FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the Quarterly Period Ended September 30, 1997
Commission File Number 0-21104

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 X NO

The number of shares of common stock, par value $0.01 per share, outstanding on October 31, 1997 was 9,696,000.

Part I - FINANCIAL INFORMATION
Item 1. Financial statements

CRYOLIFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	(Unaudited)		(Unaudited)	
Revenues:				
Cryopreservation and products	$14,569,000	$10,138,000	$37,593,000	$28,016,000
Research grants, licenses, leases, interest income, and other	72,000	273,000	221,000	526,000
	14,641,000	10,411,000	37,814,000	28,542,000
Costs and expenses:				
Cost of preservation and products	5,112,000	3,563,000	13,089,000	9,731,000
General, administrative and marketing	5,620,000	4,239,000	15,300,000	12,046,000
Research and development	1,243,000	616,000	2,950,000	2,006,000
Interest expense	317,000	39,000	744,000	39,000
	12,292,000	8,457,000	32,083,000	23,822,000
Income before income taxes	2,349,000	1,954,000	5,731,000	4,720,000
Income taxes	891,000	693,000	2,161,000	1,688,000
Net income	$ 1,458,000	$ 1,261,000	$ 3,570,000	$ 3,032,000

Earnings per share of common stock	$ 0.15	$ 0.13	$ 0.36	$ 0.31
Weighted average common and common equivalent shares outstanding	9,978,000	9,925,000	9,914,000	9,894,000

See accompanying notes to condensed consolidated financial statements.

Item 1. Financial Statements

CRYOLIFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,000	$ 1,370,000
Marketable securities	41,000	43,000
Trade receivables (net)	9,894,000	6,572,000
Other receivables	51,000	1,625,000
Deferred preservation costs	11,668,000	7,178,000
Inventories	1,487,000	260,000
Prepaid expenses	1,467,000	846,000
Deferred income taxes	286,000	287,000
Total current assets	24,936,000	18,181,000
Property and equipment (net)	13,509,000	11,567,000
Goodwill (net)	8,166,000	1,846,000
Other intangibles (net)	5,073,000	3,379,000
TOTAL ASSETS	$51,684,000	$34,973,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,520,000	$ 3,696,000
Accrued expenses	727,000	934,000
Accrued procurement fees	1,851,000	1,210,000
Accrued compensation	1,351,000	878,000
Current maturities of debt	478,000	527,000
Income taxes payable	490,000	--
Total current liabilities	6,417,000	7,245,000
Other long term liabilities, principally revolving term loan and convertible debentures	16,323,000	2,799,000
Total liabilities	22,740,000	10,044,000
Shareholders' equity:		
Preferred stock	--	--
Common stock (issued 10,222,000 shares in 1997 and 10,106,000 shares in 1996)	102,000	101,000
Additional paid-in capital	17,566,000	17,128,000
Retained earnings	11,472,000	7,902,000
Less: Unrealized gain on investments	--	(1,000)
Treasury stock (543,000 shares)	(180,000)	(180,000)
Notes receivable from shareholders	(16,000)	(21,000)
Total shareholders' equity	28,944,000	24,929,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$51,684,000	$34,973,000

See accompanying notes to condensed consolidated financial statements.

Item 1. Financial Statements

CRYOLIFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
	(Unaudited)	
Net cash flows provided by (used in) operating activities:		
Net income	$ 3,570,000	$ 3,032,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,622,000	1,007,000
Provision for doubtful accounts	31,000	(82,000)
Deferred income taxes	1,000	(201,000)
Changes in assets and liabilities:		
Receivables	(819,000)	(1,783,000)
Deferred preservation costs and inventories	(5,080,000)	(176,000)
Prepaid expenses and other assets	(564,000)	(214,000)
Accounts payable and accrued expenses	(1,670,000)	662,000
Net cash flows provided by (used in) operating activities	(2,909,000)	2,245,000
Net cash flows used in investing activities:		
Capital expenditures	(2,955,000)	(7,097,000)
Other assets	32,000	(1,665,000)
Cash paid for acquisition, net of cash acquired	(4,418,000)	(721,000)
Proceeds from other long term liabilities	--	--
Net sales of marketable securities	3,000	3,869,000
Net cash flows used in investing activities	(7,338,000)	(5,614,000)
Net cash flows provided by financing activities:		
Proceeds from borrowings on revolving term loan	8,475,000	--
Proceeds from other long term liabilities	--	2,810,000
Proceeds from issuance of common stock and notes receivable from shareholders, net	444,000	489,000
Net cash provided by financing activities	8,919,000	3,299,000
Decrease in cash	(1,328,000)	(70,000)
Cash and cash equivalents at beginning of period	1,370,000	167,000
Cash and cash equivalents at end of period	$ 42,000	$ 97,000

	1997	1996
Supplemental cash flow information		
Non-cash investing and financing activities:		
Fair value of assets acquired	$ 1,768,000	$ 645,000
Cost in excess of assets acquired	8,541,000	1,620,000
Liabilities assumed	(891,000)	(293,000)
Debt issued for assets acquired	(5,000,000)	(1,250,000)
Net cash paid for acquisition	$ 4,418,000	$ 722,000

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with (i) generally accepted accounting principles for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial presentations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996.

NOTE 2 - ACQUISITION OF IDEAS FOR MEDICINE

On March 5, 1997, the Company acquired the stock of Ideas for Medicine, Inc. (IFM) of Clearwater, Florida, a medical device company specializing in the manufacture and distribution of single use cardiovascular products, for consideration of approximately $4.5 million in cash and approximately $5 million in convertible debentures plus related expenses. The cash portion of the purchase price was financed by borrowings under the Company's Revolving Term Loan Agreement. The acquisition has been accounted for as a purchase. Based on the allocation of the purchase price, the Company's unaudited pro forma results of operations for the nine months ended September 30, 1997 and September 30, 1996, assuming the consummation of the purchase and issuance of the convertible debentures as of January 1, 1997 and 1996, respectively, are as follows:

	Nine Months Ended September 30	
	1997	1996
Net sales	$39,027,000	$33,503,000
Net income	$3,601,000	$2,807,000
Net income per common share	$0.36	$0.28

NOTE 3 - INVENTORY

Inventory consists of the following:

	September 30, 1997	December 31, 1996
Raw materials	$ 324,000	$ --
Work in process	102,000	--
Finished goods	1,061,000	260,000
	$1,487,000	$260,000

NOTE 4 - LONG TERM DEBT

The increase in the borrowings on the revolving term loan principally relates to costs associated with the construction of the new corporate headquarters, the acquisition of IFM, and general working capital purposes.

NOTE 5 - RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the FASB issued Statement No. 130, Reporting Comprehensive Income. The Statement requires companies to (a) display items of other comprehensive income either below the total for net income in the income statement, or in a separate statement that begins with net income, or in a statement of changes in equity, and (b) disclose the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. The new rules are effective for fiscal years beginning after December 15, 1997.

In June 1997, the FASB issued Statement No. 131, Disclosures about Segments of an Enterprise and Related information, which supersedes FASB Statement No. 14. The new rules will require selected information about reportable segments in interim financial statements issued to shareholders. Statement 131 is effective for financial statements for fiscal years beginning after December 15, 1997.

PART I - FINANCIAL INFORMATION

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

Results of Operations

Revenues were $14.6 million and $37.8 million for the three and nine months ended September 30, 1997, respectively, compared to $10.4 million and $28.5 million for the corresponding periods in 1996. Revenues increased 41% and 32% for the three and nine months ended September 30, 1997, respectively, compared to the corresponding periods in 1996. Revenues for the three and nine months ended September 30, 1997 included $1.7 million and $3.9 million, respectively, attributable to the acquisition of IFM. The remaining revenue increases are due to greater allograft shipments resulting from increased demand, and a general cryopreservation fee increase in January 1997.

Revenues from human heart valve preservation increased 22% to $8.6 million for the three months ended September 30, 1997 from $7.1 million for the three months ended September 30, 1996, representing 59% and 68% of total revenues, respectively. For the nine months ended September 30, revenues from human heart valve preservation increased 16% to $22.2 million for 1997 from $19.2 million for 1996, representing 59% and 67% of total revenue, respectively. Shipments of human heart valves increased 15% for the three months ended September 30, 1997 and increased 14% for the nine months ended September 30, 1997 as compared to the same periods for 1996, due to an increase in demand.

Revenues from vein preservation increased 21% to $2.7 million for the three months ended September 30, 1997 from $2.2 million for the three months ended September 30, 1996, representing 18% and 21% of total revenues, respectively. For the nine months ended September 30, revenues from vein preservation increased 27% to $7.8 million for 1997 from $6.1 million for 1996, representing 21% of total revenue for each period. Shipments of veins increased 18% for the three months ended September 30, 1997 and increased 26% for the nine months ended September 30, 1997 as compared to the same periods for 1996, due to an increase in demand.

Revenues from orthopedic tissue preservation increased 75% to $1.4 million for the three months ended September 30, 1997 from $775,000 for the three months ended September 30, 1996, representing 9% and 7% of total revenues, respectively. For the nine months ended September 30, revenues from orthopedic tissue preservation were $3.4 million and $2.4 million for 1997 and 1996, respectively, representing 9% and 8% of total revenue, respectively. Shipments of orthopedic tissue increased 51% for the three months ended September 30, 1997 and increased 16% for the nine months ended September 30, 1997 as compared to the same periods for 1996, due to an increase in demand.

Other revenues were $72,000 for the three months ended September 30, 1997 compared to $273,000 for the three months ended September 30, 1996, representing 1% and 3% of total revenues, respectively. For the nine months ended September 30, other revenues were $221,000 for 1997 compared to $526,000 for 1996, representing 1% and 2% of total revenues, respectively. Other revenues consist primarily of research grant award revenues and interest income. Research grant award revenues are primarily related to the bioadhesive and synergraft projects.

Cost of preservation and products aggregated $5.1 million and $13.1 million, respectively, for the three and nine months ended September 30, 1997, representing 35% of total revenues for each period, compared to $3.6 million and $9.7 million, respectively, for the three and nine months ended September 30, 1996, representing 34% of total revenues for both periods. Cost of preservation and products increased 43% for third quarter 1997 compared to third quarter 1996 and increased 35% for the first nine months of 1997 compared to the first nine months of 1996. The increase in cost of preservation and products as a percentage of revenue relates to an increase in costs associated with the revenues generated by IFM, partially offset by the general cryopreservation fee increase and efficiencies resulting from an increase in units processed.

General, administrative, and marketing expenses aggregated $5.6 million and $15.3 million, respectively, for the three and nine months ended September 30, 1997, representing 38% and 41% of total revenues, respectively, compared to $4.2 million and $12.0 million, respectively, for the three and nine months ended September 30, 1996, representing 41% and 42% of total revenues, respectively. The increase in expenses principally results from cost associated with the IFM acquisition and costs associated with the new corporate headquarters. The decrease in expenses as a percentage of revenues for the third quarter results from higher revenues in the third quarter.

Research and development expenses aggregated $1.2 million and $3.0 million, respectively, for the three and nine months ended September 30, 1997, representing 9% and 8% of total revenues, respectively, compared to $616,000 and $2.0 million, respectively, for the three and nine months ended September 30, 1996, representing 6% and 7% of total revenues, respectively. Research and development spending relates principally to the Company's focus on bioadhesives and synergraft technologies. The increase in spending in the third quarter principally relates to preclinical toxicology and efficacy studies relating to the Company's bioadhesives.

Seasonality

The demand for the Company's human heart valve tissue preservation services is seasonal, with peak demand generally occurring in the second and third quarters. Management believes this demand trend for human heart valves is primarily due to the high number of pediatric surgeries scheduled during the summer months.

Liquidity and Capital Resources

At September 30, 1997 net working capital was $18.5 million, compared to $10.9 million at December 31, 1996, with a current ratio of 3.9 to 1 at September 30, 1997. Shareholders' equity at September 30, 1997 was $28.9 million. The Company's primary capital requirements arise out of working capital needs, including receivables and deferred preservation costs, capital expenditures for facilities and equipment, and funding of research and development projects. The increase in receivables results from the increase in revenue and from the acquisition of IFM. The increase in deferred preservation costs results from an increase in the amount of tissue procured. The increase in inventory results primarily from the acquisition of IFM. The increase in prepaid expenses relates primarily to prepaid insurance premiums. The increase in other assets results primarily from intangible assets associated with the acquisition of IFM. The decrease in accounts payable results from payment of amounts associated with the construction of and equipping of the Company's new corporate headquarters. The increase in debt results from borrowings on the Company's revolving term loan facility and from the issuance of convertible debentures associated with the IFM acquisition and the construction of the new corporate headquarters.

The Company is currently in negotiations with a bank to increase its borrowing capacity. The Company believes that the extension of its borrowing capacity along with cash generated from operations will be sufficient to meet its operating and development needs for the next 12 months, including the approximately $2.5 million which it has now committed for the construction of a new manufacturing/office facility for IFM, the interest resulting from the convertible debentures issued in connection with the IFM acquisition and any stock repurchases made under the Company's potential repurchase of up to 500,000 shares of its Common Stock authorized on April 2, 1997. If the Company is unsuccessful in its negotiations with the bank to increase it's borrowing capacity, then the Company will need to seek alternative sources of financing in the near future. See "Forward-Looking Statements".

Forward-Looking Statements

Statements made in this Form 10-Q for the three and nine months ended September 30, 1997 that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. It is important to note that the Company's actual results could differ materially from those contained in such forward-looking statements as a result of adverse changes in any of a number of factors that affect the Company's business, including without limitation, changes in (1) government regulation of the Company's business, (2) the Company's competitive position, (3) the availability of tissue for implant, (4) the status of the Company's products under development, (5) the protection of the Company's proprietary technology, (6) the Company's ability to successfully negotiate a new credit facility, (7) the reimbursement of health care costs by third-party payers and (8) the Company's ability to successfully integrate the operations of IFM. See the "Business-Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 1996 for a more detailed discussion of certain of these and other factors which might affect the Company's future performance.

Item 3. Qualitative and Quantitative Discussion About Market Risk.

Not Applicable.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.
None

Item 2. Changes in Securities.
None

Item 3. Defaults Upon Senior Securities.
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.
None

Item 5. Other information.

On August 20, 1997 Virginia C. Lacy was elected as a director to serve for the remaining term of Rodney C. Lacy. The term expires in May 1998. Ms. Lacy was appointed to serve on the Audit Committee and the Compensation Committee of the Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

(a) The exhibit index can be found below.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company, as amended. (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
3.2	Amendment to Articles of Incorporation of the Company dated November 29, 1995. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)
3.3	Amendment to the Company's Articles of Incorporation to increase the

number of authorized shares of common stock from 20 million to 50 million shares and to delete the requirement that all preferred shares have one vote per share. (Incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)

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

11.1 Statement re: computation of earnings per share

27.1 Financial Data Schedule

(b) Current Reports on Form 8-K.
None

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)

November 13, 1997	/s/EDWIN B. CORDELL, JR.
DATE	EDWIN B. CORDELL, JR. Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 11.1

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	Three Months Ended September 30		Nine Months Ended September 30	
	1997	1996	1997	1996
Primary:				
Average shares outstanding	9,670,000	9,529,000	9,622,000	9,484,000
Net effect of dilutive stock options based on the treasury stock method using the greater of quarter-end market price or average market price	308,000	396,000	292,000	410,000
Totals	9,978,000	9,925,000	9,914,000	9,894,000
Net Income	$ 1,458,000	$ 1,261,000	$ 3,570,000	$ 3,032,000
Per share amount	$ .15	$ .13	$ .36	$ .31
Fully diluted:				
Average shares outstanding	9,670,000	9,529,000	9,622,000	9,484,000
Net effect of dilutive stock options based on the treasury stock method using the greater of quarter-end market price or average market price	333,000	396,000	362,000	410,000
Totals	10,003,000	9,925,000	9,984,000	9,894,000
Net Income	$ 1,458,000	$ 1,261,000	$ 3,570,000	$ 3,032,000
Per share amount	$ .15	$ .13	$ .36	$ .31

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THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDIED CONSOLIDATED BALANCE SHEET OF CRYOLIFE, INC. AS OF SEPTEMBER 30, 1997 AND THE RELATED UNAUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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