on a periodic basis, each such statement will be binding on Borrower unless, within 45 days of its receipt, Borrower objects in writing and with specificity to such statement.

2.10. Early Termination by Borrower. Borrower may terminate this Agreement before the Stated Termination Date, in whole but not in part, by giving Lender 10 days prior written notice, (a) on any date after December 31, 2012 or (b) if during the prior 30 days, (i) Lender has refused to make an Advance on the basis that it deems itself insecure under Section 4.2(f) or (ii) Lender was unable to fund a requested Advance otherwise meeting the requirements of Section 4.2; provided, however, that no termination by Borrower shall be effective until Lender shall have received indefeasible payment in full of all Obligations.

2.11. Term-Out Option by Lender. At any time after December 31, 2015, Lender may terminate its Commitment without cause, provided that it shall have given Borrower 30 days' prior notice of such Termination Date under this Section 2.11. Upon such, the Loan shall become a term loan, which shall be due and payable in full on the date that is one year after such Termination Date (the "Term-Out Maturity Date"); it being understood that after such Termination Date, Borrower may no longer request, and Lender is no longer obligated to make, new Advances and Borrower shall no longer have the option to issue PIK Notes in lieu of cash payment for accrued interest.

If Lender exercises its option to term-out under this Section, the Loan shall be considered a term loan as of the specified Termination Date, which shall be due and payable in full on the Term-Out Maturity Date and interest shall continue to accrue on the Loan in accordance with the terms of Section 2.3. For avoidance of doubt, if Lender exercises its term-out rights under this Section, all Obligations shall be due and payable on the Term-Out Maturity Date.

**3. SECURITY AGREEMENT.**

3.1. Security Interest.

(a) As security for the full and final payment and performance of the Obligations, Borrower hereby grants to Lender (for itself and its Affiliates) a continuing security interest in and to all right, title, and interest of Borrower in and to the Collateral, whether now owned or hereafter acquired by Borrower.

(b) Except as expressly required by the Security Agreements or applicable law, Lender shall have no obligation to (i) exercise any degree of care in connection with any Collateral in its possession or (ii) take any steps necessary to preserve any rights in the Collateral or to preserve any rights in the Collateral against senior or prior parties (which steps Borrower agrees to take). In any case, Lender shall be deemed to have exercised reasonable care of the Collateral if Lender takes such steps for the care and preservation of the Collateral or rights therein as Borrower reasonably requests Lender to take; provided that Lender's omission to take any action not requested by Borrower shall not be deemed a failure to exercise reasonable care. Lender's segregation or specific allocation of specified items of Collateral against any of Borrower's liabilities shall not waive or affect any Lien against other items of Collateral or any of Lender's options, powers, or rights under this Agreement or otherwise arising.

(c) Lender may at any time after the occurrence and during the continuation of an Event of Default, with or without notice to Borrower, (i) transfer any of the Collateral into the name of Lender or the name of Lender's nominee, (ii) notify any Account Debtor or other obligor with respect to any of the Collateral to make payment of any amounts due or to become due thereon directly to Lender, and (iii) receive and direct the disposition of any proceeds of any Collateral. All proceeds of Collateral shall be applied first to interest, then to principal, or in whatever order Lender shall determine.

(d) Any term or provision of this Agreement or the other Loan Documents to the contrary notwithstanding, (i) no Account, Instrument, Chattel Paper, or other obligation or property of any kind due from, owed by, or belonging to, a Sanctioned Person or (ii) any lease under which the lessee is a Sanctioned Person shall be Collateral or shall be credited toward the payment of the Obligations.

(e) Unless otherwise expressly provided in a separate Security Document, the Collateral shall not include more than 66-2/3% of any voting Equity Interests (as contemplated in Treas. Reg. Section 1.956-2(c)(2)) issued to Borrower by any "controlled foreign corporation" (as such term is defined in Section 957 of the Internal Revenue Code).

3.2. Financing Statements; Fixture Filings; Power of Attorney. Borrower authorizes Lender to file any financing statements (and other similar filings or public records or notices relating to the perfection of Liens), fixture filings, and amendments thereto relating to the Collateral which Lender deems appropriate, in form and substance required by Lender, and to (a) describe the Collateral thereon (i) as "all personal property of the debtor," "all assets," or words of similar effect, if appropriate and permitted by applicable law, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the UCC or any other applicable law, or (ii) by specific collateral category and (b) include therein all other information which is required by Article 9 of the UCC or other applicable law with respect to the preparation or filing of a financing statement (or other similar filings or public records or notices relating to the perfection of Liens), fixture filing, or amendment. Borrower appoints Lender as its attorney-in-fact to perform all acts which Lender deems appropriate to perfect and to continue perfection of the Lien granted to Lender under any Security Agreement, including, without limitation, (x) the filing of financing statements (and other similar filings or public records or notices relating to the perfection of Liens), fixture filings, and amendments, (y) at any time that an Event of Default exists, the execution in Borrower's name of any agreements providing for Control over any applicable Collateral, and (z) at any time that Event of Default exists, the endorsement, presentation, and collection on behalf of Borrower and in Borrower's name of any Items or other documents necessary or desirable to collect any amounts which Borrower may be owed, such power of attorney being coupled with an interest and therefore irrevocable. Borrower grants Lender a non-exclusive license and right to use at any time that an Event of Default exists, without royalty or other charge, Borrower's intellectual

and other property (including, without limitation, any licensed intellectual property, unless prohibited by the enforceable terms of such license) for purposes of advertising any Collateral for sale, collecting any Accounts, disposing of or liquidating any Collateral, settling claims, or otherwise exercising any of its rights and remedies under the Loan Documents (including, without limitation, labels, patents, copyrights, trade secrets, trade names, trademarks, service marks, product line names, advertising materials, and any other property of a similar nature). Borrower's rights under all licenses and all franchise agreements shall inure to Lender's benefit. Borrower shall be liable for any and all reasonable and actual expense incurred in connection with Lender's exercising its rights under this Section 3.2.

3.3. Entry. Borrower irrevocably consents to Lender or its agents entering upon any premises for the purposes of either (a) inspecting any Collateral, when a Default or Event of Default exists, or (b) taking possession of any Collateral, without breach of the peace, at any time that an Event of Default exists. Borrower waives, as to Lender and its agents, any now existing or hereafter arising claim based upon trespass or any similar cause of action for entering upon any premises where Collateral may be located.

3.4. Other Rights. Without limiting Borrower's obligations under the Loan Documents, Borrower authorizes Lender from time to time (a) to (i) exchange, enforce, or release Collateral or any part thereof, and (ii) release or substitute any endorser or any party who has granted Lender any security interest in any property as security for the payment of the Obligations or any part thereof or any party in any way obligated to pay the Obligations or any part thereof, and (b) during the existence of any Event of Default, to direct the manner of the disposition of the Collateral and the enforcement of any endorsements or other security or Supporting Obligations relating to the Obligations or any part thereof as Lender in its sole and absolute discretion may determine.

3.5. Accounts. After the occurrence and during the continuation of any Event of Default, Lender may contact any Account Debtor (a) to ensure such Account Debtor is directing payments on Borrower's Accounts to a lockbox, (b) to direct such Account Debtor to make payment directly to Lender, a lockbox, and (c) to notify such Account Debtor of the existence of Lender's Liens under the Security Agreements.

3.6. Waiver of Marshaling. Borrower hereby waives any right it may have to require marshaling of its assets.

3.7. Control; Further Assurances. Borrower will, at its expense and upon Lender's request, cooperate with Lender in (a) obtaining Control of, or Control agreements with respect to, Collateral for which Control or a Control agreement is required for perfection of Lender's security interest under the UCC and (b) perfecting Lender's Lien in the Collateral, including but not limited to (i) making any filings and taking steps to perfect Lender's security interest in any Collateral that is subject to the jurisdiction of a foreign county, including but not limited to Patents and Trademarks (as each is defined in the IP Security Agreement), and (ii) obtaining Third Party Agreements as to the consent of any licensor or licensee (other than The Cleveland Clinic Foundation and Regents of the University of Colorado) to Lender's security interest in any Patents, Trademarks or other Collateral described in this Agreement or the IP Security Agreement.

**4. CONDITIONS PRECEDENT TO EXTENSIONS OF CREDIT.**

4.1. Conditions Precedent to Initial Advance. In addition to any other requirement set forth in this Agreement, Lender shall not be required to fund any Advance or make any other extensions of credit hereunder unless and until the following conditions shall have been satisfied, in the sole opinion of Lender and its counsel:

(a) Execution and Delivery of Documents. Borrower and each other party to any Loan Document, as applicable, shall have executed and delivered each of the following documents, each of which shall be in form and substance satisfactory to Lender:

(i) This Agreement;

(ii) The Closing Note;

(iii) The IP Security Agreement;

(iv) [Reserved];

(v) All deposit account control agreements, securities account control agreements, and commodities account control agreements required by Lender;

(vi) [Reserved];

(vii) [Reserved];

(viii) A complete and final payoff letter from any Lender whose outstanding Debt is to be paid in full with the proceeds of the initial Advance;

(ix) Closing and Incumbency Certificate for Borrower which shall include, either directly or by incorporated attachments, (A) certifications as to the incumbency of Borrower's officers, together with specimen signatures of those of those officers who will have the authority to execute documents on behalf of Borrower; (B) true and complete copies of (1) Borrower's articles or certificate of incorporation, organization, or formation; (2) Borrower's bylaws, operating agreement, partnership agreement or other constitutional documents; and (3) resolutions of the appropriate governing body or board authorizing the transaction contemplated herein; and (C) certifications as to such other matters as Lender may require;

(x) The legal opinion of Borrower's legal counsel addressed to Lender, which is reasonably satisfactory in both form and substance to Lender in Lender's sole discretion;

(xi) The original Life Insurance Policy and fully executed collateral assignment thereof, in form and substance satisfactory to Lender and acknowledged in writing by the issuer of the Life Insurance Policy;

(xii) the First Rights Agreement; and

(xiii) All additional opinions, documents, certificates, and other assurances that Lender or its counsel may reasonably require.

(b) Supporting Documents and Other Conditions. Borrower shall cause to be delivered to Lender the following documents (each of which must be in form and substance satisfactory to Lender) and shall satisfy the following conditions:

(i) Good standing certificates (or certificates of similar import and substance) for Borrower from the state or other jurisdiction in which Borrower was incorporated, organized, or formed and from each state or other jurisdiction in which Borrower is authorized to do business, each of which shall be certified by the appropriate official of each such jurisdiction;

(ii) UCC searches and other Lien searches showing no existing security interests in or Liens on the Collateral (other than Permitted Liens acceptable to Lender);

(iii) Certificates of, evidence of, copies of all policies of, and other documents regarding the insurance required by Section 6.3, together with a lender's loss payable endorsement as required by Section 6.3;

(iv) UCC financing statements (and other similar filings or public records or notices relating to the perfection of Liens) and, if applicable, certificates of title covering the Collateral shall duly have been recorded or filed in the manner and places required by law to establish, preserve, protect, and perfect the interests and rights created or intended to be created by the Security Agreements, and all taxes, fees, and other charges in connection with the execution, delivery, and filing of the Security Agreements and the financing statements (and any other similar filings or public records or notices relating to the perfection of Liens) shall have been paid;

(v) All collateral and field exams required by Lender shall have been completed;

(vi) [Reserved];

(vii) Satisfactory evidence of payment of all fees due and reimbursement of all costs incurred by Lender, and evidence of payment to other parties of all fees or costs which Borrower is required under the Loan Documents to pay by the date of the initial Loan;

(viii) There shall be no litigation in which Borrower is a party defendant, which Lender determines may have a Material Adverse Effect; and

(ix) Lender shall have received Borrower's financial statements for the Fiscal Year ending on or about December 31, 2010 and for the Fiscal Quarter ending on or about March 31, 2011, together with such other financial reports and information concerning such Persons as Lender shall request.

4.2. Conditions Precedent to Each Advance. In addition to any other requirements set forth in this Agreement, Lender shall not be required to fund any Advance (including those made on the Closing Date) unless and until each of the following conditions shall have been satisfied, in Lender's sole opinion, and each request for an Advance shall be deemed to be a representation that all such conditions have been satisfied:

(a) Notice of Borrowing. Borrower shall have delivered to Lender a Notice of Borrowing, together with, in each case, such other information Lender may request;

(b) No Default. No Default or Event of Default shall have occurred and be continuing or would result from the making or issuance of the requested Advance;

(c) Correctness of Representations. All representations and warranties made to Lender by Borrower in any Loan Document or otherwise in writing shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of date of the requested Advance;

(d) No Material Adverse Effect. There shall have been no change which could have a Material Adverse Effect on Borrower since the date of the most recent financial statements of such Person delivered to Lender from time to time;

(e) Further Assurances. Borrower shall have delivered such further documentation or assurances as Lender may reasonably require; and

(f) No Deemed Insecurity. Lender shall not deem itself insecure with Borrower.

**5. REPRESENTATIONS AND WARRANTIES.**

To induce Lender to enter into this Agreement and to make the Advances or extend credit as provided for herein, Borrower makes the following representations and warranties, all of which shall survive the execution and delivery of the Loan Documents. Unless otherwise specified, such representations and warranties shall be deemed made as of the date hereof and as of the date of each request for an Advance or extension of credit hereunder:

5.1. Valid Existence and Power. Borrower is a corporation, limited liability company, or limited partnership, as applicable, duly incorporated, organized, or formed, validly existing, and in good standing under the laws of Delaware, the jurisdiction of its incorporation, organization, or formation and is duly qualified or licensed to transact business in all places where the failure to be so qualified could reasonably be likely to have a Material Adverse Effect. Each of Borrower and each other Person which is a party to any Loan Document (other than Lender) has the power to make and perform the Loan Documents executed by it and all Loan Documents will constitute the legal, valid, and binding obligations of such Person, enforceable in accordance with their respective terms, subject only to bankruptcy and similar laws affecting creditors' rights generally.

5.2. Authority. The execution, delivery, and performance thereof by Borrower and each other Person (other than Lender) executing any Loan Document have been duly authorized by all necessary actions of such Person, and do not and will not violate any provision of law or regulation, or any writ, order, or decree of any Governmental Entity or any provision of the governing instruments of such Person, and do not and will not, with the passage of time or the giving of notice, result in a breach of, or constitute a default or require any consent under, or result in the creation of any Lien upon any property or assets of such Person pursuant to, any law, regulation, instrument, or agreement to which any such Person is a party or by which any such Person or its respective properties may be subject, bound, or affected.

5.3. Financial Condition. Other than as disclosed in financial statements delivered to Lender on or before the Closing Date or on Schedule 5.3, attached hereto and made a part hereof, Borrower has no material direct or contingent obligations or liabilities or any material unrealized or anticipated losses from any commitments of such Person. As of the Closing Date, all material operating and capital leases under which Borrower is lessee are disclosed in the financial statements delivered to Lender on or before the Closing Date or on Schedule 5.3. All financial statements from time to time delivered to Lender by

Borrower shall have been prepared in accordance with GAAP and fairly present the financial condition of such Person as of the date thereof. Since the date of the most recent financial statements delivered to Lender, no event has occurred that has resulted in or could reasonably be expected to result in a Material Adverse Effect. Borrower is Solvent and, after consummation of the transactions set forth in this Agreement and the other Loan Documents, will be Solvent.

5.4. Litigation. Except as disclosed on Schedule 5.4, attached hereto and made a part hereof, there are no suits, claims, investigations or proceedings pending or, to Borrower's knowledge, threatened by or before any Governmental Entity against or affecting Borrower, any Key Employee, or its assets, which if adversely determined could reasonably be expected to have a Material Adverse Effect.

5.5. Agreements, Etc. Borrower is not a party to any agreement or instrument or subject to any order or decree of any Governmental Entity or any charter or other corporate restriction, materially adversely affecting its business, assets, operations, or condition (financial or otherwise), nor is Borrower in default in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any Material Agreement to which it is a party, or any law, regulation, decree, order, or the like to which it is subject.

5.6. Authorizations. All authorizations, consents, permits, approvals, and licenses required under applicable law for the ownership or operation of the property owned or operated by Borrower or for the conduct of any business in which it is engaged have been duly issued and are in full force and effect, and it is not in default, nor has any event occurred which with the passage of time or the giving of notice, or both, would constitute a default, under any of the terms or provisions of any part thereof, or under any order, decree, ruling, regulation, closing agreement or other decision or instrument of any Governmental Entity having jurisdiction over such Person, which default would have a Material Adverse Effect on such Person. Except as noted herein, no approval, consent or authorization of, or filing or registration with, any governmental commission, bureau or other regulatory authority or agency is required with respect to the execution, delivery or performance of any Loan Document.

5.7. Title. Borrower has good title to all of the assets shown in its financial statements free and clear of all Liens, except Permitted Liens. Borrower alone has full ownership rights in all Collateral.

5.8. Collateral.

(a) The security interests granted to Lender herein and pursuant to any other Security Agreement (i) constitute and, as to subsequently acquired property included in the Collateral covered by the Security Agreement, will constitute, security interests under the UCC entitled to all of the rights, benefits, and, if perfected, priorities provided by the UCC and (ii) are and, as to such subsequently acquired Collateral, will be fully perfected, superior, and prior to the rights of all third persons, now existing or hereafter arising, upon the filing of a UCC-1 financing statement (with respect to all Collateral which may be perfected by the filing of a UCC-1 financing statement) other than Permitted Liens. All of the Collateral is intended for use solely in Borrower's business.

(b) Schedule 5.8(b) sets forth all of Borrower's insurance policies in effect as of the Closing Date and sets forth as to each such policy (as applicable) the type of insurance provided by such policy, the underwriter thereof, the maximum coverage provided thereunder and the deductible applicable thereto. Each of such policies is currently in effect and all premiums thereon have been paid to date.

(c) All patents, patent applications, copyrights, servicemarks, trademarks, tradenames, trade dresses, brand names, and domain names which are material to the operation of Borrower's business currently conducted are shown in Schedule 5.8(c) hereto.

5.9. Jurisdiction of Organization; Location. The jurisdiction in which Borrower is organized, the chief executive office of Borrower, the office where Borrower's books and records are located, all of Borrower's other places of business, and any other places where any Collateral (other than Inventory in-transit) is kept, are all correctly and completely indicated on Schedule 5.9 hereto. No Collateral is attached or affixed to any real property so as to be classified as a Fixture unless Lender has otherwise agreed in writing. Borrower has not changed it legal status or the jurisdiction in which it is organized or moved its chief executive office within the 5 years preceding the Closing Date.

5.10. Taxes. Borrower has filed all Federal and state income and other tax returns which are required to be filed, and have paid all taxes as shown on said returns and all taxes, including withholding, FICA, and ad valorem taxes, shown on all assessments received by it to the extent that such taxes have become due. Borrower, is not subject to any Federal, state, or local tax Liens nor has Borrower received any notice of deficiency or other official notice to pay any taxes. Borrower has paid all sales and excise taxes payable by it.

5.11. Labor Law Matters.

(a) No goods or services have been or will be produced by Borrower in violation of any applicable labor laws or regulations or any collective bargaining agreement or other labor agreements or in violation of any minimum wage, wage-and-hour or other similar laws or regulations.

(b) Except as set forth on Schedule 5.11 hereto, no Borrower is not party to or bound by any collective bargaining agreement, management agreement, or consulting agreement. There are no material grievances, disputes, or controversies with any union or other organization of any Borrower's or Subsidiary's employees, or, to Borrower's knowledge, any asserted or threatened strikes, work stoppages, or demands for collective bargaining.

5.12. Real Property. Borrower does not own any real property, whether by virtue of fee simple title or ground lease.

5.13. Judgment Liens. Neither Borrower nor any of its assets is subject to any unpaid judgments (whether or not stayed) or any judgment Liens in any jurisdiction, in each case, (a) which were not disclosed to Lender in writing on or before the Closing Date or (b) of which Borrower has not given notice to Lender in accordance with Section 6.4.

5.14. Investment Property, Instruments, and Chattel Paper. Borrower has no Investment Property, Instruments or Chattel Paper other than as set forth on Schedule 5.14 hereto. Schedule 5.14 accurately sets forth each item of Investment Property owned by Borrower (including, where applicable, the account number and the name and address of each securities and commodity intermediary where such Investment Property may be maintained and, in the case of securities, the name and address of the securities issuer, the type of equity interest evidenced by such securities, whether such securities are certificated or uncertificated, and, if certificated, the certificate number and number of shares or other equity interests evidenced by such certificates). For purposes of clarification, the term "Investment Property" includes, but is not limited to, stock or shares and limited partner, general partner, or limited liability company interests in any of Borrower's direct subsidiaries. Schedule 5.14 also accurately sets forth (a) all promissory notes, evidences of indebtedness, and other instruments in favor of Borrower (excluding checks and other drafts received in the ordinary course of Borrower's business for immediate

collection); and (b) all leases of equipment by Borrower to any other Person, security agreements in favor of Borrower or to which Borrower is the secured party, and other chattel paper owned by Borrower. Borrower has no Subsidiaries.

5.15. Deposit Accounts. Borrower has no Deposit Accounts other than (a) on the Closing Date, those listed in Schedule 5.15 hereto and (b) after the Closing Date, those permitted by Section 7.14.

5.16. Environmental. Except as disclosed on Schedule 5.16, attached hereto and made a part hereof, and except for ordinary and customary amounts of solvents, cleaners and similar materials used in the ordinary course of Borrower's business and in compliance with all Environmental Laws, none of Borrower or, to Borrower's knowledge, any current or previous owner or operator of any real property currently owned or operated by Borrower has generated, stored, or disposed of any Regulated Material on any portion of such property, or transferred any Regulated Material from such property to any other location in violation of any applicable Environmental Laws. Except as disclosed on Schedule 5.16, no Person (other than Borrower) has generated, stored or disposed of any Regulated Material on any portion of the real property currently owned or operated by Borrower, and, except for ordinary and customary amounts of solvents, cleaners and similar materials used in the ordinary course of Borrower's business and in compliance with all Environmental Laws, no Regulated Material is now located on such property. Except as disclosed on Schedule 5.16, Borrower is in compliance with all applicable Environmental Laws and has not been notified of any action, suit, proceeding, or investigation which calls into question compliance by Borrower with any Environmental Laws or which seeks to suspend, revoke or terminate any license, permit, or approval necessary for the generation, handling, storage, treatment, or disposal of any Regulated Material.

5.17. ERISA. If requested by Lender, Borrower has furnished to Lender true and complete copies of the latest annual report required to be filed pursuant to Section 104 of ERISA, with respect to each Plan, and no ERISA Termination Event with respect to any Plan has occurred and is continuing. Borrower has no unfunded liability with respect to any such Plan.

5.18. Investment Company Act. Borrower is not an "investment company" as defined in the Investment Company Act of 1940, as amended.

5.19. Material Agreements. Schedule 5.19 hereto accurately sets forth a list of all Material Agreements, along with the effective date of such agreements, the name and address of all other parties to such contracts, and a brief description of the subject matter of such contracts. Promptly upon request, Borrower will provide Lender a copy of each such Material Agreement.

5.20. Sanctioned Persons; Sanctioned Countries. Borrower (a) is not a Sanctioned Person and (b) does not do business in a Sanctioned Country or with a Sanctioned Person in violation of the economic sanctions of the United States administered by OFAC. Borrower will not use the proceeds of any extension of credit hereunder to fund any operation in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Country.

5.21. Compliance with Covenants; No Default. Borrower is, and upon the making of the initial extensions of credit on the Closing Date will be, in compliance with all of the covenants hereof. No Default is in existence, and the execution, delivery, and performance of the Loan Documents and the making of the initial extensions of credit on the Closing Date will not cause a Default.

5.22. Full Disclosure. Borrower has disclosed to Lender each fact and circumstance which Borrower knows and which, by itself or together with any other fact disclosed or undisclosed, could reasonably be expected to have Material Adverse Effect. No Loan Document or any other agreement,

document, certificate, or statement delivered by Borrower to Lender contains any untrue statement of a material fact or omits to state any material fact which is known or which should be known by such Person necessary to keep the other statements from being misleading.

5.23. Key Employees. Each Key Employee that continues to be employed by Borrower is working full-time in his or her activities for Borrower and has no other professional activities, contractual obligations or judgments which might materially interfere with or adversely affect the fulfillment of his or her full-time obligations to Borrower.

5.24. Operating and Capital Leases. Schedule 5.24, attached hereto and made a part hereof, sets forth (a) each operating and capital lease to which Borrower is a party as a lessee and which requires aggregate rentals of greater than $10,000 per year; (b) the name of the lessor, and (c) a summary of the payment terms thereof, and (d) a brief description of the property leased thereunder.

**6. AFFIRMATIVE COVENANTS OF BORROWER.**

Borrower covenants and agrees that from the date hereof until the full and final payment and performance of the Obligations and the termination of this Agreement, Borrower:

6.1. Use of Loan Proceeds. Shall use the proceeds of the Loan only in accordance with the uses permitted by Section 2.1.

6.2. Maintenance of Business and Properties. Shall at all times (a) (i) maintain, preserve, and protect all Collateral and the remainder of its property used or useful in the conduct of its business, (ii) keep the same in good repair, working order, and condition, and (iii) make, or cause to be made, all material, needful and proper repairs, renewals, replacements, betterments, and improvements thereto so that the business carried on in connection therewith may be conducted properly and in accordance with standards generally accepted in businesses of a similar type and size and (b) maintain and keep in full force and effect all licenses and permits necessary to the proper conduct of its business.

6.3. Insurance.

(a) Shall (i) maintain such liability insurance, workers' compensation insurance, business interruption insurance, and casualty insurance in amounts equal to the greater of (1) such amounts that may be required by law and (2) such amounts that are customary and usual for prudent businesses in its industry and (ii) insure and keep insured all Collateral and other properties with insurance companies reasonably acceptable to Lender. All property, casualty, and hazard insurance policies covering any Collateral shall be in amounts reasonably acceptable to Lender, shall name and directly insure Lender pursuant to one or more lender loss payable endorsements acceptable to Lender, and shall not be terminable except upon 30 days' written notice to Lender. All policies of liability insurance shall be in amounts acceptable to Lender and shall name Lender as an additional insured thereunder pursuant to one or more endorsements in form and substance satisfactory to Lender. On or before the Closing Date and thereafter on an annual basis (or at such other more frequent intervals as Lender may reasonably request from time to time), Borrower shall furnish Lender copies of all such policies (or summaries thereof, if requested by Lender) and evidence of insurance in the form of an Acord Form 27 with respect to casualty and property insurance and an Acord Form 25 with respect to liability insurance.

(b) If any of Borrower's real property or Equipment suffers a casualty or is condemned by a Governmental Entity (each, a "Loss"), all Net Proceeds of such Loss in excess of $100,000 shall be paid over to Lender for application to the Obligations, unless Lender otherwise agrees

in writing. If Lender does otherwise agree in writing, Borrower may apply the Net Proceeds of any such casualty or condemnation to the repair, restoration, or replacement of the assets suffering such Loss, so long as (i) such repair, restoration, or replacement is completed within 180 days after the date of such Loss (or such longer period of time agreed to in writing by Lender), (ii) while such repair, restoration, or replacement is underway, all of such Net Proceeds are on deposit with Lender in a separate Deposit Account over which Lender has exclusive Control, and (iii) such Loss did not cause an Event of Default. If an Event of Default occurs pursuant to which Lender exercises its rights to accelerate the Obligations as provided in Section 9.2 or the Obligations are automatically accelerated or such repair, restoration, or replacement is not completed within 180 days of the date of such Loss (or such longer period of time agreed to in writing by Lender), Lender may immediately and without notice to any Person apply all of such Net Proceeds to the Obligations, regardless of any other prior agreement regarding the disposition of such Net Proceeds.

(c) Shall pay all premiums when due and perform all other acts required under the Life Insurance Policy in order to maintain such Life Insurance Policy in full force and effect at all times.

6.4. Certain Notices. Shall provide Lender immediate notice of (a) the occurrence of a Default and what action (if any) Borrower is taking to correct the same; (b) any litigation involving an amount at issue in excess of $100,000 or changes in existing litigation or any judgment against it or its assets in excess of $100,000; (c) any damage or loss to property in excess of $100,000; (d) any notice from taxing authorities as to claimed deficiencies or any tax lien or any notice relating to alleged ERISA violations; (e) any Reportable Event, as defined in ERISA; (f) any development (alone or with other factors) that has or could reasonably be expected to have a Material Adverse Effect; and (g) any acceleration of the maturity of any Debt in excess of $50,000 or the occurrence or existence of any event or circumstances which gives the holder of such Debt the right to accelerate.

6.5. Inspections of Books and Records and Field Examinations; Appraisals; Physical Inventories. Shall permit Lender and its agents to conduct inspections, verifications (of accounts and otherwise), appraisals, and field examinations of the Collateral and such Person's other property and books and records during normal business hours at such times and with such frequency as Lender may request from time to time, with (a) when no Default or Event of Default is in existence, reasonable notice thereof and (b) when any Default or Event of Default is in existence, no notice thereof. Borrower shall pay the cost of such inspections, verifications, appraisals, and field examinations when a Default or Event of Default shall exist.

6.6. Financial Information and Other Reports. Shall maintain books and records in accordance with GAAP and shall furnish to Lender the following periodic financial information:

(a) Monthly Statements: Within 15 days after the end of each calendar month, a consolidated balance sheet of Borrower and its Subsidiaries at the end of that period and a consolidated income statement and statement of cash flows for such period (and for the portion of the Fiscal Year ending with such period), together with all supporting schedules, setting forth in comparative form the figures for the same period of the preceding Fiscal Year. The foregoing statements and reports shall be certified by Borrower's chief financial officer as true and correct and fairly representing the financial condition of Borrower and its Subsidiaries and that such statements are prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(b) Quarterly Statements. Within 45 days after the end of each Fiscal Quarter, a consolidated balance sheet of Borrower and its Subsidiaries at the end of that period and a consolidated income statement and statement of cash flows for such period (and for the portion of the Fiscal Year ending with such period), together with all supporting schedules, setting forth in comparative form the

figures for the same period of the preceding Fiscal Year. The foregoing statements and reports shall be certified by Borrower's chief financial officer as true and correct and fairly representing the financial condition of Borrower and its Subsidiaries and that such statements are prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(c) Annual Statements. Within 120 days after the end of each Fiscal Year, a detailed audited financial report of Borrower and its Subsidiaries containing a consolidated balance sheet at the end of such period and a consolidated income statement and statement of cash flows for such period, setting forth in comparative form the figures for the preceding Fiscal Year, together with all supporting schedules and footnotes, and containing an unqualified audit opinion of independent certified public accountants acceptable to Lender that the financial statements were prepared in accordance with GAAP.

(d) Compliance and No Default Certificate. Together with each report required by subsections (b) and (c) above, a compliance certificate in the form of Exhibit C, attached hereto and made a part hereof, and a certificate of Borrower's president or chief financial officer certifying that no Default then exists or, if a Default exists, the nature and duration thereof and Borrower's intention with respect thereto. Borrower shall also cause Borrower's independent auditor (if applicable) to submit to Lender, together with its audit report, a statement that, in the course of conducting such audit, it discovered no circumstances which it believes would result in a Default or, if it discovered any such circumstances, the nature and duration thereof.

(e) Auditor's Management Letters. If available, together with the next quarterly financial reports required by subsection (b) above, copies of each report submitted to Borrower by independent public accountants in connection with any annual, interim, or special audit made by them of Borrower's books including, without limitation, each report submitted to Borrower concerning its accounting practices and systems and any final comment letter submitted by such accountants to management in connection with Borrower's annual audit.

(f) [Reserved].

(g) [Reserved].

(h) [Reserved].

(i) Projections. Beginning with Fiscal Year 2013, within 45 days following the commencement of each Fiscal Year, Projections for such Fiscal Year.

(j) Other Information. Such other information reasonably requested by Lender from time to time concerning the business, properties, or financial condition of Borrower and its Subsidiaries.

(k) Updated IP Security Agreement Schedules. Together with each of the quarterly financial reports required by subsection (b) above, a certificate of Borrower setting forth any changes to the schedules to the IP Security Agreement.

6.7. Maintenance of Existence and Rights. Shall preserve and maintain its legal existence, authorities to transact business, rights and franchises, trade names, patents, trademarks, and permits to the extent that the failure to do so in any instance would have a Material Adverse Effect.

6.8. Payment of Taxes, Etc. Shall pay before delinquent all of its Debts and taxes.

6.9. [Reserved].

6.10. Compliance; Hazardous Materials. Shall comply with all laws, regulations, ordinances, and other legal requirements, including, without limitation, ERISA, all securities laws, and all laws relating to hazardous materials and the environment. Unless approved in writing by Lender, neither Borrower nor any Subsidiary shall engage in the storage, manufacture, disposition, processing, handling, use, or transportation of Regulated Materials not in compliance with Environmental Laws or that is outside the ordinary course of such party's business. Borrower shall promptly report to Lender any notices of any violations of such laws or regulations received from any Governmental Entity, along with Borrower's proposed corrective action as to such violation.

6.11. Further Assurances. Shall (a) promptly execute and deliver to the Lender, or cause to be executed and delivered to the Lender, all such further documents, agreements, and instruments, and (b) take such further action, in each case in compliance with or for the accomplishment of the covenants and agreements of Borrower in this Agreement and the other Loan Documents, all as may be necessary or appropriate in connection herewith or therewith and as may be reasonably requested by Lender.

6.12. Covenants Regarding Collateral.

(a) Shall use the Collateral only in the ordinary course of its business and will not permit the Collateral to be used in violation of any applicable law or policy of insurance;

(b) Unless Lender shall have otherwise consented to in writing, shall defend the Collateral against all claims and demands of all Persons, except for Permitted Liens;

(c) Shall obtain and deliver to Lender such Third Party Agreements as Lender may reasonably request from time to time (with it being understood that the failure for whatever reason to obtain any such Third Party Agreements shall not in any way limit Lender's right to institute reserves in its sole and absolute discretion);

(d) Shall promptly deliver to Lender all Items, Instruments, Chattel Paper, Investment Property in the form of certificated securities, and, if requested by Lender, Documents which constitute Collateral, in each case appropriately indorsed to Lender's order;

(e) Shall not create any Electronic Chattel Paper without first granting Lender Control thereof pursuant to such measures as Lender shall request;

(f) Shall promptly notify Lender of any patents, trademarks, or copyrights to which Borrower or a Subsidiary acquires title or rights after the Closing Date and any license agreements entered into after the Closing Date by Borrower or any Subsidiary authorizing Borrower or such Subsidiary to use any third party's patents, trademarks, or copyrights;

(g) Shall give Lender at least 30 days written notice before using any trade, assumed, or fictitious name not already disclosed in Schedule 5.8(c) hereto or in the IP Security Agreement and shall use all trade, assumed, or fictitious names in accordance with all applicable laws;

(h) Shall promptly notify Lender of the existence of any Commercial Tort Claims which arise after the Closing Date and shall provide Lender with such information, and otherwise take such action with respect to such Commercial Tort Claims, as is reasonably necessary for Lender to perfect its security interest thereon;

(i) Within three Business Days after Lender's request made during the existence of an Event of Default, shall deliver to Lender the original certificates of title in its possession or similar title documents in its possession for all of such Person's owned vehicles and Equipment which are subject to certificate of title or similar statutes (as contemplated in Section 9-311 of the UCC) and take such further actions from time to time as Lender requests for purposes of perfecting Lender's security interest in and to such vehicles and Equipment; and

(j) Promptly upon request, shall provide Lender, to the extent applicable, (a) copies of all agreements and certificates evidencing Investment Property and all original certificated securities in respect thereof; (b) all promissory notes, evidences of indebtedness, and other instruments in favor of Borrower (excluding checks and other drafts received in the ordinary course of Borrower's business for immediate collection); and (c) all leases of equipment by Borrower to any other Person, security agreements in favor of Borrower or to which Borrower is the secured party, and other chattel paper owned by Borrower; provided, however, promptly upon request, Borrower will provide Lender, to the extent applicable, the originals of all of the foregoing.

6.13. Post–Closing Obligations.

(a) No later than December 31, 2011, Borrower shall deliver to Lender a fully executed Landlord Agreement, in form and substance satisfactory to Lender, from the owner/lessor of Borrower's leased business premises located at (a) 12635 Montview Blvd., Aurora, Colorado, 80045 or (b) if Borrower shall have relocated its chief executive office after the Closing Date, 6080 Greenwood Plaza Blvd., Unit B, Greenwood Village, Colorado 80301.

(b) No later than the date that is 60 days after the Closing Date, Borrower shall deliver or cause to be delivered to Lender (a) a deposit account control agreement in form and substance satisfactory to Lender fully executed by and among Lender, Borrower and KeyBank National Association or such other bank or other financial institution at which any deposit accounts or Investment Property accounts are held and (b) a legal opinion in form and substance acceptable to Lender from Borrower's counsel, opining to such matters as Lender may request in respect of such control agreement, including but not limited to the corporate authority for and enforceability of such control agreement and the creation and perfection of Lender's security interest in the accounts set forth therein.

(c) No later than the date that is 30 days after the Closing Date, Borrower shall deliver or cause to be delivered to Lender fully executed loss payee and additional insured endorsements as required by Section 6.3(a) hereof.

6.14. Most Favored Lender Status. Except in connection with the purchase or lease of equipment, Borrower will not enter into, amend or modify any document evidencing or governing Debt that contains, or is amended and modified to contain, one or more additional covenants or additional defaults that are more restrictive on Borrower than those contained herein, unless, in each case, Borrower contemporaneously executes an amendment to this Agreement, in form and substance satisfactory to Lender, to include such additional covenants or additional defaults herein; provided, that to the extent that Borrower shall enter into, assume or otherwise become bound by or obligated under such amendment or agreement containing one or more additional covenants or additional defaults without amending this Agreement to include such additional covenants or additional defaults, the terms of this Agreement shall nonetheless, without any further action on the part of Borrower or Lender, be deemed or amended automatically to include each additional covenant and each additional default contained in such amendment or agreement.

**7. NEGATIVE COVENANTS OF BORROWER.**

Borrower covenants and agrees that from the date hereof and until the full and final payment and performance of all Obligations and the termination of this Agreement, unless it shall have received prior written consent from Lender, Borrower:

7.1. Debt. Shall not create or permit to exist any Debt, including any guaranties or other contingent obligations, except the following ("Permitted Debt"):

(a) The Obligations;

(b) Endorsement of Items for collection in the ordinary course of business;

(c) Debts (other than in respect of Hedge Agreements) which are payable to suppliers and other trade creditors and were incurred in the ordinary course of business, on ordinary and customary trade terms;

(d) Purchase money Debt (which, for the avoidance of doubt, shall not include accounts payable or Debt in respect of Hedge Agreements) incurred to purchase Equipment; provided that the amount of such Debt shall not at any time (i) exceed the purchase price of the Equipment purchased or (ii) exceed $250,000 in aggregate principal amount at any time outstanding for Borrower and its Subsidiaries;

(e) Subordinated Debt in an aggregate principal amount at any time outstanding for Borrower and its Subsidiaries not to exceed $250,000;

(f) Debt listed in Schedule 7.1, attached hereto and made a part hereof, to the extent such Debt exists as of the Closing Date, is not in respect of Hedge Agreements, and is not otherwise permitted by this Section 7.1, together with any Debt (other than in respect of Hedge Agreements) incurred in any refinancing or renewal thereof (each, a "Refinancing"), so long as the principal amount of such Refinancing is not greater than the existing principal amount of such Debt, the effective, all-in rate of interest rate to such Refinancing (including any applicable margin or spread thereto) is no greater than the effective, all-in rate of interest applicable to such Debt, the principal amount of such Refinancing does not amortize more quickly than the amortization applicable to such Debt, the maturity date of such Refinancing is no sooner than 180 days after the date specified in clause (a) of the definition of "Termination Date," and the covenants, representations, warranties, and events of default related to such Refinancing are no more rigorous or onerous as to Borrower than those existing in connection with such Debt;

(g) [Reserved];

(h) Any Debt (other than in respect of Hedge Agreements) secured by a Lien of the type described in Subsections 7.2(i) or (j), the principal amount of which, together with the principal amount of Debt permitted pursuant to Section 7.1(d), shall not exceed $50,000.

7.2. Liens. Shall not create or permit or suffer to exist any Liens on any of its property except the following ("Permitted Liens"):

(a) Liens securing the Obligations;

(b) Liens for taxes, assessments, and charges or levies instituted or levied by any Governmental Entity (but not including any Lien imposed pursuant to ERISA or any Environmental Law) which are not yet due and payable;

(c) The claims of Third Parties arising out of operation of law so long as the obligations secured thereby are not past due;

(d) Liens existing in respect of deposits or pledges made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security, and similar laws;

(e) Judgment and other similar non-tax Liens arising in connection with court proceedings, but only to the extent and for so long as (i) the execution or enforcement of such Liens is and continues to be effectively stayed and bonded on appeal, and (ii) such Liens do not, in the aggregate, materially detract from the value of the assets of the Person whose assets are subject to such Lien or materially impair the use thereof in the operation of such Person's business;

(f) Liens securing purchase money Debt permitted under Section 7.1(d) incurred solely to purchase Equipment, but only to the extent such Liens attach only to the Equipment purchased and secure no more than the purchase price therefor;

(g) Liens in favor of a consignor of Goods consigned to Borrower (as consignee), but only to the extent such Lien arises on account of Section 9-103(d) of the UCC;

(h) Liens listed in Schedule 7.2, attached hereto and made a part hereof, to the extent such Liens exist as of the Closing Date and are not otherwise permitted by this Section 7.2;

(i) Liens existing on any specific fixed asset of any Person at the time such Person becomes a Subsidiary or is merged or consolidated with Borrower in connection with a Permitted Acquisition, so long as such Lien is not created in contemplation of such event; or

(j) Liens arising in connection with the Equity Raise.

7.3. Restricted Payments; Payments on Subordinated Debt.

(a) Shall not make any Restricted Payment; provided that, Borrower may purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of Borrower other than (i) redemptions of or dividends or distributions on the Series A Preferred Stock as expressly authorized by the Charter, (ii) dividends or other distributions payable on the Common Stock (as defined in the Charter) solely in the form of additional shares of Common Stock and (iii) repurchases of stock from former employees, officers, directors, consultants or other persons who performed services for Borrower or any Subsidiary in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof.

(b) Borrower may make regularly scheduled payments of principal and interest on Subordinated Debt, but only to the extent each such payment is expressly permitted under the terms of the subordination agreement related thereto.

7.4. Loans and Other Investments. With respect to any Person, shall not (a) make or permit to exist any advances or loans to such Person which, when aggregated with all outstanding advances and

loans of Borrower to all Persons at such time, would exceed $100,000, (b) guarantee or become contingently liable, directly or indirectly, in connection with the obligations, leases, Equity Interests, or dividends or distributions of such Person, (c) own, purchase, or make any commitment to purchase any Equity Interests, bonds, notes, debentures, or other securities of, or any interest in such Person, or (d) make any capital contributions to such Person (all of which are sometimes collectively referred to herein as "Investments"), except for (i) purchases of direct obligations of the Federal Government; (ii) deposits in commercial banks; (iii) commercial paper of any U.S. corporation having investment quality ratings then given by the Moody's Investors Services, Inc. or Standard & Poor's Corporation; (iv) existing investments in Subsidiaries; (v) endorsement of negotiable Instruments for collection in the ordinary course of business; (vi) advances to employees for business travel and other expenses incurred in the ordinary course of business which do not at any time exceed in the aggregate $50,000; and (vii) Permitted Acquisitions.

7.5. [Reserved].

7.6. Transactions with Affiliates. Shall not, in the ordinary course of business or otherwise, (a) directly or indirectly purchase, acquire, lease, or license any property from any Affiliate, (b) sell, transfer, lease, or license any property to any Affiliate, (c) pay any management, consulting, or similar fees to any Affiliate (it being understood that this limitation shall not affect compensation paid in the ordinary course of business to officers or employees who are Affiliates), or (d) otherwise deal with any Affiliate, other than (i) where such Affiliate is a Subsidiary, (ii) transactions described on Schedule 7.6, attached hereto and made a part hereof, and (iii) transactions on arms'-length terms which are no less favorable to Borrower or such Subsidiary than would exist if the parties thereto were not Affiliates and for which Lender has received prior notice.

7.7. No Change in Name, Offices, or Jurisdiction of Organization; Trade Names; Removal of Collateral. Shall not (a) change its legal name or the jurisdiction in which it is organized, (b) conduct business under any trade name, assumed name, or fictitious name which is not listed in on Schedule 5.8(c) hereto or in the IP Security Agreement, (c) unless it shall have given 30 days advance written notice thereof to Lender, change the location of its chief executive office or other office where books or records are kept, (d) locate its chief executive office or keep its books and records in any jurisdiction other than in a state within the United States of America or the District of Columbia, (e) amend, restate, or modify its Charter in any manner which would be contrary to the terms and conditions of this Agreement or the other Loan Documents or in any manner which could reasonably be expected to have a Material Adverse Effect, other than in respect of the Excluded Loans (as defined in the Charter as in effect on the date hereof without giving effect to any amendments to such definition), or (f) permit any Inventory or other tangible Collateral (other than Inventory in-transit) to be located at any location other than a Permitted Location.

7.8. No Sale, Leaseback. Shall not enter into any sale-and-leaseback or similar transaction.

7.9. Margin Stock. Shall not use any proceeds of the Loan to purchase or carry any margin stock (within the meaning of Regulation U of the Board of Governors of Federal Reserve System) or extend credit to others for the purpose of purchasing or carrying any margin stock.

7.10. Tangible Collateral. Shall not, except to the extent otherwise permitted herein or as otherwise permitted by Lender in writing, (a) allow any Collateral to be commingled with, or become an Accession to or part of, any property of any other Person or (b) allow any Collateral to become a Fixture.

7.11. Subsidiaries. Shall not, except to the extent consented to by Lender in writing (such consent not to be unreasonably withheld), (a) acquire or form any Subsidiary outside the U.S. except in

connection with Permitted Acquisitions, (b) cause or permit any Subsidiary to dissolve, voluntarily or involuntarily if such dissolution would have a Material Adverse Effect, or (c) permit any Subsidiary to issue any Equity Interests except to Borrower that would cause Borrower to own less than 51% of such Subsidiary after giving effect to such issuance.

7.12. Liquidation, Mergers, Consolidations, and Dispositions of Assets; Good Standing. Shall not (a) unless such transaction shall be a Permitted Merger, merge, reorganize, consolidate, or amalgamate with any Person; (b) liquidate, wind up its affairs or dissolve itself except in the case of Subsidiaries to the extent permitted pursuant to Section 7.11(b); (c) acquire by purchase, lease, or otherwise any of the assets of any Person, except for (1) Permitted Acquisitions and (2) the acquisition of inventory and equipment (to the extent not prohibited hereunder) in the ordinary course of business; (d) sell, transfer, lease, or otherwise dispose of any of its assets, except for the sale of Inventory in the ordinary course of business and the disposition of Equipment which, in the aggregate during any 12-month period, has a fair market or book value, whichever is more, of $250,000 or less or is worn-out or obsolete; provided that under no circumstances shall the Borrower transfer any assets directly or indirectly to a Subsidiary not incorporated or organized in the U.S.; (e) sell or dispose of any Equity Interests in any Subsidiary, whether in a single transaction or in a series of related transactions; (f) change its Federal Employer Identification Number; or (g) fail to remain in good standing and qualified to transact business as a foreign entity in any state or other jurisdiction in which it is required to be qualified to transact business as a foreign entity and in which the failure to do so could reasonably be expected to have a Material Adverse Effect.

7.13. [Reserved].

7.14. Deposit Accounts. Shall not open or maintain any Deposit Accounts except for (a) Deposit Accounts listed in Schedule 5.15; (b) Deposit Accounts which are not listed in Schedule 5.15 but which are subject to Lender's Control on terms satisfactory to Lender; and (d) such other Deposit Accounts as shall be necessary for payroll, petty cash, local trade payables, and other occasional needs of Borrower; provided that the aggregate balance of any and all Deposit Accounts which are not subject to Lender's Control on terms acceptable to Lender may not at any time exceed $10,000 without Lender's prior written consent.

**8. [RESERVED].**

**9. DEFAULT.**

9.1. Events of Default. Each of the following shall constitute an Event of Default:

(a) Borrower shall fail to pay when due any principal of or interest on the Notes, any fee or other amounts due to Lender hereunder or any other Loan Document, or (except as provided in (b) and (c) below) any other Obligations; or

(b) Borrower shall default on the performance of any agreement, covenant, or obligation contained in Section 6.1, 6.4, 6.5, 6.6, 6.12, 6.13, 6.14 or Section 7;

(c) [Reserved].

(d) Borrower or any other party to any Loan Document (other than Lender) shall default on the performance of any other agreement, covenant, or obligation contained in this Agreement or such Loan Document not provided for elsewhere in this Section 9 and the breach of such agreement, covenant, or obligation shall not have been cured to Lender's reasonable satisfaction within 30 days

after the sooner to occur of (i) any Senior Officer's receipt of notice of such breach from Lender or (ii) the date on which such failure or neglect first became known to any Senior Officer; provided, however, that such notice and opportunity to cure shall not apply in the case of any default on an agreement, covenant, or obligation which is not capable of being cured at all or within such 30-day period or which was a willful and knowing breach by Borrower or such other party; or

(e) Any representation or warranty made by Borrower or any other party to any Loan Document (other than Lender) in this Agreement or any other Loan Document, or in any certificate or report furnished in connection with this Agreement or any other Loan Document, shall prove to have been untrue or incorrect in any material respect when made; or

(f) Borrower shall default in any obligation which (i) is owed to Lender or any of Lender's Affiliates and (ii) arose under any agreement other than a Loan Document, including but not limited to the First Rights Agreement; or

(g) Borrower shall fail to make any payment in respect of outstanding Debt (other than the Obligations) having an aggregate outstanding principal amount in excess of $100,000 or more when due after the expiration of any applicable grace period, or any event or condition shall occur which results in the acceleration of the maturity of such Debt (including, without limitation, any required mandatory prepayment or "put" of such Debt to any such Person) or enables (or, with the giving of notice or passing of time or both, would enable) the holders of such Debt or a commitment related to such Debt (or any Person acting on such holders' behalf) to accelerate the maturity thereof or terminate any such commitment before its normal expiration (including, without limitation, any required mandatory prepayment or "put" of such Debt to such Person); or

(h) Borrower shall (i) voluntarily dissolve, liquidate, or terminate operations or apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of such Person or of all or of a substantial part of its assets, (ii) admit in writing its inability, or be generally unable, to pay its debts as the debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition, or adjustment of debts, (vi) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under Bankruptcy Code, or (vii) take any corporate action for the purpose of effecting any of the foregoing; or

(i) An involuntary petition or complaint shall be filed against Borrower seeking bankruptcy relief or reorganization or the appointment of a receiver, custodian, trustee, intervenor, or liquidator of Borrower, of all or substantially all of its assets, and such petition or complaint shall not have been dismissed within 60 days of the filing thereof; or an order, order for relief, judgment, or decree shall be entered by any competent Governmental Entity approving or ordering any of the foregoing actions; or

(j) A judgment of more than $100,000 in excess of insurance coverage therefor (as provided by an underwriter acceptable to Lender, where such underwriter has agreed in writing to pay such judgment) shall be rendered against Borrower and shall remain undischarged, undismissed, and unstayed for more than 90 days or there shall occur any levy upon, or attachment, garnishment, or other seizure of, any portion of the Collateral or other assets of Borrower, in excess of $50,000 by reason of the issuance of any tax levy, judicial attachment, garnishment, or levy of execution; or

(k) The occurrence of an event that has a Material Adverse Effect.

9.2. Remedies. During the existence of any Default, Lender may, without notice to Borrower and at its option, refuse to make Advances, or make other extensions of credit to Borrower. During the existence of any Event of Default, Lender may at its option take any or all of the following actions:

(a) Lender may declare any or all Obligations to be immediately due and payable (if not earlier demanded) (provided, that, upon the occurrence of any Event of Default described in Sections 9.1(h) or 9.1(i), all Obligations shall automatically become immediately due and payable), terminate its obligation to make Advances and other extensions of credit to Borrower, bring suit against Borrower to collect the Obligations, exercise any remedy available to Lender hereunder or at law, and take any action or exercise any remedy provided herein or in any other Loan Document or under applicable law.

(b) Without waiving any of its other rights hereunder or under any other Loan Document, Lender shall have all rights and remedies of a secured party under the UCC (and the Uniform Commercial Code of any other applicable jurisdiction) and such other rights and remedies as may be available hereunder, under other applicable law, or pursuant to contract. If requested by Lender, Borrower will promptly assemble the Collateral and make it available to Lender at a place designated by Lender within the continental United States. Borrower agrees that any notice by Lender of the sale or disposition of the Collateral or any other intended action hereunder, whether required by the UCC or otherwise, shall constitute reasonable notice to Borrower if the notice is mailed to Borrower by regular or certified mail, postage prepaid, at least 10 days before the action to be taken. The proceeds realized from the sale or other disposition of any Collateral shall be applied by Lender to the Obligations in such order as Lender shall determine in its sole discretion. Borrower shall be liable for any deficiencies in the event the proceeds of the disposition of the Collateral do not satisfy the Obligations in full.

(c) Lender may demand, collect, and sue for all amounts owed pursuant to Accounts, General Intangibles, Chattel Paper, Instruments, or Documents or for proceeds of any Collateral (either in Borrower's name or Lender's name at Lender's option), with the right to enforce, compromise, settle, or discharge any such amounts.

(d) Borrower hereby grants Lender a worldwide, non-exclusive, and royalty-free license to use solely during the existence of an Event of Default Borrower's trademarks, service marks, and trade names for purposes of invoicing and collecting Accounts and otherwise disposing of or liquidating Collateral.

9.3. Receiver. In addition to any other remedy available to it, Lender shall have the absolute right, during the existence of an Event of Default, to seek and obtain the appointment of a receiver to take possession of and operate and/or dispose of the business and assets of Borrower.

9.4. Deposits; Insurance. Borrower (a) authorizes Lender to, during the existence of an Event of Default, collect and apply against the Obligations when due any refund of insurance premiums or any insurance proceeds payable on account of the loss or damage to any Collateral and (b) irrevocably appoints Lender as its attorney-in-fact to endorse any check or draft or take other action necessary to obtain such funds.

**10. MISCELLANEOUS.**

10.1. No Waiver, Remedies Cumulative. No failure or delay on the part of Lender to exercise any right under this Agreement, any other Loan Document, or applicable law shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and are in addition to any other remedies provided by applicable law, any Loan Document, or otherwise.

10.2. Survival of Representations. All representations and warranties made in this Agreement and the other Loan Documents shall survive the making of any extension of credit hereunder and the delivery of the Note and shall continue in full force and effect until the full and final payment and performance of the Obligations and the termination of this Agreement.

10.3. Indemnity By Borrower; Expenses. In addition to all other Obligations, the obligations and liabilities described in this Section 10.3 shall constitute Obligations and shall be in addition to, and cumulative of, any other indemnification provisions set forth in any other Loan Document. Borrower agrees to defend, protect, indemnify, and hold harmless Lender and its Affiliates and all of their respective officers, directors, employees, attorneys, consultants, and agents from and against any and all losses, damages, liabilities, obligations, penalties, fines, fees, costs, and expenses (including, without limitation, reasonable attorneys' and paralegals' fees, costs and expenses, and fees, costs and expenses for investigations and experts) incurred by such indemnitees, from and after the Closing Date, as a result of or arising from or relating to (a) all legal, accounting, appraisal, consulting, and other fees, costs, and expenses incurred by Lender or any of its Affiliates in connection with their due diligence effort (including, without limitation, public records searches, recording fees, examinations, and investigations of the properties of Borrowers and its operations), negotiation, preparation, execution, performance of any of the Loan Documents or of any document executed in connection with the transactions contemplated hereby or thereby, perfection of Lender's Liens in the Collateral, maintenance of the Loan by Lender, and any and all amendments, modifications, and supplements of any of the Loan Documents, or work-out or restructuring of the Obligations; provided that Borrower shall not be required to pay in excess of $25,000 for any fees, costs or expenses set forth in clause (a) above for the initial closing of the Loan on the Closing Date; (b) any suit, investigation, action, or proceeding by any Person (other than Borrower), whether threatened or initiated, asserting a claim for any legal or equitable remedy against any Person under any statute, regulation, or common law principle, arising from or in connection with Lender's making extensions of credit or furnishing funds to Borrower under this Agreement; (c) Lender's preservation, administration, and enforcement of its rights under the Loan Documents and applicable law, including, without limitation, (i) all fees, costs of collection, attorneys' fees and expenses of, or advances by, Lender which Lender pays or incurs (A) in discharge of obligations of Borrower, (B) to inspect, repossess, remove, transport, deliver, protect, store, preserve, complete, collect, store, sell or otherwise dispose of any Collateral, or (C) in connection with the appointment and administration of any receiver; (ii) the administration of and actions relating to any Collateral, this Loan Agreement or the other Loan Documents and the transactions contemplated hereby and thereby, including any actions taken to perfect or maintain priority of Lender's Liens on any Collateral, to maintain any insurance required hereunder or to verify Collateral; and (iii) subject to Section 6.5, each inspection, audit, field examination, or appraisal with respect to Borrower, whether prepared by Lender's personnel or a third party; and (d) attorneys' fees of counsel for Lender incurred in connection therewith, whether any suit is brought or not and whether incurred at trial or on appeal; (e) any civil penalty or fine assessed by OFAC against Lender or any Affiliate of Lender and all reasonable costs and expense (including, without limitation, attorneys' fees actually incurred) incurred in connection with defense thereof by Lender or such Affiliate, as a result of Lender's making extensions of credit hereunder, the acceptance of payments due under the Loan Documents or acceptance of Collateral; (f) any matter relating to the financing transactions contemplated by the Loan Documents or by any document executed in connection with the transactions contemplated thereby, other than for such loss, damage, liability, obligation, penalty, fee, cost or expense arising from such indemnitee's gross negligence or willful misconduct; (g) any liability for payment of any state documentary stamp taxes, intangible taxes, or similar taxes (including interest or penalties, if any) which may now or hereafter be determined to be payable in respect to the execution, delivery, or recording of any Loan Document or the making of any Loan, whether originally thought to be due or not, and

regardless of any mistake of fact or law on the part of Lender (or its counsel) or Borrower with respect to the applicability of such tax; and (h) any payment made by Lender or any of its Affiliates with respect to any taxes or other amount payable by Borrower required to be paid by the terms of this Agreement or any other Loan Agreement and which may be reasonably necessary to protect or preserve any Collateral or Borrower's or Lender's interests therein.

Borrower's obligation for indemnification and reimbursement for all of the foregoing losses, damages, liabilities, obligations, penalties, fees, costs, and expenses of Lender or any of its Affiliates shall be part of the Obligations, shall be secured by the Collateral, shall be due and payable by Borrower ON DEMAND and shall survive termination of this Agreement.

10.4. Notices. Any notice or other communication hereunder or under the Notes or any other Loan Document to any party hereto or thereto shall be by hand delivery, overnight delivery via nationally recognized overnight delivery service, facsimile with receipt confirmed, or registered or certified United States mail with return receipt and unless otherwise provided herein shall be deemed to have been given or made when delivered, telegraphed, faxed or, if sent via United States mail, when receipt therefor is signed by the receiver, postage prepaid, addressed to the party at its address specified below (or at any other address that the party may hereafter specify to the other parties in writing):

Lender: CryoLife, Inc.
1655 Roberts Boulevard, N.W.
Kennesaw, GA 30144
Attn.: General Counsel

Borrower: ValveXchange, Inc.
12635 East Montview Boulevard, Suite 214
Aurora, CO 80045
Attn.: Larry Blankenship

10.5. Governing Law. This Agreement and the other Loan Documents shall be deemed contracts made under the laws of the State of Georgia and shall be governed by and construed in accordance with the laws of the State of Georgia (excluding its conflict of laws provisions if such provisions would require application of the laws of another jurisdiction) except insofar as (a) the laws of another jurisdiction may, by reason of mandatory provisions of law, govern the perfection, priority, or enforcement of security interests in the Collateral or (b) the terms of such Loan Document expressly state that the law of a different jurisdiction shall govern.

10.6. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of Borrower and Lender and their respective successors and assigns; provided, that Borrower may not assign any of its rights hereunder without the prior written consent of Lender, and any such assignment made without such consent will be void in all respects.

10.7. Counterparts; Telecopied Signatures. This Agreement and any amendments, waivers, or consents relating hereto may be executed in any number of counterparts and by different parties hereto or thereto in separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which when taken together shall constitute but one and the same instrument. Any signature delivered by a party hereto or to any amendment, waiver, or consent relating hereto by facsimile transmission or by electronic email shall be deemed to be an original signature hereto.

10.8. No Usury. Regardless of any other provision of this Agreement, the Note, or in any other Loan Document, if for any reason the effective rate of interest payable hereunder or thereunder should

exceed the maximum lawful rate of interest, the effective rate of interest shall be deemed reduced to, and shall be, such maximum lawful rate of interest. Any amount paid to or collected by Lender as interest which would be in excess of the amount permitted by applicable law shall be deemed applied to the reduction of the principal balance of the Obligations and not to the payment of interest, but if such Obligations have been or are thereby paid in full, the excess shall be returned to the Person paying same, such application to the principal balance of the Obligations or the refunding of excess to be a complete settlement and acquittance thereof.

10.9. Powers. All powers of attorney granted to Lender are coupled with an interest and are irrevocable.

10.10. Approvals; Amendments. If this Agreement calls for Lender's approval or consent, such approval or consent may be given or withheld in the reasonable discretion of Lender unless otherwise specified herein. This Agreement and the other Loan Documents may not be modified, altered, or amended, except by an agreement in writing signed by Borrower and Lender.

10.11. Assignments. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. The rights of Lender hereunder are not assignable without the Borrower's written consent (which shall not be unreasonably withheld, delayed or conditioned), except to any Affiliate of Lender; provided, however, that Borrower's consent shall not be required if there has occurred and is continuing an Event of Default. The rights and obligation of the Borrower hereunder may not be assigned under any circumstances.

10.12. Dealings with Multiple Borrowers. If more than one Person is a Borrower hereunder, all Obligations, representations, warranties, covenants, and indemnities set forth in the Loan Documents to which such Person is a party shall be joint and several. Lender shall have the right to deal with any individual of any Borrower with regard to all matters concerning the rights and obligations of Lender hereunder and pursuant to applicable law with regard to the transactions contemplated under the Loan Documents. All actions or inactions of the officers, managers, members, or agents of any Borrower with regard to the transactions contemplated under the Loan Documents shall be deemed with full authority and binding upon all Borrowers. Each Borrower hereby appoints each other Borrower as its true and lawful attorney-in-fact, with full right and power, for purposes of exercising all rights of such Person hereunder and under applicable law with regard to the transactions contemplated under the Loan Documents. The provisions of this Section 10.12 and Lender's reliance thereon are material inducements to the agreement of Lender to enter into this Agreement and to consummate the transactions contemplated hereby.

10.13. Waiver of Certain Defenses. To the fullest extent permitted by applicable law, upon the occurrence of any Event of Default, neither Borrower nor anyone claiming by or under Borrower will claim or seek to take advantage of any law requiring Lender to attempt to realize upon any Collateral, or any appraisement, evaluation, stay, extension, homestead, redemption, or exemption laws now or hereafter in force to prevent or hinder the enforcement of this Agreement. Borrower, for itself and all who may at any time claim through or under Borrower, hereby expressly waives to the fullest extent permitted by applicable law the benefit of all such laws. All rights of Lender and all obligations of Borrower hereunder shall be absolute and unconditional irrespective of (a) any change in the time, manner, or place of payment of, or any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from any provision of the Loan Documents, (b) any exchange, release, or non-perfection of any other collateral given as security for the Obligations, or

any release or amendment or waiver of or consent to departure from any guaranty for all or any of the Obligations, or (c) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Borrower or any third party, other than payment and performance in full of the Obligations.

10.14. Additional Provisions. Time is of the essence of this Agreement and the other Loan Documents. No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any Governmental Entity by reason of such party having or being deemed to have structured, drafted or dictated such provision.

10.15. Integration; Final Agreement. This Agreement and the other Loan Documents, together with all other instruments, agreements, and certificates executed by the parties in connection therewith or with reference thereto, embody the entire understanding and agreement between the parties hereto and thereto with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written. There are no unwritten oral agreements between the parties.

10.16. LIMITATION ON LIABILITY; WAIVER OF PUNITIVE DAMAGES . EACH OF THE PARTIES HERETO, INCLUDING LENDER BY ACCEPTANCE HEREOF, AGREES THAT, IN ANY JUDICIAL, MEDIATION, OR ARBITRATION PROCEEDING OR ANY CLAIM OR CONTROVERSY BETWEEN OR AMONG THEM (A "DISPUTE") THAT MAY ARISE OUT OF OR BE IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE LOAN DOCUMENTS, OR ANY OTHER AGREEMENT OR DOCUMENT BETWEEN OR AMONG THEM OR THE OBLIGATIONS EVIDENCED HEREBY OR RELATED HERETO, IN NO EVENT SHALL ANY PARTY HAVE A REMEDY OF, OR BE LIABLE TO THE OTHER FOR, (a) INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES OR (b) PUNITIVE OR EXEMPLARY DAMAGES. EACH OF THE PARTIES HEREBY EXPRESSLY WAIVES ANY RIGHT OR CLAIM TO PUNITIVE OR EXEMPLARY DAMAGES THEY MAY HAVE OR WHICH MAY ARISE IN THE FUTURE IN CONNECTION WITH ANY DISPUTE, REGARDLESS OF WHETHER THE DISPUTE IS RESOLVED BY ARBITRATION, MEDIATION, JUDICIALLY, OR OTHERWISE.

10.17. WAIVER OF JURY TRIAL . TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF BORROWER BY EXECUTION HEREOF AND LENDER BY ACCEPTANCE HEREOF, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT EACH MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY WITH RESPECT HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO ENTER INTO AND ACCEPT THIS AGREEMENT. EACH OF THE PARTIES AGREES THAT THE TERMS HEREOF SHALL SUPERSEDE AND REPLACE ANY PRIOR AGREEMENT RELATED TO ARBITRATION OF DISPUTES BETWEEN THE PARTIES CONTAINED IN ANY LOAN DOCUMENT OR ANY OTHER DOCUMENT OR AGREEMENT HERETOFORE EXECUTED IN CONNECTION WITH, RELATED TO OR BEING REPLACED, SUPPLEMENTED, EXTENDED OR MODIFIED BY, THIS AGREEMENT.

10.18. Submission to Jurisdiction, Venue.

(a) Any legal action or proceeding with respect to this Agreement or any other Loan Document shall be brought in the courts of the State of Georgia in Cobb County or of the United States for the Northern District of Georgia, and, by execution and delivery of this Agreement, Borrower

irrevocably accepts for itself and in respect of its property, generally and unconditionally, the nonexclusive jurisdiction of such courts, and agrees to be bound by the other provisions set forth in this Section 10.18. Borrower further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address set out for notices pursuant to Section 10.4. Nothing herein shall affect the right of Lender to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against Borrower or any guarantor or surety of the Obligations in any other jurisdiction.

(b) Borrower hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement or any other Loan Document brought in the courts referred to in subsection (a) above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

10.19. Credit Inquiries. Borrower hereby authorizes and permits Lender, at its discretion and without any obligation to do so, to respond to credit inquiries from third parties concerning Borrower.

10.20. Information. Nothing in this Agreement shall prevent Lender from disclosing confidential information provided by Borrower from time to time (a) to any of Lender's Affiliates, or any of Lender's or any of its Affiliates' officers, directors, employees, agents, or advisors, (b) as required by any law, rule, or regulation, (c) upon the order, request or demand of any Governmental Entity, (d) that is or becomes available to the public or that is or becomes available to Lender other than as a result of a disclosure by Lender prohibited by this Agreement, (e) in connection with any litigation to which Lender or any of its Affiliates may be a party, whether to defend itself, reduce its liability, protect or exercise any of its claims, rights, remedies or interests under or in connection with the Loan Documents, or otherwise, (f) to the extent necessary in connection with the exercise of any remedy under this Agreement or any other Loan Document, and (g) to any actual or proposed assignee.

10.21. No Tax Advice. Borrower hereby acknowledges and agrees that, with respect to all tax and accounting matters relating to this Agreement, the other Loan Documents, or the transactions contemplated herein and therein, it has not relied on any representations made, consultation provided by, or advice given or rendered by Lender or Lender's representatives, agents, or employees, and, instead, Borrower has sought, and relied upon, the advice of its own tax and accounting professionals with respect to all such matters.

[Signatures on Following Page.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed under seal as of the day and year first above written.

**BORROWER:**

**VALVEXCHANGE, INC.**

By: /s/Larry D. Blankenship
Name: Larry D. Blankenship
Title: C.E.O.

[CORPORATE SEAL]

**LENDER:**

**CRYOLIFE, INC.**

By: /s/D. Ashley Lee
Name: D. Ashley Lee
Title: EVP, COO and CFO

[CORPORATE SEAL]

**Exhibit A-1**

**CLOSING NOTE**

$2,000,000

July 6, 2011

FOR VALUE RECEIVED, VALVEXCHANGE, INC., a Delaware corporation (" Borrower"), promises to pay to the order of CRYOLIFE, INC. ("Lender") at the place and times provided in the Loan Agreement referred to below, the principal sum of TWO MILLION AND NO/100 DOLLARS ($2,000,000) or the principal amount of all Advances made by Lender from time to time pursuant to that certain Loan and Security Agreement dated as even date herewith, by and between Borrower and Lender (as the same may be amended, restated, supplemented, or otherwise modified from time to time, the "Loan Agreement"). Capitalized terms used herein and not defined herein shall have the meanings assigned thereto in the Loan Agreement.

The unpaid principal amount of this Closing Note from time to time outstanding is subject to mandatory repayment from time to time as provided in the Loan Agreement and shall bear interest as provided in the Loan Agreement. All payments of principal and interest on this Closing Note shall be payable to Lender or other holder of this Closing Note in lawful currency of the United States of America in immediately available funds in the manner and location indicated in the Agreement or wherever else Lender or such holder may specify.

This promissory note is the Closing Note issued pursuant to the Loan Agreement. This Closing Note is entitled to the benefits of, and evidences Obligations incurred under, the Loan Agreement, to which reference is made for a description of the security for this Closing Note and for a statement of the terms and conditions on which Borrower is permitted and required to make prepayments and repayments of principal of the Obligations evidenced by this Closing Note and on which such Obligations may be declared to be immediately due and payable.

Borrower agrees, in the event that this Closing Note or any portion hereof is collected by law or through an attorney at law, to pay all reasonable and actual costs of collection, including, without limitation, reasonable attorneys' fees actually incurred and court costs.

This Closing Note shall be governed, construed and enforced in accordance with the laws of the State of Georgia, without reference to the conflicts or choice of law principles thereof.

Borrower hereby waives all requirements as to diligence, presentment, demand of payment, protest, and (except as required by the Loan Agreement) notice of any kind with respect to this Closing Note.

If more than one Person is a Borrower hereunder, all Obligations evidenced by this Closing Note shall be joint and several.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned has executed this Closing Note under seal as of the day and year first written above.

**VALVEXCHANGE, INC.**

By: _____
Name: _____
Title: _____

[CORPORATE SEAL]

**Exhibit A-2**

**FORM OF PIK NOTE**

$ , 201

FOR VALUE RECEIVED, VALVEXCHANGE, INC., a Delaware corporation (" Borrower"), promises to pay to the order of CRYOLIFE, INC. ("Lender") at the place and times provided in the Loan Agreement referred to below, the principal sum of AND NO/100 DOLLARS ($ ) or the principal amount of the PIK Amount as of such date pursuant to that certain Loan and Security Agreement dated as of July 6, 2011, by and between Borrower and Lender (as the same may be amended, restated, supplemented, or otherwise modified from time to time, the "Loan Agreement"). Capitalized terms used herein and not defined herein shall have the meanings assigned thereto in the Loan Agreement.

The unpaid principal amount of this PIK Note from time to time outstanding is subject to mandatory repayment from time to time as provided in the Loan Agreement and shall bear interest as provided in the Loan Agreement. All payments of principal and interest on this PIK Note shall be payable to Lender or other holder of this PIK Note in lawful currency of the United States of America in immediately available funds in the manner and location indicated in the Agreement or wherever else Lender or such holder may specify.

This promissory note is one of the PIK Notes issued pursuant to the Loan Agreement. This PIK Note is entitled to the benefits of, and evidences Obligations incurred under, the Loan Agreement, to which reference is made for a description of the security for this PIK Note and for a statement of the terms and conditions on which Borrower is permitted and required to make prepayments and repayments of principal of the Obligations evidenced by this PIK Note and on which such Obligations may be declared to be immediately due and payable.

Borrower agrees, in the event that this PIK Note or any portion hereof is collected by law or through an attorney at law, to pay all reasonable and actual costs of collection, including, without limitation, reasonable attorneys' fees actually incurred and court costs.

This PIK Note shall be governed, construed and enforced in accordance with the laws of the State of Georgia, without reference to the conflicts or choice of law principles thereof.

Borrower hereby waives all requirements as to diligence, presentment, demand of payment, protest, and (except as required by the Loan Agreement) notice of any kind with respect to this PIK Note.

If more than one Person is a Borrower hereunder, all Obligations evidenced by this PIK Note shall be joint and several.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned has executed this PIK Note under seal as of the day and year first written above.

**VALVEXCHANGE, INC.**

By:_____
Name:_____
Title:_____

[CORPORATE SEAL]

**EXHIBIT B**

**FORM OF NOTICE OF BORROWING**

[ ], [20 ]

CryoLife, Inc.
1655 Roberts Boulevard, N.W.
Kennesaw, GA 30144
Attn: General Counsel

Ladies and Gentlemen:

This Notice of Borrowing is delivered pursuant to Section 2.5 of that certain Loan and Security Agreement dated as of July 6, 2011 (as the same may be amended, restated, supplemented, or otherwise modified from time to time, the "Loan Agreement"), by and between ValveXchange, Inc, a Delaware corporation ("Borrower"), and CryoLife, Inc. ("Lender"). Capitalized terms used herein shall have the meanings given such terms in the Loan Agreement.

Borrower hereby gives you notice, irrevocably, pursuant to Section 2.5 of the Loan Agreement, that Borrower hereby requests the following Advance be made under the Loan Agreement and, in that regard, sets forth below the information relating to such Advance (the "Proposed Borrowing"), as required by Section 2.5 of the Loan Agreement:

1. Principal Amount:
2. Date Loan to be Made:
3. Disburse the proceeds of this Advance as follows:

Name of Bank: [ ]
Account Name: [ ]
Account Number: [ ]
ABA Routing Number: [ ]
Reference: [ ]

Borrower hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(a) the representations and warranties contained in the Loan Agreement and the other Loan Documents are true and correct in all material respects before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, [except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been accurate and complete in all material respects on and as of such earlier date)];

(b) no event has occurred and is continuing, or would result from the making of such Proposed Borrowing or from the application of the proceeds thereof, which constitutes a Default or an Event of Default;

(c) no development reasonably likely to have a Material Adverse Effect has occurred and is continuing;

(d) all of the conditions to the Proposed Borrowing set forth in Section 4.2 of the Loan Agreement have been satisfied (or waived in accordance with the terms of the Loan Agreement); and

(e) the Proposed Borrowing satisfies all limitations set forth in the Loan Agreement (including, without limitation, availability under the Commitment).

VALVEXCHANGE, INC.

By:_____
Name:_____
Title:_____

[CORPORATE SEAL]

**EXHIBIT C**

**COMPLIANCE AND NO DEFAULT CERTIFICATE**

In accordance with the terms of the Loan and Security Agreement dated July 6, 2011 (as the same may be amended, restated, supplemented, or otherwise modified from time to time, the "Loan Agreement") by and between ValveXchange, Inc. ("Borrower") and CryoLife, Inc., I hereby certify that:

1. I am the ***[president] [chief financial officer]*** of Borrower;

2. The enclosed financial statements are prepared in accordance with generally accepted accounting principles;

3. No Default (as defined in the Loan Documents) or any event which, upon the giving of notice or passing of time or both, would constitute such a Default, has occurred.

**VALVEXCHANGE, INC.**

By:_____
Name:_____
Title:_____

**SCHEDULE 1**

**TO EXHIBIT E - COMPLIANCE AND NO DEFAULT CERTIFICATE**

Borrower Name: ValveXchange, Inc.

For the Fiscal [Month] [Quarter] [Year] ended [ ], 200[ ]

ALL CAPITALIZED TERMS USED BUT NOT DEFINED HEREIN SHALL HAVE THE MEANINGS GIVEN IN THE LOAN AGREEMENT.

| **COVENANT** | **ACTUAL** | **REQUIRED** |
|---|---|---|

[ATTACH DETAILED CALCULATIONS]

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.3**

**DIRECT OR CONTINGENT OBLIGATIONS AND LIABILITIES**

The Company has entered into the following agreements since its fiscal quarter ended march 31, 2011:

- a [***] lease for a facility located at 6080 Greenwood Plaza Blvd., Unit B, Greenwood Village, CO 80301. This facility is intended to become the primary location for the Company's offices and operations, with move-in anticipated in the third quarter of 2011. Approximate monthly lease payments including tenant improvements are expected to be between $[***] and $[***].
- a contractor agreement with [***] for the [***] of [***] that provides for guaranteed payments of $[***] per month for the first six-months of the twelve-month term of the agreement.

- independent contractor consulting services agreement with [***] For the provision of consulting services in connection with the Company's proposed [***] studies pursuant to which the Company anticipates making payments in excess of $[***].

- research agreement with the University of [***] relating to [***] of the Company's [***], pursuant to which the Company anticipates making payments in excess of $[***].

**SCHEDULE 5.4**

**PENDING AND THREATENED LITIGATION**

None.

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.8(b)**

**INSURANCE POLICIES**

| Type | Underwriter | Maximum Coverage | Deductible |
|---|---|---|---|
| Property | [***] | $[***] | $[***] |
| Commercial General Liability | [***] | $[***] | None |
| Employer's Liability | [***] | $[***] | N/A |
| Directors and Officers | [***] | $[***] | $[***] |
| Key Man Life Insurance (Ivan Vesely) | [***] | $2,000,000 | N/A |

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.8(c)**

**INTELLECTUAL PROPERTY**

**PATENTS AND PATENT APPLICATIONS**

| Country | | Case Type | Application No. Filing Date | Publication No. Publication Date | Patent No. Patent Date | Status |
|---|---|---|---|---|---|---|
| | | **ORD** | PCT/US10/52451 | 2011-047009 | | Published |
| **Patent Cooperation Treaty** | | | 13-Oct-2010 | 21-Apr-2011 | | |
| | Owner: | ValveXchange Inc. | | | | |
| | Title: | COLLAPSIBLE DOCKING STATION | | | | |
| | | [***] | [***] | | | [***] |
| [***] | | | [***] | | | |
| | Owner: | [***] | | | | |
| | Title: | [***] | | | | |
| | | **PCT** | 98964898.5 | 1049425 | 1049425 | Granted |
| **European Patent Convention** | | | 23-Dec-1998 | 08-Jul-1999 | 25-Nov-2009 | |
| | Owner: | Cleveland Clinic Foundation | | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | | |
| | | **PCT** | 01987412.2 | 1343438 | 1343438 | Granted |
| **European Patent Convention** | | | 17-Dec-2001 | 17-Sep-2003 | 22-Jul-2009 | |
| | Owner: | Cleveland Clinic Foundation | | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | | |
| | | **PCT** | 09172807.1 | 2138132 | | Published |
| **European Patent Convention** | | | 12-Oct-2009 | 30-Dec-2009 | | |
| | Owner: | Cleveland Clinic Foundation | | | | |
| | Title: | REMOTE MANIPULATION SYSTEM FOR REMOTELY MANIPULATING AN ASSOCIATED MEDICAL DEVICE | | | | |
| | | **PCT** | 10179137.4 | 2258312 | Published | |
| **European Patent Convention** | | | 24-Sep-2010 | 08-Dec-2010 | | |
| | Owner: | Cleveland Clinic Foundation | | | | |
| | Title: | DEPLOYABLE SURGICAL PLATFORM AND SYSTEM FOR THE REMOVAL AND DELIVERY OF A MEDICAL DEVICE COMPRISING SUCH DEPLOYABLE SURGICAL PLATFORM | | | | |
| | | **EPP** | 98964898.5 | 1049425 | 1049425 | Granted |
| **France** | | | 23-Dec-1998 | 08-Jul-1999 | 25-Nov-2009 | |
| | Owner: | Cleveland Clinic Foundation | | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **France** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 1343438<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |
| **Germany** | **EPP** | 98964898.5<br>23-Dec-1998 | 1049425<br>08-Jul-1999 | 69841333.4<br>25-Nov-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | |
| **Germany** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 1343438<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |
| **Italy** | **EPP** | 98964898.5<br>23-Dec-1998 | 1049425<br>08-Jul-1999 | 20838BE/2010<br>25-Nov-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | |
| **Italy** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 28991BE/2009<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |
| **Netherlands** | **EPP** | 98964898.5<br>23-Dec-1998 | 1049425<br>08-Jul-1999 | 1049425<br>25-Nov-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | |
| **Netherlands** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 1343438<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |
| **Sweden** | **EPP** | 98964898.5<br>23-Dec-1998 | 1049425<br>08-Jul-1999 | 1049425<br>25-Nov-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | |
| **Sweden** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 1343438<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |
| **United Kingdom** | **EPP** | 98964898.5<br>23-Dec-1998 | 1049425<br>08-Jul-1999 | 1049425<br>25-Nov-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | |
| **United Kingdom** | **EPP** | 01987412.2<br>17-Dec-2001 | 1343438<br>17-Sep-2003 | 1343438<br>22-Jul-2009 | Granted |
| | Owner: | Cleveland Clinic Foundation | | | |
| | Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | |

| | | | | | |
|---|---|---|---|---|---|
| | **PCT** | 09/597918 | 6569196 | | Granted |
| **United States of America** | | 19-Jun-2000 | 27-May-2003 | | |
| Owner: | Cleveland Clinic Foundation | | | | |
| Title: | SYSTEM FOR MINIMALLY INVASIVE INSERTION OF A BIOPROSTHETIC HEART VALVE | | | | |
| | **CIP** | 09/745240 | 2001-0002445 | 6530952 | Granted |
| **United States of America** | | 21-Dec-2000 | 31-May-2001 | 11-Mar-2003 | |
| Owner: | Cleveland Clinic Foundation | | | | |
| Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | | |
| | **RCE** | 10/341049 | 2003-0125793 | 7011681 | Granted |
| **United States of America** | | 13-Jan-2003 | 03-Jul-2003 | 14-Mar-2006 | |
| Owner: | Cleveland Clinic Foundation | | | | |
| Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | | |
| | **DIV** | 11/319349 | 2006-0135964 | 7776083 | Granted |
| **United States of America** | | 28-Dec-2005 | 22-Jun-2006 | 17-Aug-2010 | |
| Owner: | Cleveland Clinic Foundation | | | | |
| Title: | BIOPROSTHETIC CARDIOVASCULAR VALVE SYSTEM | | | | |
| | **ORD** | 05027534.6 | 1671608 | 1671608 | Granted |
| **European Patent Convention** | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| Owner: | ValveXchange Inc. | | | | |
| Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | | |
| | **EPC** | 05027534.6 | 1671608 | 1671608 | Granted |
| **France** | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| Owner: | ValveXchange Inc. | | | | |
| Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | | |
| | **EPC** | 05027534.6 | 1671608 | 1671608 | Granted |
| **Germany** | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| Owner: | ValveXchange Inc. | | | | |
| Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | | |
| | **EPC** | 05027534.6 | 1671608 | 1671608 | Granted |
| **Italy** | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| Owner: | ValveXchange Inc. | | | | |
| Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | | |
| | **EPC** | 05027534.6 | 1671608 | 1671608 | Granted |
| | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| **Netherlands** | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | |
| | **EPC** | 05027534.6 | 1671608 | 1671608 | Granted |
| **Sweden** | | 15-Dec-2005 | 21-Jun-2006 | 30-Jul-2008 | |
| Owner: | ValveXchange Inc. | | | | |
| Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **United Kingdom** | **EPC** | 05027534.6<br>15-Dec-2005 | 1671608<br>21-Jun-2006 | 1671608<br>30-Jul-2008 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | |
| **United States of America** | **ORD** | 11/296899<br>08-Dec-2005 | 2006-0136052<br>22-Jun-2006 | 7758640<br>20-Jul-2010 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY | | | |
| **Canada** | **ORD** | 2592128<br>19-Jun-2007 | 2592128<br>29-Dec-2007 | 2592128<br>16-Mar-2010 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **European Patent Convention** | **ORD** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **France** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **Germany** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **Italy** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 29466BE/2009<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **Netherlands** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **Sweden** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **United Kingdom** | **EPC** | 07111254.4<br>28-Jun-2007 | 1872743<br>02-Jan-2008 | 1872743<br>05-Aug-2009 | Granted |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |
| **United States of America** | **ORD** | 11/760840<br>11-Jun-2007 | 2008-0004696<br>03-Jan-2008 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE ASSEMBLY WITH RESIZABLE DOCKING STATION | | | |

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

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|---|---|---|---|---|---|
| [***] | **[***]** | [***]<br>[***] | | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| **European Patent Convention** | **PCT** | 07839653.8<br>22-Apr-2009 | 2076215<br>08-Jul-2009 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE AND ASSEMBLY | | | |
| **United States of America** | **PCT** | 12/446469<br>21-Apr-2009 | 2010-0087918<br>08-Apr-2010 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | CARDIOVASCULAR VALVE AND ASSEMBLY | | | |
| [***] | **[***]** | [***]<br>[***] | | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| **European Patent Convention** | **PCT** | 08724554.4<br>17-Jan-2008 | 2114318<br>11-Nov-2009 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | TOOLS FOR REMOVAL AND INSTALLATION OF EXCHANGEABLE CARDIOVASCULAR VALVES | | | |
| **United States of America** | **PCT** | 12/522326<br>07-Jul-2009 | 2010-0004739<br>07-Jan-2010 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | TOOLS FOR REMOVAL AND INSTALLATION OF EXCHANGEABLE CARDIOVASCULAR VALVES | | | |
| [***] | **[***]** | [***]<br>[***] | | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| **European Patent Convention** | **PCT** | 08798161.9<br>19-Aug-2008 | 2182860<br>12-May-2010 | | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | METHOD AND APPARATUS FOR PROSTHETIC VALVE REMOVAL | | | |

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

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|---|---|---|---|---|---|
| [***] | | **[***]** | [***]<br>[***] | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| [***] | | **[***]** | [***]<br>[***] | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| [***] | | **[***]** | [***]<br>[***] | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| [***] | | **[***]** | [***]<br>[***] | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| **Patent Cooperation Treaty** | | **ORD** | PCT/US10/52638<br>14-Oct-2010 | 2011-047137<br>21-Apr-2011 | Published |
| | Owner: | ValveXchange Inc. | | | |
| | Title: | MULTI-FUNCTION VALVE EXCHANGE APPARATUS AND METHOD OF USING SAME | | | |
| [***] | | **[***]** | [***]<br>[***] | [***] | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| [***] | | **[***]** | [***]<br>[***] | | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |
| [***] | | **[***]** | [***]<br>[***] | [***]<br>[***] | [***] |
| | Owner: | [***] | | | |
| | Title: | [***] | | | |

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

[***] [***] [***]
[***] [***]
Owner: [***]
Title: [***]

***Trademarks***

| Trademark | Country | Application No.<br>Filing Date | Registration No.<br>Registration Date | Status |
|---|---|---|---|---|
| **VALVEXCHANGE** | **United States of America** | 76/180484<br>13-Dec-2000 | 2897597<br>26-Oct-2004 | Registered |

Classes: 10 Int.
Owner: ValveXchange Inc.

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.9**

**LOCATIONS**

Jurisdiction in which Borrower is organized: Delaware

Chief executive office of Borrower:

This Company has signed a lease on a new facility that is intended to become the primary location for the Company's offices and operations, with move-in anticipated in the third quarter of 2011.

Current Address: 12635 E. Montview Blvd., Aurora, Colorado 80045

Future Address: 6080 Greenwood Plaza Blvd., Unit B, Greenwood Village, Colorado 80301

Office where Borrower's books and records are located: As above.

Borrower's other places of business: Borrower currently performs some [***] and [***] at subcontractor [***]

Any other places where any Collateral (other than Inventory in-transit) is kept: [***]

Other locations: None.

Former jurisdiction of organization: Ohio

Former chief executive office of Borrower: 815 Superior Avenue, Cleveland, Ohio 44114

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.11**

**LABOR LAW MATTERS**

The Company is a party to individual employment agreements with each of Larry Blankenship, Ivan Vesely, Todd Campbell and Kevin Morningstar and individual consulting agreements involving equity as all or part of the compensation with each of [***], [***], [***], [***], and [***]. The Company also has numerous other consulting agreements in place that do not involve equity as part of the compensation.

**SCHEDULE 5.14**

**INVESTMENT PROPERTY, INSTRUMENTS, AND CHATTEL PAPER**

None.

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**SCHEDULE 5.15**

**DEPOSIT ACCOUNTS**

| **Name and Address of Depository Institution** | **Account Number** | **Type of Account** |
|---|---|---|
| Key Bank | [***]* | Checking |
| Key Bank | [***] | Checking |

* This is the Company's primary account with a balance of $[***] as of July 1, 2011.

**SCHEDULE 5.16**

**ENVIRONMENTAL**

In the performance of its operations, the Company uses chemical substances commonplace in the medical device and tissue implant industries. Such chemicals include, but are not limited to, glutaraldehyde, formaldehyde, isopropyl alcohol, adhesives, epoxies, cleaning agents, and the like.

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 5.19**

**MATERIAL AGREEMENTS**

The following is a list of the Company's material agreements:

- Contractor Agreement with [***] for the [***] of [***] that provides for guaranteed payments of $[***] per month for the first six-months of the twelve-month term of the agreement.
- Independent Contractor Consulting Services Agreement with [***] For the provision of consulting services in connection with the Company's proposed [***] studies pursuant to which the Company anticipates making payments in excess of $[***].
- Research Agreement with the University of [***] relating to [***] of the Company's [***], pursuant to which the Company anticipates making payments in excess of $[***].
- License Agreement dated August 29, 2000 by and between [***] and [***] relating to the license of certain [***] technology.
- Exclusive License Agreement dated August 27, 2009 by and between the [***] of the University of [***] and the Company relating to the planned patent applications referenced in Appendix B thereto.
- Exclusive License Agreement dated April 29, 2010 by and between [***] and the Company relating to certain patent rights and know-how associated with [***] technology.
- Manufacturing Agreement with [***] pursuant to which the Company granted [***] exclusive manufacturing rights relating to the manufacture of [***] materials for the Company's [***].
- An engagement letter with [***] dated November 13, 2009, as amended November 3, 2010, pursuant to which, amongst other items, the Company has agreed to pay [***] a cash fee equal to [***]% of the gross proceeds of the Series A financing.

- A [***] lease for a facility located at 6080 Greenwood Plaza Blvd., Unit B, Geenwood Village, CO 80301. This facility is intended to become the primary location for the Company's offices and operations, with move-in anticipated in the third quarter of 2011. Approximate monthly lease payments including tenant improvements are expected to be between $[***] and $[***].

- Employment Arrangements with each of Larry Blankenship, Ivan Vesely, Todd Campbell and Kevin Morningstar

- Consulting Agreements with each of [***], [***], [***], [***], and [***].

- The [***] requires the Company to perform in accordance with its proposal submitted to and accepted by the [***]. The [***] involves a performance commitment from the Company and a commitment from the [***] that if the Company performs sufficiently well on its Phase I grant of $[***] and provides a report on its Phase I performance, which the Company intends to do later this year, the Company will be confirmed for a Phase II grant of $[***].

**SCHEDULE 5.24**

**OPERATING AND CAPITAL LEASES**

**Real Property Leases:**

This Company has signed a lease on a new facility that is intended to become the primary location for the Company's offices and operations, with move-in anticipated in the third quarter of 2011.

Current Principal Office Address:

| | |
|---|---|
| **Street Address:** | 12635 E. Montview Blvd. |
| **City, State and Zip** | Aurora, Colorado 80045 |
| **County:** | Arapahoe County |
| **Brief Description of Activities Conducted on Parcel:** | Administration, research, product development, |
| **Types of Tangible Personal Property at Parcel (e.g., equipment and/or inventory):** | Computers, laboratory equipment, supplies |
| **Books and Records Location?** | Yes |
| **Name and Address of Lessor:** | Fitzsimons Redevelopment Authority<br>12635 E Montview Blvd, Suite 100<br>Aurora, CO 80045 |
| **Copy of Lease has been previously provided to Lender:** | This lease has expired and the Company occupies the premises on a month-to-month basis. |

Future Principal Office Address:

| | |
|---|---|
| **Street Address:** | 6080 Greenwood Plaza Blvd., Unit B |
| **City, State and Zip** | Greenwood Village, Colorado 80301 |
| **County:** | Arapahoe County |
| **Brief Description of Activities Conducted on Parcel:** | Administration, research, product development, clean room |
| **Types of Tangible Personal Property at Parcel (e.g., equipment and/or inventory):** | Computers, laboratory equipment, supplies |
| **Books and Records Location?** | Yes |

| | |
|---|---|
| **Name and Address of Lessor:** | Schultz & Otis, LLC<br>6080 Greenwood Plaza Blvd., Unit A<br>Greenwood Village, Colorado 80301 |
| **Copy of Lease has been previously provided to Lender:** | Yes. |

**Operating Leases:**

None. The Company currently uses common space, machinery, and appliances at the Fitzsimmons incubator in Aurora, Colorado where its principal offices are currently located. The Company intends to purchase, at its own expense, all machinery and appliances necessary to carry out it activities at its new location.

**[***] – CONFIDENTIAL PORTIONS OF THIS AGREEMENT WHICH HAVE BEEN REDACTED ARE MARKED WITH BRACKETS ("[***]"). THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**SCHEDULE 7.1**

**SCHEDULED PERMITTED DEBT**

The [***] holds a convertible note issued by the Company in the principal amount of $250,000, together with interest accrued thereon. This note is due and payable on the earlier of April 21, 2012 or the date the Company consummates a Series A round of equity financing. The Company intends to convert this note as part of the Series A financing concurrently with the closing of the Loan and Security Agreement.

**SCHEDULE 7.2**

**SCHEDULED PERMITTED LIENS**

None.

**SCHEDULE 7.6**

**TRANSACTIONS WITH AFFILIATES**

None.

# SEVENTH AMENDMENT TO CREDIT AGREEMENT AND EXTENSION

THIS SEVENTH AMENDMENT TO CREDIT AGREEMENT AND EXTENSION ("Amendment") is entered into as of August 30, 2011, by and among CryoLife, Inc., a Florida corporation ("CryoLife"), AuraZyme Pharmaceuticals, Inc., a Florida corporation ("AuraZyme"), CryoLife International, Inc., a Florida corporation ("International"), Cardiogenesis Corporation, a Florida corporation (formerly known as CryoLife Acquisition Corporation, a Florida corporation) ("Cardiogenesis") (CryoLife, AuraZyme, International and Cardiogenesis are sometimes referred to herein together as the "Borrowers" and individually as a "Borrower"), CryoLife, as Borrower Representative, the other Credit Parties party hereto, General Electric Capital Corporation, a Delaware corporation (the "Agent"), as administrative agent for the several financial institutions from time to time party to this Amendment (collectively, the "Lenders" and individually each a "Lender") and for itself as a Lender and L/C Issuer, and such Lenders.

## RECITALS

A. The Borrowers, the other Credit Parties signatory thereto, the Lenders signatory thereto from time to time and Agent are parties to that certain Credit Agreement, dated as of March 27, 2008 (as amended, supplemented, revised, restated, replaced or otherwise modified, the "Credit Agreement"). Capitalized terms used in this Amendment without definition shall have the meanings ascribed to such terms in the Credit Agreement.

B. The Borrowers, the other Credit Parties signatory thereto, and Agent are parties to that certain Sixth Amendment to Credit Agreement, Pledge Amendment to Guaranty and Security Agreement and Waiver, dated as of June 30, 2011 (the "Sixth Amendment").

C. The Borrowers have requested that Lenders amend the Credit Agreement in certain respects and waive certain requirements under the Credit Agreement, and Lenders have agreed to do so, subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and intending to be legally bound, the parties hereto agree as follows:

## A. AMENDMENTS

1. Amendment to Section 6.3. Section 6.3 of the Credit Agreement is amended by reducing from $19,200,000 to $16,500,000 the minimum Adjusted EBITDA requirement set forth therein for September 30, 2011; provided, that the requirement for each Fiscal Quarter thereafter shall remain unchanged at $20,000,000.

2. Amendment to Section 11.1. Section 11.1 of the Credit Agreement is amended by replacing the definition of "Revolving Termination Date" in its entirety with the following:

"Revolving Termination Date" means the earlier to occur of: (a) October 31, 2011; and (b) the date on which the Aggregate Revolving Loan Commitment shall terminate in accordance with the provisions of this Agreement.

B. EXTENSION

The Agent and Lenders hereby extend the deadline set forth in the proviso to the waiver under Section C of the Sixth Amendment for the dissolution of CGCP Corp., a Delaware corporation ("CGCP") and Compleat, Inc., a California corporation ("Compleat") until September 30, 2011, or such later date to which the Agent shall agree in writing.

C. CONDITIONS TO EFFECTIVENESS

Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Lenders hereunder, it is understood and agreed that this Amendment shall not become effective, and the Borrower shall have no rights under this Amendment, until Agent shall have received (a) duly executed signature pages to this Amendment from the Lenders, Borrowers, L/C Issuer, Agent and each Credit Party, and (b) a certificate of the secretary or other officer of each Credit Party in charge of maintaining books and records of such Credit Party certifying as to (i) the names and signatures of each officer of such Credit Party authorized to execute and deliver any Loan Document, (ii) the Organization Documents of such Credit Party attached to such certificate are complete and correct copies of such Organization Documents as in effect on the date of such certification and (iii) the resolutions of such Credit Party's board of directors or other appropriate governing body approving and authorizing the execution, delivery and performance of this Amendment.

D. REPRESENTATIONS

Each Credit Party hereby represents and warrants to Lenders, L/C Issuer and Agent that:

1. The execution, delivery and performance by such Credit Party of this Amendment (a) are within such Credit Party's power; (b) have been duly authorized by all necessary corporate, limited liability company or limited partnership action; (c) are not in contravention of any provision of such Credit Party's certificate of incorporation or bylaws or other organizational documents; (d) do not violate any law or regulation, or any order or decree of any Governmental Authority; (e) do not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which such Credit Party or any of its Subsidiaries is a party or by which such Credit Party or any such Subsidiary or any of their respective property is bound; (f) do not result in the creation or imposition of any Lien upon any of the property of such Credit Party or any of its Subsidiaries other than those in favor of Agent, on behalf of itself and the Lenders, pursuant to the Loan Documents; and (g) do not require the consent or approval of any Governmental Authority or any other Person.

2. This Amendment has been duly executed and delivered for the benefit of or on behalf of each Credit Party and constitutes a legal, valid and binding obligation of each Credit

Party, enforceable against such Credit Party in accordance with its terms except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights and remedies in general.

3. Both before and after giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and the other Credit Documents are true and correct in all material respects and no Default or Event of Default has occurred and is continuing as of the date hereof.

## E. OTHER AGREEMENTS

1. Continuing Effectiveness of Loan Documents. As amended hereby, all terms of the Credit Agreement and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Credit Parties party thereto. To the extent any terms and conditions in any of the other Loan Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby. Upon the effectiveness of this Amendment such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby.

2. Reaffirmation of Loan Documents. Each Credit Party consents to the execution and delivery of this Amendment by all parties hereto and the consummation of the transactions described herein, and ratifies and confirms the terms of the Credit Agreement, Guaranty and Security Agreement and each other Loan Document to which such Credit Party is a party with respect to the indebtedness now or hereafter outstanding under the Credit Agreement as amended hereby and all promissory notes issued thereunder. Each Credit Party acknowledges that, notwithstanding anything to the contrary contained herein or in any other document evidencing any indebtedness of any Borrower to the Lenders or any other obligation of Borrowers, or any actions now or hereafter taken by the Lenders with respect to any obligation of Borrowers, the Guaranty and Security Agreement (i) is and shall continue to be a primary obligation of such Credit Party, (ii) is and shall continue to be an absolute, unconditional, continuing and irrevocable guaranty of payment, and (iii) is and shall continue to be in full force and effect in accordance with its terms. Nothing contained herein to the contrary shall release, discharge, modify, change or affect the original liability of any Credit Party under the Guaranty and Security Agreement.

3. Acknowledgment of Perfection of Security Interest. Each Credit Party hereby acknowledges that, as of the date hereof, the security interests and liens granted to Agent, the L/C Issuer and the Lenders under the Credit Agreement and the other Loan Documents are in full force and effect, are properly perfected and are enforceable in accordance with the terms of the Credit Agreement and the other Loan Documents.

4. Effect of Agreement. Except as set forth expressly herein, all terms of the Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force

and effect and shall constitute the legal, valid, binding and enforceable obligations of the Borrowers to the Lenders, the L/C Issuer and Agent. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement.

5. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York and all applicable federal laws of the United States of America.

6. No Novation. This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement and the other Loan Documents or an accord and satisfaction in regard thereto.

7. Costs and Expenses. The Borrowers agree to pay on demand all costs and expenses of Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for Agent with respect thereto.

8. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission, Electronic Transmission or containing an E-Signature shall be as effective as delivery of a manually executed counterpart hereof.

9. Binding Nature. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

10. Entire Understanding. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[signature pages to follow]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first written above.

**BORROWERS:**

CRYOLIFE, INC.

By: /s/ D. A. Lee
Title: Exec. VP, COO & CFO & Treasurer

AURAZYME PHARMACEUTICALS, INC.

By: /s/ D. A. Lee
Title: Director, VP Finance, CFO, Treasurer

CRYOLIFE INTERNATIONAL, INC.

By: /s/ D. A. Lee
Title: Director, VP, CFO, Treasurer

CARDIOGENESIS CORPORATION

By: /s/ D. A. Lee
Title: Exec. VP, COO & CFO & Treasurer

**AGENT, L/C ISSUER AND LENDERS:**

GENERAL ELECTRIC CAPITAL CORPORATION, as Agent, L/C Issuer and sole Lender

By: /s/ Ryan Guenin
Its Duly Authorized Signatory

**Exhibit 31.1**

**CERTIFICATIONS**

I, Steven G. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CryoLife, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2011

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

**Exhibit 31.2**

I, David Ashley Lee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CryoLife, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2011

/s/ D. ASHLEY LEE

Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer

**Exhibit 32**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CryoLife, Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Steven G. Anderson, the Chairman, President, and Chief Executive Officer of the Company, and David Ashley Lee, the Executive Vice President, Chief Operating Officer, and Chief Financial Officer of the Company, hereby certifies, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN G. ANDERSON
STEVEN G. ANDERSON
Chairman, President, and
Chief Executive Officer
October 27, 2011

/s/ D. ASHLEY LEE
D. ASHLEY LEE
Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer
October 27, 2011