

UNITED TECHNOLOGIES CORP /DE/
Form 424B5
July 24, 2003
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PROSPECTUS SUPPLEMENT

**Filed Pursuant to Rule 424(b)(5)
Registration No. 333-60276**

(To prospectus dated March 11, 2003)

Up to 6,796 Shares

Common Stock

Rescission Offer

This notice (also called a prospectus supplement) applies to you only if you currently participate in the Hamilton Sundstrand de Puerto Rico Savings Plan (which we refer to in this prospectus supplement as the Plan) and invested your employee contributions in UTC Common Stock under the Plan between January 1, 2001 and October 24, 2002. We refer to the UTC Common Stock in which you may have invested your employee contributions under the Plan between January 1, 2001 and October 24, 2002 as the Rescission Stock. This notice describes an offer in which UTC is offering to cancel your purchases of Rescission Stock and refund to your Plan account the purchase price that you paid for those shares. We refer to this offer as the Rescission Offer. We refer to the period between January 1, 2001 and October 24, 2002 as the Rescission Period.

THE OFFER

Because the Plan mistakenly did not file a registration statement with the Securities and Exchange Commission, which we refer to as the SEC, when shares of UTC Common Stock were first made available as an investment under the Plan, the sale of Rescission Stock to you may not have been in compliance with the registration requirements of U.S. federal securities laws. As a result, UTC is offering to cancel your purchases of Rescission Stock by repurchasing those shares at a total price equal to the weighted average per share price that you paid to the Plan to acquire the Rescission Stock, multiplied by the number of shares of Rescission Stock that you hold as of the expiration date of this Rescission Offer, plus interest at a rate of 6% per year (calculated from the date you purchased the Rescission Stock under the Plan through the expiration date of this Rescission Offer), and refund that amount to your Plan account. If you sold the Rescission Stock at a loss prior to July 24, 2003, UTC is offering to refund to your Plan account the difference between the weighted average per share price that you paid to the Plan to acquire the Rescission Stock and the price at which you sold the Rescission Stock, plus accrued interest. For more information, please refer to Description of the Rescission Offer and the Rescission Stock Rescission Price on page S-6. While no assurance can be given about the price at which UTC Common Stock will trade in the future, you should keep in mind that on July 11, 2003 the closing price of shares of UTC Common Stock was \$73.40. You should also keep in mind that under the Plan you can sell your shares of UTC Common Stock at any time, by calling 1-888-724-3657, and choosing another investment fund under the Plan into which to move your money.

The Rescission Offer will expire on August 22, 2003 at 5:00 P.M., Eastern Standard Time.

HOW TO ACCEPT OR REJECT THIS OFFER

Acceptance of the Rescission Offer is optional for each Plan participant who purchased Rescission Stock through the Plan. After carefully reading this prospectus supplement and the attached prospectus, you may decide that it is in your best interest to either accept or reject this offer. To accept this Rescission Offer, you must complete the Rescission Election Form attached to this prospectus supplement as Annex A and return it to Hamilton Sundstrand de Puerto Rico, at the address indicated on that form, attention: Lisette Zambrana-Rodriguez, as soon as practical but, in any event, it must be received by the Plan no later than August 22, 2003 at 5:00 P.M., Eastern Standard Time. If you decide to reject this offer, you do not need to take any action.

EFFECT OF REJECTION

If you do not accept the Rescission Offer, for purposes of U.S. federal securities laws, you will be deemed to hold registered shares of UTC Common Stock, subject to the terms of the Plan. Rejection of the Rescission Offer will not necessarily bar you from rescission or other rights that you may have under U.S. federal, state or territorial securities laws, but U.S. federal securities law does provide that your rescission rights may expire one year from the date that you purchased Rescission Stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Prospectus Supplement dated July 24, 2003

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

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SUMMARY

This summary highlights certain information incorporated by reference or appearing elsewhere in this prospectus supplement or the accompanying prospectus. As a result, it is not complete and does not contain all of the information that you should consider before deciding whether to accept or reject our Rescission Offer. You should read the following summary in conjunction with the more detailed information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference.

United Technologies Corporation

UTC and its subsidiaries provide high technology products to aerospace and building systems customers throughout the world. We conduct our business within four principal operating segments. The segments were generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services. The units participating in each operating segment and their respective principal products are as follows:

Otis offers a wide range of elevators, escalators, moving walkways and shuttles and related installation and maintenance services; and modernization products and services for elevators and escalators.

Carrier provides heating, ventilating and air conditioning (HVAC) systems and equipment for commercial and residential buildings; commercial and transport refrigeration equipment; and aftermarket service and components.

Pratt & Whitney provides commercial, general aviation and military aircraft engines; overhaul and repair services, spare parts and fleet management services for engines; power generation systems; and space propulsion systems.

Flight Systems consists of the Hamilton Sundstrand and Sikorsky businesses. Hamilton Sundstrand provides aerospace products and aftermarket services, including aircraft power generation, management and distribution systems, engine and flight controls, auxiliary power units, propellers, environmental controls systems, space life support systems and industrial products, including air compressors, metering devices, fluid handling equipment and gear drives. Sikorsky offers military and commercial helicopters and aftermarket helicopter and aircraft products and service.

United Technologies Corporation was incorporated in Delaware in 1934. Unless the context otherwise requires, UTC, we, us, or our means United Technologies Corporation. Our principal executive offices are located at United Technologies Building, One Financial Plaza, Hartford, Connecticut 06101, telephone (860) 728-7000.

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Questions and Answers About Our Rescission Offer

Q: What is a rescission offer?

A: A rescission offer is an offer by the issuer of securities to repurchase those securities and refund their purchase price plus interest.

Q: Why are you making the Rescission Offer?

A: We recently discovered that the Plan sold the Rescission Stock without registering the sale with the SEC because the Plan was under the mistaken belief that the offer of UTC Common Stock by the Plan was exempt from the registration requirements of the Securities Act of 1933, which we refer to as the Securities Act.

Q: What will I receive if I accept the Rescission Offer?

A: If you accept the Rescission Offer, we will purchase the shares of Rescission Stock in your Plan account and your Plan account will be credited with an amount in cash that is equal to the weighted average per share price that you paid to the Plan to acquire the shares of Rescission Stock, multiplied by the number of shares that you own as of the expiration date of this Rescission Offer, plus interest, at a rate of 6%, on each share of Rescission Stock you purchased from the date that you acquired the Rescission Stock through the expiration date of this Rescission Offer. In the event that you sold all or a portion of your Rescission Stock at a loss prior to July 24, 2003, you will receive the difference between your weighted average per share purchase price and the price at which you sold each share of Rescission Stock, plus interest from the date you sold the Rescission Stock through the expiration date of this Rescission Offer. For more information, please refer to Description of the Rescission Offer and the Rescission Stock Rescission Price on page S-6.

Q: How is the price at which I purchased Rescission Stock determined, and if I have already sold Rescission Stock, how is the price at which I sold it determined?

A: For purposes of this Rescission Offer, we will take the price at which you purchased each share of Rescission Stock on the date(s) of your purchase(s). We will total all of your purchase prices for Rescission Stock and divide by the number of shares of Rescission Stock that you purchased, to determine a weighted average per share purchase price for your shares of Rescission Stock. We will multiply that weighted average per share purchase price by the number of shares of Rescission Stock you own as of the expiration date of this Rescission Offer to determine the total amount you will receive under this Rescission Offer. To that amount, we will add interest on each share of Rescission Stock you purchased, from the date of your purchase through the expiration date of this Rescission Offer, disregarding any sales you may have made of Rescission Stock (that is, you will receive interest on all shares of Rescission Stock that you purchased, even if you have sold some of those shares).

For sales, we will take the price at which you sold each share of Rescission Stock on the date(s) of your sale(s). To determine if you sold Rescission Stock at a loss, we will compare the price at which you sold each share of Rescission Stock to your weighted average per share purchase price (which is your cost basis in each share that is calculated by the Plan for income tax purposes). For each share of Rescission Stock that you sold at a loss, we will credit your Plan account with the amount of that loss, plus interest from the date you sold the Rescission Stock through the expiration date of this Rescission Offer.

For more information, please refer to Description of the Rescission Offer and the Rescission Stock Rescission Price on page S-6.

Q: How was the 6% interest rate determined?

A: 6% is the statutory rate of interest provided for by law for rescission offers in Puerto Rico.

Q: When does the Rescission Offer expire?

A: The Rescission Offer expires on August 22, 2003 at 5:00 P.M., Eastern Standard Time.

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Q: What do I need to do if I want to accept the Rescission Offer?

A: You need to complete and sign the Rescission Election Form, attached to this prospectus supplement as Annex A, and return it to Hamilton Sundstrand de Puerto Rico, at the address indicated on that form, Attention: Lisette Zambrana-Rodriguez, as soon as practical, but in any event, it must be received by the Plan no later than August 22, 2003, at 5:00 P.M., Eastern Standard Time.

Q: What do I need to do if I want to reject the Rescission Offer?

A: You do not need to do anything to reject the Rescission Offer. If you do not accept the Rescission Offer by returning the Rescission Election Form to the Plan no later than August 22, 2003, at 5:00 P.M. Eastern Standard Time, you will be deemed to have rejected the Rescission Offer.

Q: May I accept this Rescission Offer solely with respect to a portion of my shares of Rescission Stock?

A: No. You must choose to accept or reject this Rescission Offer with respect to all of your shares of Rescission Stock.

Q: Can I change my mind after I have sent in my Rescission Election Form?

A: No. Once you have submitted your Rescission Election Form to the Plan, your decision to accept the Rescission Offer is final and may not be changed.

Q: When and how will payment be made?

A: If you accept the Rescission Offer, we will repurchase your shares of Rescission Stock and your account will be credited with the appropriate amount within 5 business days of the expiration date of this Rescission Offer. The amount credited to your account will be invested in the Deutsche Cash Management Institutional Money Market Fund, the Plan's default option. Please note that you may move some or all of this amount to other Plan investment options after it is credited to your account by calling 1-888-724-3657.

Q: What if I am not a current participant in the Plan who purchased UTC Common Stock from the Plan using my employee contributions to the Plan between January 1, 2001 and October 24, 2002?

A: If you are not a current participant in the Plan who purchased UTC Common Stock from the Plan using your employee contributions to the Plan between January 1, 2001 and October 24, 2002 you are not eligible to participate in the Rescission Offer.

Q: Who can help answer my questions?

A: You can contact Lisette Zambrana-Rodriguez at (787) 845-1033 between 9:00 A.M. and 4:00 P.M. Eastern Standard Time with any questions about the Rescission Offer.

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DESCRIPTION OF THE RESCISSION OFFER AND THE RESCISSION STOCK

The following description of the particular terms of the Rescission Offer and the Rescission Stock offered by this prospectus supplement adds information to the description of the general terms and provisions of our capital stock under the heading "Description of Capital Stock" in the accompanying prospectus.

Our Common Stock is listed on the New York Stock Exchange under the symbol UTX. As of June 30, 2003, UTC had 468,814,654 shares of Common Stock outstanding.

Background

In January 2001, the Plan began offering shares of UTC Common Stock at market prices as an investment option for employee and employer contributions to the Plan. From January 1, 2001 through October 24, 2002, the Plan acquired a total of 6,796 shares of UTC Common Stock on behalf of Plan participants at prices ranging from approximately \$41.64 to \$87.21 per share, for an aggregate purchase price (representing our contingent liability in this Rescission Offer) of approximately \$461,924.

The offer of UTC Common Stock and interests in the Plan were not registered with the SEC because the Plan was under the mistaken belief that the offer of UTC Common Stock by the Plan was exempt from the registration requirements of the Securities Act. Participants who purchased such securities may have a right to require us to rescind the sale of Rescission Stock for the purchase price of Rescission Stock plus interest from the date of purchase. Accordingly, UTC has decided to offer to rescind the Rescission Stock issued to the Plan participants. This Rescission Offer is not an admission that either we or the Plan did not comply with the registration provisions of applicable federal, state or territorial law, nor is it a waiver of any applicable statutes of limitations.

Rescission Price

We are offering to cancel your purchase of shares of Rescission Stock and credit your Plan account with an amount equal to the weighted average per share purchase price that you paid to acquire the Rescission Stock multiplied by the number of shares of Rescission Stock that you own as of the expiration date of this Rescission Offer, plus an amount equal to the interest on each share of Rescission Stock you purchased from the date that you acquired the Rescission Stock through the expiration date of the Rescission Offer, at a rate of 6 percent per annum (that is, you will receive interest on all shares of Rescission Stock that you purchased, even if you have sold some of those shares). If you already sold your shares of Rescission Stock at a loss prior to July 24, 2003, we are offering to credit your Plan account with an amount equal to the difference between the weighted average per share purchase price that you paid to acquire the Rescission Stock and the price at which you sold the Rescission Stock, plus interest at a rate equal to 6 percent per annum from the date you sold the Rescission Stock through the expiration date of this Rescission Offer.

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For purposes of this Rescission Offer, we will take the price at which you purchased each share of Rescission Stock on the date(s) of your purchase(s). We will total all of your purchase prices for Rescission Stock and divide by the number of shares of Rescission Stock that you purchased to determine a weighted average per share purchase price for your shares of Rescission Stock. We will multiply that weighted average per share purchase price by the number of shares of Rescission Stock you own as of the expiration date of this Rescission Offer to determine the total amount you will receive under this Rescission Offer. To that amount, we will add interest at a rate equal to 6 percent per annum on each share of Rescission Stock you purchased, from the date of your purchase through the expiration date of this Rescission Offer, disregarding any sales you may have made of Rescission Stock (that is, you will receive interest on all shares of Rescission Stock that you purchased, even if you have sold some of those shares).

For sales, we will take the price at which you sold each share of Rescission Stock on the date of your sale. To determine if you sold Rescission Stock at a loss, we will compare the price at which you sold each share of Rescission Stock to the weighted average per share purchase price that you paid to acquire the Rescission Stock (which is your cost basis in each share that is calculated by the Plan for income tax purposes). For each share of Rescission Stock that you sold at a loss, we will credit your Plan account with the amount of that loss, plus interest

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at a rate equal to 6 percent per annum from the date you sold the Rescission Stock through the expiration date of this Rescission Offer.

The following example illustrates how the amount of the Rescission Offer will be calculated for each participant. For purposes of the example, all numbers have been rounded and interest has been estimated.

Purchases

	A	B	C	D	E
Purchase Date	# of Shares Purchased	Purchase Price per Share	Total Purchase Price (A x B)	Interest on Purchase Price	Average Purchase Cost per Share (C ÷ A)
3/15/2001	50	\$75	\$ 3750	\$ 544	
6/01/2001	50	\$83	\$ 4150	\$ 540	
10/15/2002	50	\$55	\$ 2750	\$ 138	
Total	150		\$10650	\$1222	\$71

Sales

	F	G	H	I	J	K
Sale Date	# of Shares Sold	Sale Price per Share	Total Sale Price (F x G)	Average Cost Basis of Shares Sold	Loss on Sale (H - I)	Interest on Loss
7/30/2001	20	\$72	\$1440	$\frac{\$3750 + \$4150}{(50 + 50) * 20} = \1580	\$140	\$17
7/30/2003	15	\$70	\$1050	$\frac{\$3750 + \$4150 + \$2750}{(50 + 50 + 50) * 15} = 1065$	N/A because the sale date occurred	

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	(estimated for purposes of example)	after the Rescission	Offer commenced.
Total	35	\$140	\$17

Step 1: determine # of shares of Rescission Stock remaining in account at expiration of offer:

$$A \quad F = 150 \quad 35 = 115$$

Step 2: Multiply # of shares of Rescission Stock remaining in account by Average Purchase Cost:

$$115 \times E = 115 \times \$71 = \$8165$$

Step 3: Add the result of Step 2 to the Interest on Purchase Price, the Loss on the Sale and the Interest on the Loss:

$$\$8165 + D + J + K = \$8165 + \$1222 + \$140 + \$17 = \$9544.$$

In this example, if the participant accepts the Rescission Offer, the Company will repurchase the shares of Rescission Stock in his Plan account for \$8165. The Company will also pay the participant interest on the total number of shares of Rescission Stock the participant purchased, in the amount of \$1222. It will also pay the participant \$140 for the loss on the participant's sale of Rescission Stock, and \$17 interest on that loss. In total, the participant's Plan account will be credited with \$9544.

The amount credited to your account will be invested in the Deutsche Cash Management Institutional Money Market Fund, the Plan's default option. Please note that you may move some or all of this amount to other Plan investment options after it is credited to your account by calling 1-888-724-3657.

On July 11, 2003, the closing sales price for UTC Common Stock, as quoted on the New York Stock Exchange, was \$73.40. You may refer to Comparative Stock Data appearing on page 34 of our 2002 Annual

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Report to Shareowners for data relating to historical quarterly high and low sales prices for our Common Stock. No assurance can be given as to the level at which UTC Common Stock will trade in the future. You should keep in mind that under the Plan you can sell your shares of UTC Common Stock at any time, by calling 1-888-724-3657 and choosing another investment fund under the Plan into which to move your money. The historical performance of UTC Common Stock should not be taken as an indication of future performance. See the section captioned "Cautionary Note Concerning Factors That May Affect Future Results" in our Annual Report on Form 10-K, for the year ended December 31, 2002, as amended, for a description of factors that may affect our future stock price.

Acceptance or Rejection

Acceptance of the Rescission Offer is optional for each Plan participant who purchased Rescission Stock through the Plan. If you accept the Rescission Offer, you will be deemed to irrevocably release the Plan, UTC and their past, current and future officers, directors, employees, subsidiaries, affiliates, representatives and agents of and from all claims which you have, ever had or might have in connection with the sales and issuances by UTC of Rescission Stock, including but not limited to, any violation of applicable federal, state or territorial securities laws or regulations, in each case to the maximum extent permitted by applicable law.

You must choose to accept or reject this Rescission Offer with respect to all of your shares of Rescission Stock. You may not choose to accept this Rescission Offer with respect to only a portion of your shares of Rescission Stock, or solely with respect to Rescission Stock that you have sold.

To accept the Rescission Offer, complete the Rescission Election Form attached to this prospectus supplement as Annex A, sign the Form and return it to Hamilton Sundstrand de Puerto Rico at the address indicated on that form, attn: Lisette Zambrana-Rodriguez, as soon as practicable, but it must be received by the Plan no later than August 22, 2003 at 5:00 P.M., Eastern Standard Time. All acceptances of the Rescission Offer will be effective on the date received by the Plan and, unless you accept the offer on or before the expiration date, your right to accept the Rescission Offer will terminate on the expiration date. Your acceptance is irrevocable once submitted. If you do not complete the form and return it as instructed above, you will be deemed to have rejected the offer.

Other Terms and Conditions

We have not authorized anyone and we do not intend to authorize anyone to make solicitations or recommendations to eligible Plan participants in connection with the Rescission Offer.

Neither we, the Plan, nor any of our or its officers and directors, makes any recommendation to any person who purchased Rescission Stock with respect to the Rescission Offer. ***You should read this prospectus supplement and accompanying prospectus carefully and make an independent evaluation about whether to accept or reject the Rescission Offer.***

QUESTIONS ABOUT THE RESCISSION OFFER

You may call Lisette Zambrana-Rodriguez at (787) 843-1033 with any questions between 9:00 A.M. and 4:00 P.M. Eastern Standard Time.

USE OF RESCISSION STOCK REPURCHASED BY UTC

The shares of Rescission Stock purchased by us through this Rescission Offer, if any, will be canceled and returned to the status of unauthorized and unissued shares and available for future issuance.

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EFFECT OF RESCISSION OFFER

This Rescission Offer may not terminate our liability, if any, for the failure to register the sale of the Rescission Stock with the SEC under the Securities Act. Generally, the statute of limitations for non-compliance with the requirement to register securities under the Securities Act is one year. The Rescission Stock held by persons who choose not to accept the Rescission Offer, for purposes of applicable federal securities laws, will be registered securities as of the expiration date of the Rescission Offer.

FUNDING THE RESCISSION OFFER

We will fund the Rescission Offer from available working capital.

TAX CONSIDERATIONS OF THE RESCISSION OFFER

UTC believes that the Plan's trust is exempt from U.S. federal income tax. As such, the sale will not result in any recognition of taxable income or loss for U.S. federal income tax purposes.

EXPERTS

The consolidated financial statements incorporated in this prospectus supplement by reference to our Annual Report on Form 10-K, for the year ended December 31, 2002, as amended, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until the expiration date of the Rescission Offer.

Annual Report on Form 10-K for the year ended December 31, 2002, as amended.

Quarterly Report on Form 10-Q for the period ended March 31, 2003.

Quarterly Report on Form 10-Q for the period ended June 30, 2003.

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You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

William H. Trachsel

Senior Vice President, General Counsel and Secretary

United Technologies Corporation

Hartford, Connecticut 06101

(860) 728-7000

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. We are not making the Rescission Offer in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement is accurate as of any date other than the date on the front of this document.

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\$2,000,000,000

**Debt Securities, Debt Warrants,
Currency Warrants, Stock-Index Warrants
and Common Stock**

United Technologies Corporation intends to offer from time to time debt securities (which may be convertible into shares of common stock), debt warrants, currency warrants, stock-index warrants and common stock. United Technologies Corporation will receive an aggregate amount of up to \$2,000,000,000 from the sales of the debt securities, warrants and common stock. The debt securities, warrants and common stock may be offered together or separately and in one or more series, if any, in amounts, at prices and on other terms to be determined at the time of the offering and described for you in an accompanying prospectus supplement.

United Technologies Corporation may sell the debt securities, warrants and common stock directly or to or through underwriters or dealers, and also to other purchasers or through agents. The names of any underwriters or agents that are included in a sale of debt securities, warrants or common stock to you, and any applicable commissions or discounts, will be stated in an accompanying prospectus supplement.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated March 11, 2003

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may sell any combination of the debt securities, warrants or common stock described in this prospectus in one or more offerings. From the sales of the debt securities, warrants and common stock we will receive an aggregate amount of up to \$2,000,000,000 (which is the aggregate issue price of all securities issued). This prospectus provides you with a general description of the debt securities, warrants and common stock we may offer. Each time we sell debt securities, warrants or common stock, we will provide one or more prospectus supplements, attached to the front of this prospectus, that will contain specific information about the terms of that offering. Those terms may vary from the terms described in this prospectus. Thus, the summary descriptions of the debt securities, warrants and common stock in this prospectus are subject to, and qualified by reference to, the descriptions of the particular terms of any series of the securities contained in any related prospectus supplements. The prospectus supplements may also add, update or change other information contained in this prospectus. Before you invest in a particular issue of debt securities, warrants or common stock, you should read both this prospectus and any related prospectus supplements together with additional information described under the heading *Where You Can Find More Information*.

UNITED TECHNOLOGIES CORPORATION

United Technologies Corporation and its subsidiaries provide high technology products to aerospace and building systems customers throughout the world. United Technologies Corporation and its subsidiaries conduct their business within four principal operating segments. The segments were generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services. The units participating in each operating segment and their respective principal products are as follows:

Otis offers a wide range of elevators, escalators, moving walkways and shuttles and related installation and maintenance services; and modernization products and services for elevators and escalators.

Carrier provides heating, ventilating and air conditioning (HVAC) systems and equipment for commercial and residential buildings; commercial and transport refrigeration equipment; and aftermarket service and components.

Pratt & Whitney provides commercial, general aviation and military aircraft engines; overhaul and repair services, spare parts and fleet management services for engines; power generation systems; and space propulsion systems.

Flight Systems consists of the Hamilton Sundstrand and Sikorsky businesses. Hamilton Sundstrand offers aerospace products and aftermarket services, including aircraft power generation, management and distribution systems, engine and flight controls, auxiliary power units, propellers, environmental controls systems, space life support systems and industrial products, including air compressors, metering devices, fluid handling equipment and gear drives. Sikorsky offers military and commercial helicopters and aftermarket helicopter and aircraft products and service.

United Technologies Corporation was incorporated in Delaware in 1934. Unless the context otherwise requires, UTC, we, us or our means United Technologies Corporation. UTC's principal executive offices are located at United Technologies Building, One Financial Plaza, Hartford, Connecticut 06101, telephone (860) 728-7000.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

Years Ended December 31,

2002	2001	2000	1999	1998
7.97	6.43	6.94	4.73	7.40

For purposes of computing the ratio of earnings to fixed charges, earnings are divided by fixed charges. Earnings represent the sum of income from continuing operations before income taxes and minority interests for UTC and its subsidiaries plus fixed charges, minus interest capitalized, plus amortization of interest capitalized. Fixed charges represent interest accrued on indebtedness of UTC and its consolidated subsidiaries, including interest capitalized, plus one-third of rents, the proportion deemed representative of the interest factor.

USE OF PROCEEDS

Except as otherwise provided in an accompanying prospectus supplement, the net proceeds from the sale of the debt securities, warrants and common stock described in this prospectus will be added to our general funds and will be used for our general corporate purposes and those of our subsidiaries, which may include financing possible acquisitions or repurchases of our stock.

From time to time, we may engage in additional public or private financings of a character and amount which we may deem appropriate.

LEGAL OWNERSHIP

In this prospectus and in any attached prospectus supplement, when we refer to the holders of securities as being entitled to specified rights or payments, we mean only the actual legal holders of the securities. While you will be the holder if you hold a security registered in your name, more often than not the holder will actually be either a broker, bank, other financial institution or, in the case of a global security, the depository. Our obligations, as well as the obligations of the trustee, any warrant agent, any transfer agent, any registrar and any third parties employed by us, the trustee, any warrant agent, any transfer agent and any registrar, run only to persons who are registered as holders of UTC securities, except as may be specifically provided for in a warrant agreement, warrant certificate or other contract governing the securities. For example, once we make payment to the registered holder, we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

Street Name and Other Indirect Holders

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Holding securities in accounts at banks or brokers is called holding in street name. If you hold UTC securities in street name, we will recognize only the bank or broker, or the financial institution the bank or broker uses to hold the securities, as a holder. These intermediary banks, brokers, other financial institutions and depositaries pass along principal, interest, dividends and other payments, if any, on the securities, either because they agree to do so in their customer agreements or because they are legally required to do so. This means that if you are an indirect holder, you will need to coordinate with the institution through which you hold your interest in a security in order to determine how the provisions involving holders described in this prospectus and any prospectus supplement will actually apply to you. For example, if the debt security in which you hold a beneficial interest in street name can be repaid at the option of the holder, you cannot redeem it yourself by following the procedures described in the prospectus supplement relating to that security. Instead, you would need to cause the institution through which you hold your interest to take those actions on your behalf. Your institution may have procedures and deadlines different from or additional to those described in the prospectus supplement.

If you hold UTC securities in street name or through other indirect means, you should check with the institution through which you hold your interest in a security to find out:

How it handles payments and notices with respect to the securities;

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Whether it imposes fees or charges;

How it handles voting, if applicable;

How and when you should notify it to exercise on your behalf any rights or options that may exist under the securities;

Whether and how you can instruct it to send you securities registered in your own name so you can be a direct holder as described below; and

How it would pursue rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests.

Global Securities

A global security is a special type of indirectly held security. If we choose to issue UTC securities in the form of global securities, the ultimate beneficial owners can only be indirect holders. We do this by requiring that the global security be registered in the name of a financial institution we select and by requiring that the securities included in the global security not be transferred to the name of any other direct holder unless the special circumstances described below occur (except in the case of common stock issued in global form, as described below). The financial institution that acts as the sole direct holder of the global security is called the depositary. Any person wishing to own a security issued in global form must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with the depositary. The prospectus supplement or pricing supplement indicates whether the securities will be issued only as global securities.

As an indirect holder, your rights relating to a global security will be governed by the account rules of your financial institution and of the depositary, as well as general laws relating to securities transfers. We will not recognize you as a holder of the securities and instead deal only with the depositary that holds the global security.

You should be aware that if UTC securities are issued only in the form of global securities:

you cannot have the securities registered in your own name;

you cannot receive physical certificates for your interest in the securities;

you will be a street name holder and must look to your own bank or broker for payments on the securities and protection of your legal rights relating to the securities;

you may not be able to sell interests in the securities to some insurance companies and other institutions that are required by law to own their securities in the form of physical certificates;

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the depositary's policies will govern payments, dividends, transfers, exchange and other matters relating to your interest in the global security. We, the trustee, any warrant agent, any transfer agent and any registrar have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in the global security. We, the trustee, any warrant agent, any transfer agent and any registrar also do not supervise the depositary in any way; and

the depositary will require that interests in a global security be purchased or sold within its system using same-day funds for settlement.

We may issue UTC common stock in the form of a global security, but you will nevertheless have the right to receive shares of common stock in certificated form registered in your name. You should consult your bank or broker to find out how to receive certificates in your name which represent your interests in common stock so that you will be a direct holder.

In a few special situations described later, a global security representing UTC securities will terminate and interests in it will be exchanged for physical certificates representing the

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securities. After that exchange, the choice of whether to hold securities directly or in street name will be up to you. You must consult your bank or broker to find out how to have your interests in the securities transferred to your name, so that you will be a direct holder.

Unless we specify otherwise in the prospectus supplement or pricing supplement, the special situations for termination of a global security representing UTC securities are:

When the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary and we do not or cannot appoint a successor depositary within 90 days;

When we notify the trustee that we wish to terminate the global security; or

When an event of default on debt securities has occurred and has not been cured. (Defaults are discussed later under Description of Debt Securities Events of Default.)

The prospectus supplement may also list additional situations for terminating a global security that would apply only to the particular series of securities covered by the prospectus supplement. When a global security terminates, the depositary (and not us, the trustee, any warrant agent, any transfer agent or any registrar) is responsible for deciding the names of the institutions that will be the initial direct holders.

DESCRIPTION OF DEBT SECURITIES

The Indenture

As required by federal law for all notes and debentures of companies that are publicly offered, the debt securities offered pursuant to this prospectus are governed by a document called the indenture. The indenture is a contract dated as of May 1, 2001, as amended and restated, as supplemented from time to time, between UTC and The Bank of New York, which acts as trustee. The indenture is an exhibit to the registration statement. See [Where You Can Find More Information](#) for information on how to obtain a copy of the indenture.

The following description of the indenture and summaries of some provisions of the indenture do not describe every aspect of the debt securities and are subject, and are qualified in their entirety by reference, to all the provisions of the indenture including definitions of terms used in the indenture. For example, in this section we use some terms that have been given special meaning in the indenture. We describe the meaning for only the more important terms. We also include references in parentheses to some sections of the indenture. Whenever we refer to particular sections or defined terms of the indenture in this prospectus or in the prospectus supplement, those sections or defined terms are incorporated by reference here or in the prospectus supplement.

Terms of the Debt Securities to Be

Described in the Prospectus Supplement

The particular terms of each issue of debt securities, as well as any modifications or additions to the general terms of the indenture which may be applicable in the case of that issue of debt securities, will be described in the related prospectus supplement. This description will include, where applicable:

the title of that issue of debt securities;

any limit upon the aggregate principal amount of that issue of debt securities and whether we may, without the consent of the holders of that issue of debt securities, issue additional debt securities of the same series;

the percentage of the principal amount for which that issue of debt securities will be issued;

the date or dates on which the principal of that issue of debt securities will be payable, or the method by which this date or these dates will be determined or extended;

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the rate or rates (which may be fixed or variable), at which that issue of debt securities will bear interest, if any, or the method by which this rate or these rates will be determined;

the date or dates from which any interest will accrue, or the method by which this date or these dates will be determined, the dates on which payment of any interest will be payable on any registered security and the regular record dates for these interest payment dates and the basis on which any interest will be calculated if other than on the basis of a 360-day year of twelve 30-day months;

the place or places where the principal, premium, if any, and interest, if any, on that issue of debt securities will be payable;

the place or places where that issue of debt securities may be surrendered for exchange, and notices or demands to or upon UTC in respect of debt securities may be served and any registered securities may be surrendered for registration of transfer;

the period or periods within which, the price or prices at which, the currency, currencies, currency unit or units or composite currencies in which, and the other terms and conditions upon which, that issue of debt securities may be redeemed in whole or in part, at the option of UTC;

the obligation, if any, of UTC to redeem, repay or purchase that issue of debt securities pursuant to any sinking fund or analogous provision or at the option of a holder of debt securities and the period or periods within which, the price or prices at which, the currency, currencies, currency unit or units or composite currencies in which, and the other terms and conditions upon which, that issue of debt securities will be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;

the currency, currencies or currency unit or composite currency in which that issue of debt securities will be denominated and/or in which the principal, premium, if any, or interest on that issue of debt securities will be payable;

whether the debt securities will be convertible into UTC common stock, and, if so, the terms and conditions of conversion;

whether the amount of payments of principal, premium, if any, or interest on that issue of debt securities may be determined with reference to an index, formula or other method (which index, formula or method may, without limitation, be based on one or more currencies, currency units, composite currencies, commodities, equity indices or other indices) and the manner in which these amounts will be determined;

whether UTC or a holder may elect payment of the principal, premium, if any, or interest on that issue of debt securities in a currency, currencies, currency unit or units or composite currency other than that in which the debt securities are stated to be payable, and the period or periods within which, and the terms and conditions upon which, this election may be made, and the time and manner of determining the exchange rate between the coin or currency, currencies, currency unit or units or composite currency in which the debt securities are denominated or stated to be payable and the coin or currency, currencies, currency unit or units or composite currency in which the debt securities are to be so payable;

any deletions from, modifications of or additions to the events of default

In September and October 2016 LRQA conducted a routine surveillance assessment to ISO 13485:2003 and Canadian CMDCAS requirements. Any minor nonconformities identified during the audit were subsequently resolved.

In November 2016 the Company received a notice from G-Med that it was suspending the CE Mark for the On-X AAP in the EEA until a previously submitted and approved remediation plan for this device was completed. The Company is in the process of completing the requirements of the remediation plan. See also Part I, Item 1A, Risk Factors Risks Relating To Our Business Our revenues for the On-X AAP in Europe may be adversely affected by a temporary suspension of the On-X AAP s CE-Mark for further discussion of the On-X AAPs European regulatory status.

All other registrations, licensures, certifications, and accreditations were renewed or continued, and no regulatory actions are pending from state inspections.

Backlog

The Company currently does not have a backlog of orders related to BioGlue, BioFoam, On-X heart valves, On-X AAPs, CardioGenesis cardiac laser therapy, PerClot, or PhotoFix. The limited supply of certain types or sizes of preserved tissue can result in a backlog of orders for these tissues. The amount of backlog fluctuates based on the tissues available for shipment and varies based on the surgical needs of specific cases. The Company s backlog of human tissue of more than \$4 million consists mostly of pediatric tissues that have limited availability. The Company s backlog is generally not considered firm and must be confirmed with the customer before shipment.

Research and Development and Clinical Research

The Company uses its technical and scientific expertise to identify market opportunities for new products or services or to expand the use of its current products and services, through expanded indications or product or tissue enhancements. The Company s research and development strategy is to allocate most of its available resources among the Company s core market areas based on the potential market size, estimated development time and cost, and the expected efficacy for any potential product or service offering. To the extent the Company identifies new non-core products or additional applications for its core products, the Company may attempt to license these products to corporate partners for further development or seek funding from outside sources to continue commercial development. The Company may also attempt to acquire or license additional strategically complementary products or technologies from third parties to supplement its product lines.

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Research on these and other projects is conducted in the Company's research and development laboratory or at universities or clinics where the Company sponsors research projects, under the supervision of the Company's medical and scientific advisory board. The Company also conducts preclinical and clinical studies at universities, medical centers, hospitals, and other third-party locations under contract with the Company. Research is inherently risky, and any potential products or tissues under development ultimately may not be deemed safe or effective or worth commercializing for other reasons and, therefore, may not generate a return on investment for the Company. The Company's clinical research department also collects and maintains clinical data on the use and effectiveness of its products and services. The Company uses this data to inform third parties on the benefits of the Company's products and services and to help direct its continuing improvement efforts.

In 2016, 2015, and 2014 the Company spent approximately \$13.4 million, \$10.4 million, and \$8.7 million, respectively, on research and development activities on new and existing products. These amounts represented approximately 7%, 7%, and 6% of the Company's revenues for each of 2016, 2015, and 2014, respectively.

CryoLife is in the process of developing or investigating several new products and technologies, as well as changes and enhancements to its existing products and services. The Company's strategies for driving growth include new product approvals, new product indications, global expansion, and business development. These activities will likely require additional research, new clinical studies, and/or compilation of clinical data.

The Company is currently seeking regulatory approval for BioGlue in China. The Company is currently working with the Chinese regulatory authorities and its consulting partners to develop clinical protocols to pursue this approval. Study sites have been selected and enrollment is expected to begin in 2017.

The Company is currently conducting clinical trials on the safety and efficacy of additional sizes of On-X aortic and mitral heart valves. These studies are ongoing and enrollment is expected to continue throughout 2017.

The Company is currently conducting a clinical trial to assess reduced levels of required anticoagulation or warfarin for its On-X mitral heart valves. This study is ongoing and enrollment is expected to continue throughout 2017.

The Company is currently conducting a 50 plus patient, first in man, single arm clinical study to evaluate NeoPatch™ outcomes in a real world population of diabetic foot ulcers. NeoPatch is an allograft derived from human amniotic tissue that can be used, among other things, as a covering in advanced wound care to treat diabetic foot ulcers and venous leg ulcers. The 12-week follow-up on this initial series is expected to be completed in May 2017.

At the FDA's request, the Company is conducting a post-approval study to collect long-term clinical data for the On-X aortic heart valve with reduced warfarin therapy. This study is ongoing and data collection is expected to continue throughout 2017.

The Company is conducting its pivotal clinical trial to gain approval to commercialize PerClot for surgical indications in the U.S. The Company began enrollment in the trial in the second quarter of 2015 but later suspended enrollment pending consultation with the FDA regarding the trial protocol. These discussions resulted in two amendments to the trial protocol, the last of which was approved by the FDA in July 2016. The Company is in the process of conducting site start-up activities and resumed enrollment into the trial in the fourth quarter of 2016 with the goal of receiving PMA from the FDA in the first half of 2019. See also Part I, Item 1A, Risk Factors Risks Relating To Our Business Our investment in PerClot subject to significant risks, and our ability to fully realize our investment is dependent on our ability to obtain FDA approval and to successfully commercialize PerClot in the U.S.

Patents, Licenses, and Other Proprietary Rights

The Company relies on a combination of patents, trademarks, confidentiality agreements, and security procedures to protect its proprietary products, preservation technology, trade secrets, and know-how. The Company believes that its patents, trade secrets, trademarks, and technology licensing rights provide it with important competitive advantages. The Company has also obtained additional rights through license and distribution agreements for additional products and technologies, including PerClot. The Company owns or has licensed rights to 38 U.S. patents and 11 foreign patents, including patents that relate to its technology for BioGlue and BioFoam, PHT, On-X heart valves, CardioGenesis cardiac laser therapy, PerClot, cardiac and vascular tissue preservation, and decellularization of tissue. The Company has 15 pending U.S. patent applications and 8 pending foreign applications that relate to the Company's products and services. There can be no assurance that any patent applications pending will ultimately be issued as patents.

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The remaining duration of the Company's issued patents range from 2 months to 14 years. The main patent for BioGlue expired in mid-2012 in the U.S. and expired in mid-2013 in the majority of the rest of the world. Although the patent for BioGlue has expired, this technology is still protected by trade secrets and manufacturing know-how, as well as the time and expense to obtain regulatory approvals.

The Company has confidentiality agreements with its employees, several of its consultants, and third-party vendors to maintain the confidentiality of trade secrets and proprietary information. There can be no assurance that the obligations of the Company's employees and third-parties, with whom the Company has entered into confidentiality agreements, will effectively prevent disclosure of the Company's confidential information, or provide meaningful protection for the Company's confidential information if there is unauthorized use or disclosure, or that the Company's trade secrets or proprietary information will not be independently developed by the Company's competitors.

See Part I, Item 1A, "Risk Factors" for a discussion of risks related to the Company's patents, licenses, and other proprietary rights.

Seasonality

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" Seasonality, regarding seasonality of the Company's products and services.

Employees

As of December 31, 2016 CryoLife and its subsidiaries had approximately 665 employees. None of the Company's employees are represented by a labor organization or covered by a collective bargaining agreement, and the Company has never experienced a work stoppage or interruption due to labor disputes. Management believes its relations with its employees are good.

Environmental Matters

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

Risk Factors

CryoLife's business is subject to a number of risks. See Part I, Item 1A, "Risk Factors" below for a discussion of these and other risk factors.

Available Information

It is the Company's policy to make all of its filings with the Securities and Exchange Commission, including, without limitation, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on the Company's website, www.cryolife.com, on the day of filing. All such filings made on or after November 15, 2002 have been made available on this website.

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Item 1A. Risk Factors.

Risks Relating To Our Business

We are significantly dependent on our revenues from BioGlue and are subject to a variety of risks affecting them.

BioGlue® Surgical Adhesive (BioGlue) is a significant source of our revenues, representing approximately 35% and 40% of revenues in the twelve months ended December 31, 2016 and 2015, respectively. The following could materially, adversely affect our revenues, financial condition, profitability, and cash flows:

BioGlue is a mature product, our U.S. Patent for BioGlue expired in mid-2012, and our patents in most of the rest of the world for BioGlue expired in mid-2013. Other companies may use the inventions disclosed in the expired patents to develop and make competing products;

One other company has launched competitive products in 2016 and one other is in the process of doing so. These companies have greater financial, technical, manufacturing, and marketing resources than we do and are well established in their markets. Companies other than these may also pursue regulatory approval for competitive products;

We may be unable to obtain regulatory approvals to commercialize BioGlue in certain countries other than the U.S. at the same rate as our competitors or at all. We also may not be able to capitalize on new regulatory approvals we obtain for BioGlue in countries other than the U.S., including approvals for new indications;

BioGlue contains a bovine blood protein. Animal-based products are increasingly subject to scrutiny from the public and regulators, who may have concerns about the use of animal-based products or concerns about the transmission of disease from animals to humans. These concerns could lead to additional regulations or product bans in certain countries; and

BioGlue is subject to potential adverse developments with regard to its safety, efficacy, or reimbursement practices.

We are significantly dependent on our revenues from tissue preservation services and are subject to a variety of risks affecting them.

Tissue preservation services are a significant source of our revenues, representing 37% and 43% of revenues in the twelve months ended December 31, 2016 and 2015, respectively. The following could materially, adversely affect our revenues, financial condition, profitability, and cash flows, if we are unable to:

Source sufficient quantities of some tissue types from human donors or address potential excess supply of other tissue types. We rely primarily upon the efforts of third-party procurement organizations, tissue banks, most of which are not-for-profit, and others to educate the public and foster a willingness to donate tissue. Factors beyond

our control such as supply, regulatory changes, negative publicity concerning methods of tissue recovery or disease transmission from donated tissue, or public opinion of the donor process as well as our own reputation in the industry can negatively impact the supply of tissue;

Process donated tissue cost effectively or at all due to factors such as employee turnover, ineffective or inefficient operations, or an insufficiently skilled workforce;

Compete effectively in tissue preservation services, as our competitors may have advantages over us in terms of cost structure, pricing, back-office automation, marketing and sourcing tissue; or

Mitigate sufficiently the risk that processed tissue cannot be sterilized and hence carries an inherent risk of infection or disease transmission; there is no assurance that our quality controls will be adequate to mitigate such risk.

In addition, U.S. and foreign governments and regulatory agencies have adopted restrictive laws, regulations, and rules that apply to our tissue preservation services. These include but are not limited to:

The National Organ Transplant Act of 1984 or *NOTA* , which prohibits the acquisition or transfer of human organs for valuable consideration for use in human transplantation, but allows for the payment of reasonable expenses associated with the removal, transportation, implantation, processing, preservation, quality control, and storage of human organs;

U.S. Department of Labor, Occupational Safety and Health Administration and U.S. Environmental Protection Agency requirements for prevention of occupational exposure to infectious agents and hazardous chemicals and protection of the environment; and

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European Union directives, called the EUCTD, which require that countries in the European Economic Area take responsibility for regulating tissues and cells through a Competent Authority.

Any of these laws, regulations, and rules or others could change, or the U.S., state, or foreign governments and regulatory agencies could adopt more restrictive laws or regulations in the future regarding tissue preservation services that could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

We may not realize all of the anticipated benefits of the On-X acquisition.

On January 20, 2016, we acquired On-X, at a price of \$128.2 million, subject to certain adjustments, which is the largest acquisition we have ever made. Pursuant to the acquisition, we borrowed \$75.0 million through a senior secured credit facility, subject to certain restrictions on our business, and we issued shares of common stock worth, at the time, approximately \$34.6 million.

Our ability to realize the anticipated business opportunities, growth prospects, cost savings, synergies, and other benefits of the On-X acquisition continues to depend on a number of factors including:

The success of our integration of the direct sales forces of On-X and CryoLife into a single sales force to sell, with limited exception, the entire suite of products of the combined businesses;

Our ability to successfully manage independent sales representatives and distributor relationships, particularly internationally;

The success of moving to a direct sales model with the On-X products in certain international markets;

Our ability to resolve unanticipated or undisclosed pre-existing On-X liabilities including any regulatory or quality issues;

Our ability to execute on existing On-X clinical trials in a timely and cost effective manner;

Our ability to retain existing customers and obtain new customers for On-X products; and

Unforeseen negative economic or market conditions impacting the On-X business.

Many of these factors are outside of our control and any one of them could result in increased costs, decreased revenues and diversion of management's time and energy, which could materially, adversely impact our business, financial condition, profitability, and cash flows. As a result of these or other factors, we may not realize the full benefits of the acquisition, including achieving anticipated sales, capitalizing on the FDA's approved reduced international normalized ratio (INR) indication and other growth opportunities, capturing market share from major competitors, all of whom are substantially larger and better resourced than CryoLife, or realizing expected synergies and costs savings. These benefits may not be achieved within the anticipated time frame or at all. Any of these factors could negatively impact our earnings per share, decrease or delay the expected accretive effect of the acquisition, and negatively impact the price of our

common stock. In addition, if we fail to realize the anticipated benefits of the acquisition, we could experience an interruption or loss of momentum in our existing business activities, which could adversely affect our revenues, financial condition, profitability, and cash flows.

We are significantly dependent on our revenues from On-X and are subject to a variety of risks affecting them.

On-X is a significant source of our revenues, representing 19% of revenues in the twelve months ended December 31, 2016. The following could materially, adversely affect our revenues, financial condition, profitability, and cash flows:

Our ability to achieve anticipated sales of On-X products;

Our ability to capitalize on the FDA's approved reduced INR indication;

Our ability to overcome high levels of inventory in certain markets;

Our ability to compete effectively with our major competitors, as they may have advantages over us in terms of cost structure, pricing, sales force footprint, and brand recognition;

Our ability to manage the risks associated with less favorable contract terms for On-X products on consignments at hospitals with more bargaining power; and

Changes in technology that may impact the market for mechanical heart valve and transcatheter aortic valve replacement, or TAVR devices.

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Our revenues for the On-X AAP in Europe may be adversely affected by a temporary suspension of the On-X AAP s CE-Mark.

On November 22, 2016, the Company received a letter from G-Med, indicating that it was temporarily suspending the CE Mark for the On-X AAP in the EEA, due to an allegedly untimely plan by the Company to address certain technical documentation issues found by G-Med during a review and renewal of the design examination certificate for the On-X AAP. Failure to timely lift this suspension could have an adverse effect on On-X AAP revenue in 2017.

Our investment in PerClot is subject to significant risks, and our ability to fully realize our investment is dependent on our ability to obtain FDA approval and to successfully commercialize PerClot in the U.S.

In 2010 and 2011, we entered into various agreements with SMI pursuant to which, among other things, we (a) may distribute PerClot in certain international markets and are licensed to manufacture PerClot in the U.S.; (b) acquired the technology to produce the key component in the manufacture of PerClot; and (c) obtained the exclusive right to pursue, obtain, and maintain FDA Premarket Approval (PMA) for PerClot. The initial consideration under those SMI agreements was approximately \$8.0 million paid in cash and stock. We made additional payments of \$1.75 million through 2016 and may pay contingent amounts of up to an additional \$1.0 million if certain U.S. regulatory and other commercial milestones are achieved. We may also pay SMI, subject to certain offsets, royalties on our future sales of PerClot that we manufacture.

In March 2014, we received approval of our investigational device exemption (IDE) for PerClot from the FDA, pursuant to which we began, in the first half of 2015, our pivotal clinical trial for surgical indications in the U.S. The Company began enrollment in the trial in the second quarter of 2015 but later suspended enrollment pending consultation with the FDA regarding the trial protocol. These discussions resulted in two amendments to the trial protocol, the last of which was approved by the FDA in July 2016. The Company is in the process of conducting site start-up activities and resumed the enrollment process into the trial in the fourth quarter of 2016 with the goal of receiving PMA from the FDA in the first half of 2019. Under our agreements with SMI, SMI may seek to terminate our exclusive license to pursue, obtain, and maintain the PMA if we do not secure such approval for PerClot by October of 2017 and if the parties are unable to modify this provision of the agreement through contractually required negotiations. Even though the FDA has approved the revised protocol, we may not be able to continue, or may elect to discontinue, the PerClot IDE. Finally, under the terms of our resolution with Medafor, we are precluded from marketing, selling or distributing PerClot in the U.S. until February 8, 2019, even if we obtain FDA Premarket Approval for PerClot before that date.

We will not be able to sell PerClot for surgical indications in the U.S. in future years unless, and until, we obtain FDA approval and only after the Medafor injunction has expired on February 8, 2019. Failure to obtain FDA approval could materially, adversely affect our financial condition, anticipated future revenues, and profitability. There is no guarantee that we will obtain FDA approval when anticipated, or at all. The estimated timing of regulatory approval for PerClot is based on factors beyond our control, including but not limited to, the pace of enrollment in the IDE and the approval process may be delayed because of unforeseen scheduling difficulties and unfavorable results at various stages in the IDE or the process. Management may also decide to delay or terminate our pursuit of U.S. regulatory approval for PerClot at any time due to changing conditions in our Company, in the marketplace, or in the economy in general.

Finally, even if we receive FDA PMA for PerClot, we may be unsuccessful in selling PerClot in the U.S. as competing products may have penetrated the market by the time we receive FDA approval and have substantial market share or significant market protections due to contracts, among other things. We may also be unsuccessful in selling in countries other than the U.S. due, in part, to a proliferation in other countries of multiple generic competitors, SMI s breach of its contractual obligations, or the lack of adequate intellectual property protection or enforcement. Any of these occurrences could materially, adversely affect our future revenues, financial condition, profitability, and cash flows.

Reclassification by the FDA of CryoValve® SGPV may make it commercially infeasible to continue processing the CryoValve SGPV.

In October 2014 the FDA convened an advisory committee meeting to consider the FDA's recommendation to re-classify more than minimally manipulated (MMM) allograft heart valves from an unclassified medical device to a Class III medical device. The class of MMM allograft heart valves includes our CryoValve SG pulmonary heart valve (CryoValve SGPV). At the meeting, a majority of the advisory committee panel recommended to the FDA that MMM allograft heart valves be re-classified as a Class III product. We expect that the FDA will issue a proposal for reclassification of MMM allograft heart valves, which will be subject to a public comment period before finalization. After publication of the reclassification rule, we expect to have thirty months to submit for an FDA Premarket Approval, after which the FDA will determine if, and for how long, we may continue to provide these tissues to customers. To date, the FDA has not issued a proposed reclassification for MMM allograft heart valves.

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We have continued to process and ship our CryoValve SGPV tissues. However, if the FDA ultimately classifies our CryoValve SGPV as a Class III medical device, we anticipate requesting a meeting with the FDA to determine the specific requirements to file for and obtain a Premarket Approval, and we will determine an appropriate course of action in light of those requirements. If there are delays in obtaining the Premarket Approval, if we are unsuccessful in obtaining the Premarket Approval, or if the costs associated with these activities are significant, this could materially, adversely affect our revenues, financial condition, profitability, and/or cash flows in future periods. In addition, we could decide that the requirements for obtaining a Premarket Approval make continued processing of the CryoValve SGPV infeasible, necessitating that we discontinue distribution of these tissues.

Our investment in PhotoFix is subject to a variety of risks.

In April 2016 we exercised our option and acquired the PhotoFix product line from GBI. We began distribution of PhotoFix in the first quarter of 2015 and have continued to sell PhotoFix after the acquisition.

Simultaneously with our acquisition of the PhotoFix product line, we entered into a Transition Supply Agreement with GBI, pursuant to which GBI will continue to manufacture product for us until we have completed the transfer of manufacturing operations to us (the Transition Period). During the Transition Period, we are reliant on GBI to produce quality products in the quantities we and our customers require. If GBI experiences quality, supply, or production challenges, its products could be subject to recall or other quality action; its business operations and/or its facilities that make the products could be shut down temporarily or permanently, whether by government order, natural disaster, or otherwise; and there may not be sufficient product to enable us to meet demand. Even though we have acquired PhotoFix, we may be unable to continue the manufacturing, marketing, or distribution of the product consistent with our current projections or within the time frame anticipated. Further, we may be unable to secure anticipated approvals from the FDA or international regulatory bodies to remove certain labelling restrictions or to be able to commercialize PhotoFix in key international markets, such as Europe. Any of these occurrences or actions could materially, adversely affect our revenues, financial condition, profitability, and cash flows.

Our products and tissues are highly regulated and subject to significant quality and regulatory risks.

The manufacture and sale of medical devices and processing, preservation, and distribution of human tissues are highly complex and subject to significant quality and regulatory risks. Any of the following could materially, adversely affect our revenues, financial condition, profitability, and cash flows:

Our products and tissues may be recalled or placed on hold by us, the FDA, or other regulatory bodies. For example, in 2002 the FDA issued an order related to our cardiac patch, vascular, and orthopaedic tissues processed from October of 2001 until August of 2002 and, pursuant to that order, we recalled these tissues or placed them on quarantine hold. We no longer process orthopaedic tissues due, in part, to this recall;

Our products and tissues allegedly have caused, and may in the future cause, injury to patients, which has exposed, and could in the future expose, us to product and tissue processing liability claims, and such claims could lead to additional regulatory scrutiny and inspections;

Our manufacturing and tissue processing operations are subject to regulatory scrutiny and inspections, including by the FDA and foreign regulatory agencies, and these agencies could require us to change

or modify our manufacturing operations, processes, and procedures;

Regulatory agencies could reclassify, reevaluate, or suspend our clearances and approvals to sell our products and distribute tissues, and European Notified Bodies have recently engaged in more rigorous regulatory enforcement activities and may continue to do so; and

Adverse publicity associated with our products or processed tissues or our industry could lead to a decreased use of our products or tissues, additional regulatory scrutiny, and/or product or tissue processing liability lawsuits. As an example of these risks, in January 2013 we received a warning letter from the FDA related to the manufacture of our products and our processing, preservation, and distribution of human tissue, as well as a subsequent 2014 Form 483, after a re-inspection by the FDA related to the warning letter that included observations concerning design and process validations, environmental monitoring, product controls and handling, corrective and preventive actions, and employee training. Despite an FDA re-inspection in the first quarter of 2015, after which the FDA closed out the warning letter issued in 2013, we remain subject to further inspections and oversight by the FDA and, if the FDA is not satisfied with our quality and

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regulatory compliance, it could institute a wide variety of enforcement actions, ranging from issuing additional Form 483s or warning letters, to more severe sanctions such as fines; injunctions; civil penalties; recalls of our products and/or tissues; operating restrictions; suspension of production; non-approval or withdrawal of approvals or clearances for new products or existing products; and criminal prosecution. Any further Form 483s, warning letters, recalls, holds, or other adverse action from the FDA may decrease demand for our products or tissues or cause us to write down our inventories or deferred preservation costs and could materially, adversely affect our revenues, financial condition, profitability, and cash flows.

The outcome of the 2016 U.S. Presidential and Congressional elections might result in material changes to governmental regulation of various aspects of our business and operations or cause disruptions to our business.

The outcome of the 2016 U.S. Presidential and Congressional election might result in material changes to governmental regulation of various aspects of our business and operations. We devote significant operational and managerial resources to comply with existing laws and regulations. Different interpretations and enforcement policies of existing laws and regulations, the possible repeal of existing laws and regulations, as well as the enactment of new laws and regulations, could require additional operational and managerial resources and could subject our current practices to allegations of impropriety or illegality or could require us to make significant changes to our products and operations.

We may be subject to fines, penalties, injunctions and other sanctions if we are deemed to be promoting the use of our products for unapproved, or off-label, uses.

Our business and future growth depend on the continued use of our products for specific approved uses. Generally, unless the products are approved or cleared by FDA for the alternative uses, the FDA contends that we may not make claims about the safety or effectiveness of our products for such uses. Such limitations present a risk that FDA or other federal or state law enforcement authorities could determine that the nature and scope of our sales, marketing, and/or support activities, though designed to comply with all FDA requirements, constitute the promotion of our products for an unapproved use in violation of the FDCA. We also face the risk that the FDA or other governmental authorities might pursue enforcement based on past activities that we have discontinued or changed, including sales activities, arrangements with institutions and doctors, educational and training programs and other activities. Investigations concerning the promotion of unapproved uses and related issues, are typically expensive, disruptive, and burdensome and generate negative publicity. If our promotional activities are found to be in violation of the law, we may face significant fines and penalties and may be required to change substantially our sales, promotion, grant, and educational activities. There is also a possibility that we could be enjoined from selling some or all of our products for any unapproved use. In addition, as a result of an enforcement action against us or our executive officers, we could be excluded from participation in government healthcare programs such as Medicare and Medicaid.

We are heavily dependent on our suppliers to provide quality materials and supplies.

The materials and supplies used in our product manufacturing and our tissue processing are subject to stringent quality standards and requirements, and many of these materials and supplies are subject to significant regulatory oversight and action. If materials or supplies used in our processes fail to meet these standards and requirements or are subject to recall or other quality action, an outcome could be the rejection or recall of our products or tissues and/or the immediate expense of the costs of the manufacturing or preservation. In addition, if these materials and supplies are recalled or the related suppliers and/or their facilities are shut down temporarily or permanently, whether by government order, natural disaster, or otherwise, there may not be sufficient materials or supplies available for purchase to allow us to manufacture our products or process tissues. Any of these occurrences or actions could materially, adversely affect our revenues, financial condition, profitability, and cash flows.

We are dependent on sole source suppliers and single facilities.

Certain of the materials, supplies, and services that are key components of our product manufacturing or our tissue processing are sourced from single vendors. As a result, our ability to negotiate favorable terms with those vendors may be limited, and if those vendors experience operational, financial, quality, or regulatory difficulties, or those vendors and/or their facilities cease operations temporarily or permanently, we could be forced to cease product manufacturing or tissue processing until the vendors resume operations or alternative vendors could be identified and qualified. We could also be forced to purchase alternative materials, supplies, or services with unfavorable terms due to diminished bargaining power. We also conduct substantially all of our operations at two facilities Austin, Texas for our On-X product line, and Kennesaw, Georgia for all of our other products. If one of these facilities ceases operations temporarily or permanently, due to natural disaster or other reason, our business could be substantially disrupted.

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Our existing insurance coverage may be insufficient, and we may be unable to obtain insurance in the future.

Our products and tissues allegedly have caused, and may in the future cause, injury to patients using our products or tissues, and we have been, and may be, exposed to product and tissue processing liability claims. We maintain claims-made insurance policies to mitigate our financial exposure to product and tissue processing liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. In addition, our product and tissue processing liability insurance policies do not include coverage for any punitive damages. Although we have insurance for product and tissue processing liabilities, securities, property, and general liabilities, it is possible that:

We could be exposed to product and tissue processing liability claims and security claims greater than the amount that we have insured;

We may be unable to obtain future insurance policies in an amount sufficient to cover our anticipated claims at a reasonable cost or at all; or

Because we are not insured against all potential losses, natural disasters or other catastrophes could adversely impact our business.

Any product liability claim, with or without merit, could result in an increase in our product insurance rates or our inability to secure coverage on reasonable terms, if at all. Even in the absence of a claim, our insurance rates may rise in the future. Any product liability claim, even a meritless or unsuccessful one, would be time-consuming and expensive to defend and could result in the diversion of our management's attention from our business and result in adverse publicity, withdrawal of clinical trial participants, injury to our reputation and loss of revenue.

If we are unsuccessful in arranging acceptable settlements of future product or tissue processing liability claims or future securities class action or derivative claims, we may not have sufficient insurance coverage and liquid assets to meet these obligations. If we are unable to obtain satisfactory insurance coverage in the future, we may be subject to additional future exposure from product or tissue processing liability or securities claims. Additionally, if one or more claims with respect to which we may become, in the future, a defendant should result in a substantial verdict rendered in favor of the plaintiff(s), such verdict(s) could exceed our available insurance coverage and liquid assets. If we are unable to meet required future cash payments to resolve any outstanding or any future claims, this will materially, adversely affect our financial condition, profitability, and cash flows. Further, although we have an estimated reserve for our unreported product and tissue processing liability claims for which we do expect that we will obtain recovery under our insurance policies, these costs could exceed our current estimates. Finally, our facilities could be materially damaged by tornadoes, flooding, other natural disasters, or catastrophic circumstances, for which we are not fully covered by business interruption and disaster insurance, and, even with such coverage, we could suffer substantial losses in our inventory and operational capacity, along with a potential adverse impact on our customers and opportunity costs for which our insurance would not compensate us.

Any of these events could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

We operate in highly competitive market segments, face competition from large, well-established medical device companies with significant resources and may not be able to compete effectively.

The market for our products and services is intensely competitive and significantly affected by new product introductions and activities of other industry participants. We face intense competition from other companies engaged in the following lines of business:

The sale of mechanical, synthetic, and animal-based tissue valves for implantation;
The sale of synthetic and animal-based patches for implantation;
The sale of surgical adhesives, surgical sealants, and hemostatic agents; and
The processing and preservation of human tissue.

A significant percentage of market revenues from these products was generated by Baxter International Inc., Ethicon (a Johnson & Johnson Company), Medtronic, Inc., Abbott Laboratories, LivaNova PLC, Edwards Life Sciences Corp., C.R. Bard, Inc., Integra Life Sciences Holdings, or LifeNet. Several of our competitors enjoy competitive advantages over us, including:

Greater financial and other resources for product research and development, sales and marketing, acquisitions, and patent litigation;

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Enhanced experience in, and resources for, launching, marketing, distributing, and selling products;
Greater name recognition as well as more recognizable trademarks for products similar to the products that we sell;
More established record of obtaining and maintaining FDA and other regulatory clearances or approvals for products and product enhancements;
More established relationships with healthcare providers and payors;
Lower cost of goods sold or preservation costs;
Advanced systems for back office automation, product development and manufacturing, which may provide certain cost advantages; and
Larger direct sales forces and more established distribution networks.

Our competitors may develop services, products or processes with significant advantages over the products, services and processes that we offer or are seeking to develop, and our products and tissues may not be able to compete successfully. If we are unable to successfully market and sell innovative and in-demand products and services, our competitors may gain competitive advantages that may be difficult to overcome. In addition, consolidation among our competitors may make it more difficult for us to compete effectively. If we fail to compete effectively, this could materially, adversely affect our revenues, financial condition, profitability, and cash flows.

If we experience decreasing prices for our goods and services and we are unable to reduce our expenses, our results of operations will suffer.

We may experience decreasing prices for our goods and services due to pricing pressure experienced by our customers from managed care organizations and other third-party payers, increased market power of our customers as the medical device industry consolidates, and increased competition among medical engineering and manufacturing services providers. If the prices for our goods and services decrease and we are unable to reduce our expenses, our results of operations will be adversely affected.

Certain of our products and technologies are subject to significant intellectual property risks and uncertainty.

We own patents, patent applications, and licenses relating to our technologies, which we believe provide us with important competitive advantages. In addition, we have certain proprietary technologies and methods that we believe provide us with important competitive advantages. We cannot be certain that our pending patent applications will issue as patents or that no one will challenge the validity or enforceability of any patent that we own or license.

We have obtained licenses from third parties for certain patents and patent application rights, including rights related to our PerClot technologies. These licenses allow us to use intellectual property rights owned by or licensed to these third parties. We do not control the maintenance, prosecution, enforcement or strategy for many of these patents or patent application rights and as such are dependent in part on the owners of the intellectual property rights to maintain their viability. Their failure to do so could significantly impair our ability to exploit those technologies.

Furthermore, competitors may independently develop similar technologies or duplicate our technologies or design around the patented aspects of such technologies. In addition, our technologies or products or services could infringe patents or other rights owned by others, or others could infringe our patents. If we become involved in a patent dispute, the costs of the dispute could be expensive, and if we were to lose or decide to settle the dispute, the amounts or effects of the settlement or award by a tribunal could be costly. For example, in 2015 we resolved a patent infringement case with Medafor related to technology we licensed from SMI. The settlement of that patent infringement case resulted in the continuation of an injunction prohibiting us from marketing, selling, or distributing PerClot in the U.S. until February 8, 2019. We incurred substantial attorneys' fees and costs in pursuing and defending that case, and only a portion of those fees and costs are subject to recovery through indemnification. Should we be forced to sue a potential infringer, if we are

unsuccessful in prohibiting infringements of our patents, should the validity of our patents be successfully challenged by others, or if we are sued by another party for alleged infringement (whether we ultimately prevail or not), our revenues, financial condition, profitability, and cash flows could be materially, adversely affected.

We may be subject to damages resulting from claims that we, our employees, or our independent contractors have wrongfully used or disclosed alleged trade secrets of others.

Some of our employees were previously employed at other medical device or tissue companies. We may also hire additional employees who are currently employed at other medical device or tissue companies, including our competitors. Additionally, consultants or other independent agents with which we may contract may be or have been in a contractual arrangement with one or more of our competitors. Although no claims against us are currently pending, we may be subject to

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claims that these employees or independent contractors have used or disclosed any party's trade secrets or other proprietary information. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail to defend such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to market existing or new products, which could severely harm our business.

Our key growth vectors may not generate anticipated benefits.

Our strategic plan is focused on four growth vectors, primarily in the cardiac surgery segment, which are expected to drive our business in the near term. These growth vectors and their key elements are described below:

New Products Drive growth through new products including the On-X heart valve;

New Indications Broaden the reach of certain of the Company's products, including the On-X heart valve and BioGlue, with new or expanded approvals and indications in the U.S. or in international markets;

Global Expansion Expand the Company's current products and services into new markets, including emerging markets, and accelerate growth by developing new direct sales territories overseas; and

Business Development Selectively pursue potential acquisition, licensing, or distribution rights of companies or technologies that complement CryoLife's existing products, services, and infrastructure and expand our footprint in the cardiac surgery space, such as the recent acquisition of On-X, as well as divestitures of certain of our non-cardiac surgery product lines, such as the HeRO Graft in 2016, and licensing of products developed internally with non-cardiac applications. To the extent the Company identifies new non-core products or additional applications for its core products, the Company may attempt to license these products to corporate partners for further development or seek funding from outside sources to continue commercial development.

Although management continues to implement these strategies, we cannot be certain that they will ultimately drive business expansion and enhance shareholder value.

We continue to evaluate expansion through acquisitions of, or licenses with, investments in, and distribution arrangements with, other companies or technologies, which may carry significant risks.

One of our growth strategies is to selectively pursue potential acquisition, licensing, or distribution rights of companies or technologies that complement CryoLife's existing products, services, and infrastructure. In connection with one or more of the acquisition transactions, we may:

Issue additional equity securities that would dilute our stockholders' ownership interest in us;

Use cash that we may need in the future to operate our business;

Incur debt, including on terms that could be unfavorable to us or debt that we might be unable to repay;

Structure the transaction in a manner that has unfavorable tax consequences, such as a stock purchase that does not permit a step-up in the tax basis for the assets acquired;

Be unable to realize the anticipated benefits, such as increased revenues, cost savings, or synergies from additional sales;

Be unable to integrate, upgrade, or replace the purchasing, accounting, financial, sales, billing, employee benefits, payroll, and regulatory compliance functions of an acquisition target;

Be unable to secure or retain the services of key employees related to the acquisition;

Be unable to succeed in the marketplace with the acquisition; or

Assume material unknown liabilities associated with the acquired business.

As an example of these risks, we recently acquired On-X, which we financed by incurring further debt, using cash on hand, and issuing additional equity securities. This acquisition poses many of the same risks as set forth above. Any of the above risks, should they occur, could materially, adversely affect our revenues, financial condition, profitability, and cash flows, including the inability to recover our investment or cause a write down or write off of such investment, associated goodwill, or assets.

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Our charges to earnings resulting from acquisition, restructuring and integration costs may materially adversely affect the market value of our common stock.

We account for the completion of our acquisitions using the purchase method of accounting. We allocate the total estimated purchase prices to net tangible assets, amortizable intangible assets and indefinite-lived intangible assets, and based on their fair values as of the date of completion of the acquisitions, record the excess of the purchase price over those fair values as goodwill. Our financial results, including earnings per share, could be adversely affected by a number of financial adjustments required in purchase accounting including the following:

We will incur additional amortization expense over the estimated useful lives of certain of the intangible assets acquired in connection with acquisitions during such estimated useful lives;

We will incur additional depreciation expense as a result of recording purchased tangible assets;

To the extent the value of goodwill or intangible assets becomes impaired, we may be required to incur material charges relating to the impairment of those assets;

Cost of sales may increase temporarily following an acquisition as a result of acquired inventory being recorded at its fair market value;

Earnings may be affected by changes in estimates of future contingent consideration to be paid when an earn-out is part of the consideration; or

Earnings may be affected by transaction and implementation costs, which are expensed immediately.

Our indebtedness could adversely affect our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.

Our current and future levels of indebtedness could:

Limit our ability to borrow money for our working capital, capital expenditures, development projects, strategic initiatives, or other purposes;

Require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness, thereby reducing funds available to us for other purposes;

Limit our flexibility in planning for, or reacting to, changes in our operations or business;

Make us more vulnerable to downturns in our business, the economy, or the industry in which we operate;

Restrict us from making strategic acquisitions, introducing new technologies, or exploiting business opportunities; and

Expose us to the risk of increased interest rates as most of our borrowings are at a variable rate of interest.

The agreements governing our indebtedness contain restrictions that limit our flexibility in operating our business.

The agreements governing our indebtedness contain, and any instruments governing future indebtedness of ours may contain, covenants that impose significant operating and financial restrictions on us, including restrictions or prohibitions on our ability to, among other things:

Incur or guarantee additional debt;

Pay dividends on or make distributions in respect of our share capital or make other restricted payments;

Repurchase or redeem capital stock or subordinated indebtedness;

Transfer or sell certain assets;

Create liens on certain assets;

Consolidate or merge with, or sell or otherwise dispose of all, or substantially all, of our assets to other companies;

Enter into certain transactions with our affiliates;

Pledge the capital stock of any of our subsidiaries;

Enter into agreements which restrict our ability to pay dividends or incur liens;

Make material changes in our equity capital structure;

Engage in any line of business substantially different than that in which we are currently engaged; and

Make certain investments, including strategic acquisitions.

As a result of these covenants, we are limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

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We have pledged substantially all of our assets as collateral under our existing debt agreement. If we default on the terms of such debt agreements and the holders of our indebtedness accelerate the repayment of such indebtedness, there can be no assurance that we will have sufficient assets to repay our indebtedness.

Under our existing credit agreement, we are required to satisfy and maintain specified financial ratios including a maximum consolidated leverage ratio and a minimum interest coverage ratio. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios. A failure to comply with the covenants contained in our existing debt agreement could result in an event of default under such agreements, which, if not cured or waived, could have a material, adverse effect on our business, financial condition, and profitability. In the event of any default under our existing debt agreement, the holders of our indebtedness thereunder:

Will not be required to lend any additional amounts to us;

Could elect to declare all indebtedness outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit, if applicable; or

Could require us to apply all of our available cash to repay such indebtedness.

If we are unable to repay those amounts, the holders of our secured indebtedness could proceed against the collateral granted to them to secure that indebtedness. If the indebtedness under our existing debt agreements were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

We are subject to a variety of risks as we seek to expand our business globally.

The expansion of our international operations is subject to a number of risks, which may vary significantly from the risks we face in our U.S. operations, including:

Difficulties and costs associated with staffing and managing foreign operations, including foreign distributor relationships and developing direct sales operations in key foreign countries;

Expanded compliance obligations, including obligations associated with the Foreign Corrupt Practices Act, the U.K. Bribery Law, local anti-corruption laws, and Office of Foreign Asset Control administered sanction programs;

Broader exposure to corruption;

Overlapping and potentially conflicting international legal and regulatory requirements, as well as unexpected changes in international legal and regulatory requirements or reimbursement policies and programs;

Longer accounts receivable collection cycles in certain foreign countries and additional cost of collection of those receivables;

Diminished protection for intellectual property and the presence of a growing number of generic or smaller competitors in some countries;

Changes in currency exchange rates, particularly fluctuations in the British Pound and Euro as compared to the U.S. Dollar, including any fluctuations in exchange rates due to the exit of the U.K. from the European Union;

Differing local product preferences and product requirements;

Adverse economic or political changes or political instability;

Potential trade restrictions, exchange controls, and import and export licensing requirements including tariffs; and

Potential adverse tax consequences of overlapping tax structures.

Our failure to address adequately these risks could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

We are dependent on our key personnel.

Our business and future operating results depend in significant part upon the continued contributions of our key personnel, including qualified personnel with medical device and tissue processing experience, and senior management with experience in the medical device or tissue processing space, many of whom would be difficult to replace. Our business and future operating results, including production at our manufacturing and tissue processing facilities, also depend in significant part upon our ability to attract and retain qualified management, operations, processing, marketing, sales, and support personnel for our operations. Our main facilities are in the Atlanta, Georgia area and Austin, Texas, where the local supply of qualified personnel in the medical device and tissue processing industries is limited. Competition for such personnel is intense, and we cannot ensure that we will be successful in attracting and retaining such personnel. If we lose any key employees, if any of our key employees fail to perform adequately, or if we are unable to attract and retain skilled employees as needed, this could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

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Continued fluctuation of foreign currencies relative to the U.S. Dollar could materially, adversely affect our business.

The majority of our foreign product and tissue processing revenues are denominated in British Pounds and Euros and, as such, are sensitive to changes in exchange rates. In addition, a portion of our dollar-denominated product sales are made to customers in other countries who must convert local currencies into U.S. Dollars in order to purchase these products. We also have balances, such as cash, accounts receivable, accounts payable, and accruals that are denominated in foreign currencies. These foreign currency transactions and balances are sensitive to changes in exchange rates. Fluctuations in exchange rates of British Pounds and Euros or other local currencies in relation to the U.S. Dollar could materially reduce our future revenues as compared to the comparable prior periods. Should this occur, it could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

Significant disruptions of information technology systems or breaches of information security could adversely affect our business.

We rely upon a combination of sophisticated information technology systems and traditional recordkeeping to operate our business. In the ordinary course of business, we collect, store, and transmit large amounts of confidential information (including, but not limited to, personal information, intellectual property and, in some instances, patient data). We have also outsourced elements of our operations to third parties, including elements of our information technology infrastructure and, as a result, we manage a number of independent vendor relationships with third parties who may or could have access to our confidential information. Our information technology and information security systems and records are potentially vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees or vendors. Our information technology and information security systems are also potentially vulnerable to malicious attacks by third parties. Such attacks are of ever-increasing levels of sophistication and are made by groups and individuals with a wide range of motives (including, but not limited to, industrial espionage and market manipulation) and expertise. While we have invested significantly in the protection of data and information technology, there can be no assurance that our efforts will prevent service interruptions or security breaches. For example, although we have taken security precautions and are assessing additional precautions to provide greater data security, certain data may be vulnerable to loss in a catastrophic event. We have only limited cyber-insurance coverage that will not cover a number of the events described above and this insurance is subject to deductibles and coverage limitations, and we may not be able to maintain this insurance. We thus have no insurance for most of the claims that could be raised and, for those where we have coverage, those claims could exceed the limits of our coverage. Any interruption or breach in our systems could adversely affect our business operations and/or result in the loss of critical or sensitive confidential information or intellectual property, and could result in financial, legal, business and reputational harm to us or allow third parties to gain material, inside information that they may use to trade in our securities.

Health care policy changes, including U.S. health care reform legislation signed in 2010, may have a material, adverse effect on us.

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators, and third-party payers to control these costs and, more generally, to reform the U.S. health care system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products and could limit the acceptance and availability of our products. The adoption of some or all of these proposals could have a material, adverse effect on our financial condition and profitability.

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 imposed significant new taxes on medical device makers in the form of a 2.3 percent excise tax on all U.S. medical device sales that commenced in January 2013. While this tax has been suspended for 2016 and 2017, and while the

underlying legislation might be repealed or replaced as a result of the 2016 U.S. Presidential and Congressional election, there is no guarantee that the excise tax will not be reinstated. Most recently, on January 20, 2017, President Trump issued an executive order titled *Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal*. The impact of this executive order and the future of the Patient Protection and Affordable Care Act are unclear. There are many programs and requirements for which the details have not yet been fully established or the consequences are not fully understood. These proposals may affect aspects of our business. We cannot predict what further reform proposals, if any, will be adopted, when they will be adopted, or what impact they may have on us. However, any changes that lower reimbursement for our products or reduce medical procedure volumes could adversely affect our business and profitability.

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Our sales are affected by challenging domestic and international economic conditions and their constraining effect on hospital budgets, and demand for our products and tissue preservation services could decrease in the future, which could materially, adversely affect our business.

The demand for our products and tissue preservation services can fluctuate from time to time. In challenging economic environments, hospitals attempt to control costs by reducing spending on consumable and capital items, which can result in reduced demand for some of our products and services. If demand for our products or tissue preservation services decreases significantly in the future, our revenues, profitability, and cash flows would likely decrease, possibly materially. In addition, the manufacturing throughput of our products and the processing throughput of our preservation services would necessarily decrease, which would likely adversely impact our margins and, therefore, our profitability, possibly materially. Further, if demand for our products and/or tissue preservation services materially decreases in the future, we may not be able to ship our products and/or tissues before they expire, which would cause us to write down our inventories and/or deferred preservation costs.

Our sales may also be affected by challenging economic conditions in countries around the world, in addition to the U.S., particularly in countries where we have significant BioGlue or On-X heart valve sales or where BioGlue or the On-X heart valve is still in a growth phase. These factors could materially, adversely affect our revenues, financial condition, and profitability.

We may not be successful in obtaining necessary clinical results and regulatory approvals for products and services in development, and our new products and services may not achieve market acceptance.

Our growth and profitability will depend, in part, upon our ability to complete development of, and successfully introduce, new products and services, or expand upon existing indications, which requires that we invest significant time and resources to obtain required regulatory approvals, including significant investment of time and resources into clinical trials. Although we have conducted clinical studies on certain products and services under development, which indicate that such products and services may be effective in a particular application, we cannot be certain that we will be able to successfully execute on these clinical trials or that the results we obtain from clinical studies will be sufficient for us to obtain any required regulatory approvals or clearances.

As noted above, we are currently engaged in a Premarket Approval clinical trial for PerClot, as well as clinical trials in China for BioGlue and in the United States for the On-X valve. Each of these trials is subject to the risks outlined herein. We cannot give assurance that the relevant regulatory agencies will clear or approve these or any new products and services, or new indications, on a timely basis, if ever, or that the new products and services, or new indications, will adequately meet the requirements of the applicable market or achieve market acceptance. We may encounter delays or rejections during any stage of the regulatory approval process if clinical or other data fails to demonstrate satisfactory compliance with, or if the service or product fails to meet, the regulatory agency's requirements for safety, efficacy, and quality, or the regulatory agency otherwise has concerns about our quality or regulatory compliance. Regulatory requirements for safety, efficacy, and quality may become more stringent due to changes in applicable laws, regulatory agency policies, or the adoption of new regulations. Clinical trials may also be delayed or halted due to the following, among other factors:

- Unanticipated side effects;
- Lack of funding;
- Inability to locate or recruit clinical investigators;
- Inability to locate, recruit, and qualify sufficient numbers of patients;

Redesign of clinical trial programs;

Inability to manufacture or acquire sufficient quantities of the product, tissues, or any other components required for clinical trials;

Changes in development focus; or

Disclosure of trial results by competitors.

Our ability to complete the development of any of our products and services is subject to all of the risks associated with the commercialization of new products and services based on innovative technologies. Such risks include unanticipated technical or other problems, manufacturing, or processing difficulties, and the possibility that we have allocated insufficient funds to complete such development. Consequently, we may not be able to successfully introduce and market our products or services, or we may not be able to do so on a timely basis. These products and services may not meet price or performance objectives and may not prove to be as effective as competing products and services.

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If we are unable to successfully complete the development of a product, service, or application, or if we determine for financial, technical, competitive, or other reasons not to complete development or obtain regulatory approval or clearance of any product, service, or application, particularly in instances when we have expended significant capital, this could materially, adversely affect our revenues, financial condition, profitability, and cash flows. Research and development efforts are time consuming and expensive, and we cannot be certain that these efforts will lead to commercially successful products or services. Even the successful commercialization of a new product or service in the medical industry can be characterized by slow growth and high costs associated with marketing, under-utilized production capacity, and continuing research and development and education costs. The introduction of new products or services may require significant physician training and years of clinical evidence derived from follow-up studies on human patients in order to gain acceptance in the medical community.

All of these could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

The success of certain of our products and preservation services depends upon relationships with healthcare professionals.

If we fail to maintain our working relationships with healthcare professionals, many of our products and preservation services may not be developed and marketed to appropriately meet the needs and expectations of the professionals who use and support our products and preservation services. The research, development, marketing, and sales of many of our new and improved products and preservation services are dependent upon our maintaining working relationships with healthcare professionals. We rely on these professionals to provide us with considerable knowledge and experience regarding our products and preservation services. Healthcare professionals assist us as researchers, marketing and training consultants, product consultants, and speakers. If we are unable to maintain our relationships with these professionals and do not continue to receive their advice and input, the development and commercialization of our products and preservation services could suffer, which could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

If healthcare providers are not adequately reimbursed for procedures conducted with our products, or if reimbursement policies change adversely, we may not be successful in marketing and selling our products or preservation services.

Most of our customers, and the health care providers to whom our customers supply medical devices, rely on third-party payers, including government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which medical devices that incorporate components we manufacture or assemble are used. Healthcare providers, facilities, and government agencies are unlikely to purchase our products or implant our tissues if they are not adequately reimbursed for these procedures. Unless a sufficient amount of peer-reviewed clinical data about our products and preservation services has been published, third-party payors, including insurance companies and government agencies, may refuse to provide reimbursement. The continuing efforts of governmental authorities, insurance companies, and other payors of health care costs to contain or reduce these costs could lead to patients being unable to obtain approval for payment from these third-party payors. Furthermore, even if reimbursement is provided, it may not be adequate to fully compensate the clinicians or hospitals. Some third-party payors may impose restrictions on the procedures for which they will provide reimbursement. If healthcare providers cannot obtain sufficient reimbursement from third-party payors for our products or preservation services or the screenings conducted with our products, we may not achieve significant market acceptance. Acceptance of our products in international markets will depend upon the availability of adequate reimbursement or funding within prevailing healthcare payment systems. Reimbursement, funding, and healthcare payment systems vary significantly by country. We may not obtain approvals for reimbursement in a timely manner or at all.

We are subject to various federal and state anti-kickback, self-referral, false claims privacy, and transparency laws, and similar laws, any breach of which could cause a material, adverse effect on our business, financial condition, and profitability.

Our relationships with physicians, hospitals and other healthcare providers are subject to scrutiny under various federal anti-kickback, self-referral, false claims, privacy and transparency laws and similar laws, often referred to collectively as healthcare compliance laws. Healthcare compliance laws are broad, can be ambiguous and are complex, and even minor inadvertent violations can give rise to claims that the relevant law has been violated. Possible sanctions for violation of these healthcare compliance laws include monetary fines, civil and criminal penalties, exclusion from federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs, workers compensation programs, and TRICARE (the healthcare system administered by or on behalf of the U.S. Department of Defense for uniformed services beneficiaries, including active duty and their dependents, retirees and their dependents), and forfeiture of amounts collected in violation of such prohibitions. Any government investigation or a finding of a violation of these laws could result in a material, adverse effect on our business, financial condition, and profitability.

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Anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation, or receipt of any form of remuneration in return for the referral of an individual or the ordering or recommending of the use of a product or service for which payment may be made by Medicare, Medicaid, or other government-sponsored healthcare programs. We have entered into consulting agreements, speaker agreements, research agreements, and product development agreements with healthcare professionals, including some who may order our products or make decisions to use them. While these transactions were structured with the intention of complying with all applicable laws, including state anti-referral laws and other applicable anti-kickback laws, it is possible that regulatory or enforcement agencies or courts may in the future view these transactions as prohibited arrangements that must be restructured or for which we would be subject to other significant civil or criminal penalties. We have also adopted the AdvaMed Code of Conduct into our Code of Business Conduct, which governs our relationships with healthcare professionals, including our payment of travel and lodging expenses, research and educational grant procedures, and sponsorship of third-party conferences. In addition, we regularly conduct training sessions on these principles. However, there can be no assurance that regulatory or enforcement authorities will view these arrangements as being in compliance with applicable laws or that one or more of our employees or agents will not disregard the rules we have established. Because our strategy relies on the involvement of healthcare professionals who consult with us on the design of our products, perform clinical research on our behalf, or educate the market about the efficacy and uses of our products, we could be materially impacted if regulatory or enforcement agencies or courts interpret our financial relationships with healthcare professionals who refer, or order, our products to be in violation of applicable laws and determine that we would be unable to achieve compliance with such applicable laws. This could harm our reputation and the reputations of the healthcare professionals we engage to provide services on our behalf. In addition, the cost of noncompliance with these laws could be substantial since we could be subject to monetary fines and civil or criminal penalties, and we could also be excluded from federally funded healthcare programs, including Medicare and Medicaid, for noncompliance.

The Federal False Claims Act (FCA) imposes civil liability on any person or entity that submits, or causes the submission of, a false or fraudulent claim to the U.S. Government. Damages under the FCA can be significant and consist of the imposition of fines and penalties. The FCA also allows a private individual or entity with knowledge of past or present fraud against the federal government to sue on behalf of the government to recover the civil penalties and treble damages. The U.S. Department of Justice (DOJ) on behalf of the government has previously alleged that the marketing and promotional practices of pharmaceutical and medical device manufacturers, including the off-label promotion of products or the payment of prohibited kickbacks to doctors, violated the FCA, resulting in the submission of improper claims to federal and state healthcare entitlement programs such as Medicaid. In certain cases, manufacturers have entered into criminal and civil settlements with the federal government under which they entered into plea agreements, paid substantial monetary amounts, and entered into corporate integrity agreements that require, among other things, substantial reporting and remedial actions going forward.

The Physician Payments Sunshine Act and similar state laws require us to annually report in detail certain payments and transfer of value from us to healthcare professionals, such as reimbursement for travel and meal expenses or compensation for services provided such as training, consulting, and research and development. This information is then posted on the website of the Center of Medicare and Medicaid Services (CMS). Certain states also prohibit some forms of these payments, require adoption of marketing codes of conduct and regulate our relationships with physicians and other referral sources.

The scope and enforcement of all of these laws is uncertain and subject to rapid change, especially in light of the scarcity of applicable precedent and regulations. There can be no assurance that federal or state regulatory or enforcement authorities will not investigate or challenge our current or future activities under these laws. Any investigation or challenge could have a material, adverse effect on our business, financial condition, and profitability. Any state or federal regulatory or enforcement review of us, regardless of the outcome, would be costly and time consuming. Additionally, we cannot predict the impact of any changes in or interpretations of these laws, whether these changes will be retroactive or

will have effect on a going-forward basis only.

Consolidation in the health care industry could have an adverse effect on our revenues and results of operations.

Many health care industry companies, including health care systems, are consolidating to create new companies with greater market power. As the health care industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by us. If we are forced to reduce our prices because of consolidation in the health care industry, our revenues would decrease and our consolidated earnings, financial condition, and/or cash flows would suffer.

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Our business could be negatively impacted as a result of shareholder activism.

In recent years, shareholder activists have become involved in numerous public companies. Shareholder activists frequently propose to involve themselves in the governance, strategic direction, and operations of the company. We may in the future become subject to such shareholder activity and demands. Such demands may disrupt our business and divert the attention of our management and employees, and any perceived uncertainties as to our future direction resulting from such a situation could result in the loss of potential business opportunities, be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel and business partners, all of which could adversely affect our business. In addition, actions of activist shareholders may cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Our acquired federal tax net operating loss and general business credit carryforwards will be limited or may expire, which could result in greater future income tax expense and adversely impact future cash flows.

The Company's federal tax net operating loss and general business credit carryforwards include acquired net operating loss carryforwards. Such acquired net operating loss carryforwards will be limited in future periods due to a change in control of the Company's former subsidiaries Hemosphere, Inc. (Hemosphere) and Cardiogenesis Corporation (Cardiogenesis) mandated by Section 382 of the Internal Revenue Code of 1986, as amended. The Company believes that its acquisitions of these companies each constituted a change in control, and that prior to the Company's acquisition, Hemosphere had experienced other equity ownership changes that should be considered a change in control. The Company also acquired net operating loss carryforwards in the acquisition of On-X Life Technologies that are limited under Section 382. However, the Company believes that such net operating loss carryforwards from On-X will be fully realizable prior to expiration. The deferred tax assets recorded on the Company's Consolidated Balance Sheets exclude amounts that it expects will not be realizable due to these changes in control. A portion of the acquired net operating loss carryforwards is related to state income taxes for which 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. Limitations on the Company's federal tax net operating loss and general business credit carryforwards could result in greater future income tax expense and adversely impact future cash flows.

Our operating results may fluctuate significantly on a quarterly or annual basis as a result of a variety of factors, many of which are outside our control.

Fluctuations in our quarterly and annual financial results have resulted and will continue to result from numerous factors, including:

Changes in demand for the products we sell;

Increased product and price competition, due to the announcement or introduction of new products by our competitors, market conditions, the regulatory landscape or other factors;

Changes in the mix of products we sell;

Availability of materials and supplies, including tissue used in preservation services;

Our pricing strategy with respect to different product lines;

Strategic actions by us, such as acquisitions of businesses, products, or technologies;

Effects of domestic and foreign economic conditions and exchange rates on our industry and/or customers;

The divestiture or discontinuation of a product line or other revenue generating activity;

The relocation and integration of manufacturing operations and other strategic restructuring;

Regulatory actions that may necessitate recalls of our products or warning letters that negatively affect the markets for our products;

Failure of government and private health plans to adequately and timely reimburse the users of our products;

Our determination whether or not to pay cash dividends;

Costs incurred by us in connection with the termination of contractual and other relationships, including distributorships;

Our ability to collect outstanding accounts receivable in selected countries outside of the United States;

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The expiration or utilization of deferred tax assets such as net operating loss carry-forwards;

Market reception of our new or improved product offerings; and

The loss of any significant customer, especially in regard to any product that has a limited customer base. We have based our current and future expense levels largely on our investment plans and estimates of future events, although certain of our expense levels are, to a large extent, fixed. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenue relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service, or marketing decisions that could have a material and adverse effect on our business, results of operations and financial condition. Due to the foregoing factors, some of which are not within our control, the price of our common stock may fluctuate substantially. If our quarterly operating results fail to meet or exceed the expectations of securities analysts or investors, our stock price could drop suddenly and significantly. We believe the quarterly comparisons of our financial results are not always meaningful and should not be relied upon as an indication of our future performance.

Risks Related to Ownership of our Common Stock

We do not anticipate paying any dividends on our common stock for the foreseeable future.

In December 2015 our Board of Directors discontinued dividend payments on our common stock for the foreseeable future. If we do not pay cash dividends, our shareholders may receive a return on their investment in our common stock only if the market price of our common stock has increased when they sell shares of our common stock that they own. Future dividends, if any, will be authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our directors, including, among other things, our financial condition, liquidity, earnings projections and business prospects. In addition, restrictions in our credit facility limit our ability to pay future dividends. We can provide no assurance of our ability to pay cash dividends in the future.

Provisions of Florida law and anti-takeover provisions in our organizational documents may discourage or prevent a change of control, even if an acquisition would be beneficial to shareholders, which could affect our share price adversely and prevent attempts by shareholders to remove current management.

We are subject to the Florida affiliated transactions statute, which generally requires approval by the disinterested directors or supermajority approval by shareholders for affiliated transactions between a corporation and an interested stockholder. Additionally our organizational documents contain provisions restricting persons who may call shareholder meetings and allowing the Board of Directors to fill vacancies and fix the number of directors. These provisions of Florida law and our articles of incorporation and bylaws could prevent attempts by shareholders to remove current management, prohibit or delay mergers or other changes of control transactions and discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our shareholders.

Item 1B. Unresolved Staff Comments.

The Company has no unresolved written comments received from the staff of the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934 not less than 180 days before December 31, 2016 (the end of the fiscal year to which this Form 10-K relates).

Item 2. Properties.

The Company's corporate headquarters and laboratory facilities consist of approximately 190,400 square feet of leased manufacturing, administrative, laboratory, and warehouse space located on a 21.5-acre setting, with an additional 14,400 square feet of off-site warehouse space both located in Kennesaw, Georgia. The manufacturing and tissue processing space includes approximately 20,000 square feet of class 10,000 clean rooms and 8,000 square feet of class 100,000 clean rooms. This extensive clean room environment provides a controlled aseptic environment for manufacturing and tissue preservation. Two back-up emergency generators assure continuity of Company manufacturing operations and liquid nitrogen freezers maintain preserved tissue at or below -135°C . The Company manufactures products from its Medical Devices segment, including: BioGlue and BioFoam, and processes and preserves tissues from its Preservation Services segment at the Company's headquarters facility. The Company is also beginning to manufacture PerClot and is transferring manufacturing of PhotoFix to the Company's headquarters facility. The Company's corporate headquarters also includes a CardioGenesis cardiac laser therapy maintenance and evaluation laboratory space.

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The Company's corporate complex includes the Ronald C. Elkins Learning Center, a 3,600 square foot auditorium that holds 225 participants, and a 1,500 square foot training lab, both equipped with closed-circuit and satellite television broadcast capability allowing live broadcasts from and to anywhere in the world. The Elkins Learning Center provides visiting surgeons with a hands-on training environment for surgical and implantation techniques for the Company's technology platforms.

The Company's On-X facility consists of approximately 75,000 square feet of combined manufacturing, warehouse, and office space leased in Austin, Texas.

The Company also leases a facility, which consists of 15,600 square feet of combined manufacturing and office space in Atlanta, Georgia, which is available for future manufacturing operations, and a facility, which consists of approximately 25,000 square feet of additional office space in Kennesaw, Georgia, which the Company sublets to a third party.

The Company's European subsidiary, Europa, maintains a leased facility located in Guildford, England, which contains approximately 6,500 square feet of office space. In addition, Europa leases shared warehousing space through its third-party shipper.

Item 3. Legal Proceedings.

There are no material legal proceedings pending, or known by the Company to be contemplated, to which the Company is a party or to which any of its property is subject, that is required to be disclosed.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Executive Officers of the Registrant

The following table lists the executive officers of CryoLife as of December 31, 2016 and their ages, positions with CryoLife, and the dates from which they have continually served as executive officers with CryoLife. Each of the executive officers of CryoLife was elected by the Board of Directors to serve until the Board of Directors' meeting immediately following the next annual meeting of shareholders or until his or her earlier removal by the Board of Directors or his or her resignation.

Name	Service as Executive	Age	Position
J. Patrick Mackin	Since 2014	50	Chairman, President, and Chief Executive Officer
Scott B. Capps	Since 2007	50	Vice President, Clinical Research
John E. Davis	Since 2015	52	Senior Vice President, Global Sales and Marketing
David C. Gale, Ph.D.	Since 2012	49	Vice President, Research and Development
Jean F. Holloway	Since 2015	59	Senior Vice President, General Counsel, Chief Compliance Officer, and Secretary
Amy D. Horton, CPA	Since 2006	46	Vice President and Chief Accounting Officer
D. Ashley Lee, CPA	Since 2000	52	Executive Vice President, Chief Operating Officer, and Chief Financial Officer
William R. Matthews	Since 2015	62	Senior Vice President, Operations, Regulatory, and Quality

Jim McDermid Since 2016 57 Senior Vice President, Chief Human Resources Officer

J. Patrick Mackin assumed the position of President and Chief Executive Officer in September 2014, was appointed to the Board of Directors in October 2014 and was appointed Chairman in May 2015. Mr. Mackin has more than 20 years of experience in the medical device industry. Prior to joining CryoLife, Mr. Mackin served as President of Cardiac Rhythm

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Disease Management, the largest operating division of Medtronic, Inc. At Medtronic, he previously held the positions of Vice President, Vascular, Western Europe and Vice President and General Manager, Endovascular Business Unit. Prior to joining Medtronic in 2002, Mr. Mackin worked for six years at Genzyme, Inc. serving as Senior Vice President and General Manager for the Cardiovascular Surgery Business Unit and as Director of Sales, Surgical Products division. Before joining Genzyme, Mr. Mackin spent four years at Deknatel/Snowden-Pencer, Inc. in various roles and three years as a First Lieutenant in the U.S. Army. Mr. Mackin received an MBA from Northwestern University's Kellogg Graduate School of Management and is a graduate of the U.S. Military Academy at West Point.

Scott B. Capps was appointed to the position of Vice President of Clinical Research in November 2007. Prior to this position, Mr. Capps served as Vice President, General Manager of CryoLife Europa, Ltd. in the U.K. from February 2005 to November 2007 and Director, European Clinical Affairs from April 2003 to January 2005. Mr. Capps joined CryoLife in 1995 as Project Engineer for the allograft heart valve program and was promoted to Director, Clinical Research in 1999. Mr. Capps is responsible for overseeing and implementing clinical trials to achieve FDA and International approval of CryoLife's medical products in cardiac, vascular, and orthopaedic clinical areas. Before joining CryoLife, Mr. Capps was a Research Assistant in the Department of Bioengineering at Clemson University working to develop a computerized database and radiographic image analysis system for total knee replacement. Mr. Capps received his Bachelor of Industrial Engineering from the Georgia Institute of Technology and his M.S. in Bioengineering from Clemson University.

John E. Davis was appointed to the position of Senior Vice President, Global Sales and Marketing in September 2015. He has over 20 years of experience in Sales and Marketing and Executive Leadership. Prior to joining CryoLife, he served as Executive Vice President of Sales and Marketing at CorMatrix, a privately held medical device company creating innovative biomaterial devices to repair damaged heart tissue from March 2012 to September 2015. Prior to CorMatrix, he served for four years as a Vice President of Sales in the Cardiac Rhythm Management Devices business at St. Jude Medical, now part of Abbott Laboratories. Before St. Jude Medical, he served for 14 years with Medtronic in the Cardiac Rhythm Disease Management division in senior sales leadership roles. In his early career he served with Roche Diagnostics and Ciba-Geigy Corporation. Mr. Davis received a Bachelor's degree from Western Carolina University.

David C. Gale, Ph.D. has served as Vice President, Research and Development since January 2012. Dr. Gale joined the Company in August 2009 as the Director, Biomaterials and Product Development. He was promoted to Senior Director, Biomaterials and Device Engineering in April 2011. Prior to joining CryoLife, Dr. Gale was with Sinexus, Inc., a start-up medical device company, from January 2007 to August 2009. He joined Sinexus as their Vice President of Research and was promoted to the position of Vice President, Research and Development in July 2007. Dr. Gale has 17 years of experience in biomaterials and medical device product research and development including roles at Abbott Vascular and Guidant Corporation. Dr. Gale is the inventor or co-inventor on over 70 issued U.S. patents related to the design and manufacture of medical devices. He received his Ph.D. in Materials Science from the University of Alabama at Birmingham, his M.S. in Chemical Engineering from Auburn University and has received both an M.Sc. in Instrumentation and Analysis and a B.Sc. in Chemistry from Manchester University in the U.K.

Jean F. Holloway, Esq was appointed to the position of Senior Vice President, General Counsel, Secretary, and Chief Compliance Officer in January 2016. She previously served as Vice President, General Counsel, and Secretary beginning in April 2015 and was subsequently appointed to the additional position of Chief Compliance Officer in October 2015. Prior to joining CryoLife, she held various positions, including Vice President, General Counsel and Secretary of C.R. Bard, Inc., Deputy General Counsel, Medtronic, Inc., Vice President, Litigation, Boston Scientific, Inc., and Deputy General Counsel, Guidant Corporation. Ms. Holloway also spent nearly 15 years in private practice as a trial lawyer at Dorsey & Whitney, Faegre & Benson and Sidley & Austin. She clerked for two years on the Seventh Circuit Court of Appeals for the Honorable Luther M. Swygert. Ms. Holloway has a J.D./M.B.A. from the University of Chicago and two undergraduate degrees from Yale University in engineering and political science.

Amy D. Horton, CPA was appointed to the position of Vice President and Chief Accounting Officer in January 2016 and had previously served as Chief Accounting Officer of CryoLife since 2006. Ms. Horton has been with the Company since January 1998, serving as Controller from April of 2000 to August 2006 and as Assistant Controller prior to that. From 1993 to 1998, Ms. Horton was employed as a Certified Public Accountant with Ernst & Young, LLP. She received her B.S. and Master's degrees in Accounting from Brigham Young University in Provo, Utah.

D. Ashley Lee, CPA has served as Executive Vice President, Chief Operating Officer, and Chief Financial Officer since November 2004. Mr. Lee has been with the Company since December 1994 serving as Vice President of Finance, Chief Financial Officer, and Treasurer from December 2002 to November 2004; as Vice President, Finance and Chief Financial Officer from April 2000 to December 2002; and as Controller of the Company from December 1994 until April 2000. From 1993 to 1994, Mr. Lee served as the Assistant Director of Finance for Compass Retail, Inc., a wholly owned subsidiary of Equitable Real Estate. From 1987 to 1993, Mr. Lee was employed as a certified public accountant with Ernst & Young, LLP. Mr. Lee received his B.S. in Accounting from the University of Mississippi.

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William R. Matthews was appointed to the position of the Senior Vice President of Operations, Quality, and Regulatory in May 2015. Before joining CryoLife, he was the Managing Partner at BioDevice Solutions, a Medical device consultancy firm from 2002 to 2014, where he served as a Senior Operations, Quality, and Regulatory Consultant, recognized for his experience in FDA compliance, manufacturing, new technology start-ups, and product submissions. Prior to that, he was Vice President of Government Affairs and Quality Systems for Cardinal Health's Viasys Healthcare, Executive Vice President of Operations, Regulatory Affairs, and Quality Systems at Xylum Corporation, and the Corporate Director of Regulatory, Quality, Manufacturing, and Engineering at Fresenius Medical Care (formerly Grace National Medical Care division). Mr. Matthews obtained a Bachelor's degree in Chemistry from St. Peter's University and also attended the Business Administration Programs at Rutgers University and Fairleigh Dickinson University.

Jim McDermid was appointed to the position of the Senior Vice President, Chief Human Resources Officer in September 2016. Mr. McDermid joined the company from Medtronic where he was Group Vice President of Human Resources for the Cardiac and Vascular Group. Prior to joining the Cardiac and Vascular Group, Mr. McDermid was the Vice President of Human Resources for Medtronic's Spinal & Biologics Division, located in Memphis, TN. His other Medtronic positions included HR Director, U.S. Cardiovascular and HR Director, Structural Heart. Prior to Medtronic, Mr. McDermid worked for several Fortune 500 companies, including Rockwell International, Hudson Bay Company, Cooper Industries, and International Paper. Mr. McDermid holds a bachelor's from the University of Toronto and a Master of Arts from McMaster University in Ontario.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.****Market Price of Common Stock**

The Company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol CRY. The following table sets forth, for the periods indicated, the intra-day high and low sale prices per share of common stock on the NYSE.

2016	High	Low
First quarter	\$ 11.33	\$ 8.94
Second quarter	13.00	10.64
Third quarter	18.64	11.69
Fourth quarter	20.15	16.40

2015	High	Low
First quarter	\$ 12.29	\$ 9.60
Second quarter	11.50	9.50
Third quarter	11.75	9.41
Fourth quarter	11.31	9.59

As of February 10, 2017 the Company had 270 shareholders of record.

Dividends

The Company initiated a cash dividend in the third quarter of 2012 and paid the dividend quarterly until, in December 2015, the Company's Board of Directors discontinued dividend payments for the foreseeable future.

On January 20, 2016 the Company entered into the Third Amended and Restated Credit Agreement (Amended Debt Agreement) with Capital One, National Association; Healthcare Financial Solutions, LLC; Fifth Third Bank; and Citizens Bank, National Association, collectively the (Lending Parties). The Amended Debt Agreement prohibits the payment of cash dividends. See also Part II, Item 8, Note 13 of the Notes to Consolidated Financial Statements for further discussion of the Company's credit agreement.

Table of Contents**Issuer Purchases of Equity Securities**

The following table provides information about purchases by the Company during the quarter ended December 31, 2016 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934.

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
10/01/16 - 10/31/16	--	\$ --	--	\$ --
11/01/16 - 11/30/16	5,630	17.20	--	--
12/01/16 - 12/31/16	--	--	--	--
Total	5,630	17.20	--	--

The common shares purchased during the quarter ended December 31, 2016 were tendered to the Company in payment of taxes on stock compensation and were not part of a publicly announced plan or program.

Under the Company's Amended Debt Agreement, the Company is prohibited from repurchasing its common stock, except for the repurchase of stock from employees or directors of the Company when tendered in payment of taxes or the exercise price of stock options, upon the satisfaction of certain requirements.

Table of Contents**Item 6. Selected Financial Data.**

The following Selected Financial Data should be read in conjunction with the Company's consolidated financial statements and notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial information included elsewhere in this report.

Selected Financial Data

(in thousands, except percentages, current ratio, and per share data)

	2016 ¹	2015	December 31, 2014	2013	2012
Operations					
Revenues	\$ 180,380	\$ 145,898	\$ 144,641	\$ 140,763	\$ 131,718
Operating income	21,820	5,354	8,838	13,820	12,612
Net income ²	10,778	4,005	7,322	16,172	7,946
Net income applicable to common shareholders - diluted ²	10,576	3,918	7,164	15,813	7,768
Research and development expense as a percentage of revenues	7%	7%	6%	6%	6%
Income Per Common Share²					
Basic	\$ 0.33	\$ 0.14	\$ 0.26	\$ 0.59	\$ 0.29
Diluted	\$ 0.32	\$ 0.14	\$ 0.25	\$ 0.57	\$ 0.28
Dividend Declared Per Common Share	\$ --	\$ 0.120	\$ 0.118	\$ 0.108	\$ 0.050
Year-End Financial Position					
Total assets	\$ 316,140	\$ 181,179	\$ 176,157	\$ 174,683	\$ 157,156
Working capital	117,131	90,058	85,401	85,605	56,073
Long-term liabilities	77,055	6,323	6,845	9,214	7,614
Shareholders' equity	208,983	155,251	148,685	144,747	128,112
Current ratio ³	5:1	6:1	5:1	5:1	4:1

¹ In January 2016 the Company completed its acquisition of On-X Life Technologies Holdings, Inc., which is being operated as a wholly owned subsidiary of CryoLife. In 2016 the Company also sold its HeRO Graft product line and its ProCol product line, and ceased sales of these products during 2016.

² The 2013 net income and income per common share includes the favorable effect of a \$12.7 million pre-tax gain on the sale of an investment in the common stock of Medafor, Inc. as a result of C.R. Bard, Inc. completing its acquisition of the outstanding common shares of Medafor, Inc.

³ Current assets divided by current liabilities.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview**

CryoLife, Inc. (CryoLife, the Company, we, or us), incorporated in 1984 in Florida, is a leader in medical device manufacturing, processing, and distribution of medical devices and implantable human tissues used in cardiac surgical procedures. CryoLife's medical devices include: BioGlue® Surgical Adhesive (BioGlue); BioFoam® Surgical Matrix (BioFoam); On-X valves and surgical products; CardioGenesis cardiac laser therapy product line, which includes a laser console system and single-use, fiber-optic handpieces, that are used for the treatment of coronary artery disease in patients with severe angina; PerClot®, an absorbable powdered hemostat, which the Company distributes internationally for Starch Medical, Inc. (SMI); and PhotoFix, a bovine pericardial patch stabilized using a dye-mediated photo-fixation process that requires no glutaraldehyde. The cardiac and vascular human tissues distributed by CryoLife include the CryoValve® SG pulmonary heart valve (CryoValve SGPV) and the CryoPatch® SG pulmonary cardiac patch (CryoPatch SG), both of which are processed using CryoLife's proprietary SynerGraft technology.

For the year ended December 31, 2016 CryoLife reported record annual revenues of \$180.4 million, increasing 24% over the prior year, primarily due to the acquisition of On-X Life Technologies Holdings, Inc. (On-X) in January 2016. The Company generated \$19.7 million in cash flows from operations during 2016. See the Results of Operations section below for additional analysis of the fourth quarter and full year 2016 results. See Part I, Item 1, Business, for further discussion of the Company's business and activities during 2016.

Critical Accounting Policies

A summary of the Company's significant accounting policies is included in Part II, Item 8, Note 1 of the Notes to Consolidated Financial Statements. 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 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 following are accounting policies that management believes are most important to the portrayal of the Company's financial condition and results of operations and may involve a higher degree of judgment and complexity.

Fair Value Measurements

The Company records certain financial instruments at fair value, including: cash equivalents, certain marketable securities, certain restricted securities, contingent consideration, and derivative instruments. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis, although as of December 31, 2016 the Company has not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value measurement framework.

The Company also measures certain non-financial assets at fair value on a non-recurring basis. These non-recurring valuations include evaluating assets such as cost method investments, long-lived assets, and non-amortizing intangible assets for impairment; allocating value to assets in an acquired asset group; applying accounting for business combinations; and allocating goodwill to divested components of a business. The Company uses the fair value measurement framework to value these assets and reports these fair values in the periods in which they are recorded or written down.

The fair value measurement framework includes a 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 requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method

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used. Such assumptions could include: estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of its financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

Deferred Preservation Costs

Deferred preservation costs includes costs of cardiac and vascular tissues available for shipment, tissues currently in active processing, and tissues held in quarantine pending release to implantable status. By federal law, human tissues cannot be bought or sold; therefore, the tissues the Company preserves are not held as inventory. The costs the Company incurs to procure and process cardiac and vascular tissues are instead accumulated and deferred. Deferred preservation costs are stated at the lower of cost or market value on a first-in, first-out basis and are deferred until revenue is recognized. Upon shipment of tissue to an implanting facility, revenue is recognized and the related deferred preservation costs are expensed as cost of preservation services. Cost of preservation services also includes, as applicable, lower of cost or market write-downs and impairments for tissues not deemed to be recoverable, and includes, as incurred, idle facility expense, excessive spoilage, extra freight, and rehandling costs.

The calculation of deferred preservation costs involves judgment and complexity and uses the same principles as inventory costing. Donated human tissue is procured from deceased human donors by organ and tissue procurement organizations (OTPOs), which consign the tissue to the Company for processing, preservation, and distribution. Deferred preservation costs consist primarily of the procurement fees charged by the OTPOs, direct labor and materials (including salary and fringe benefits, laboratory supplies and expenses, and freight-in charges), and indirect costs (including allocations of costs from support departments and facility allocations). Fixed production overhead costs are allocated based on actual tissue processing levels, to the extent that they are within the range of the facility's normal capacity.

These costs are then allocated among the tissues processed during the period based on cost drivers, such as the number of donors or number of tissues processed. The Company applies a yield estimate to all tissues in process and in quarantine to estimate the portion of tissues that will ultimately become implantable. Management estimates quarantine yields based on its experience and reevaluates these estimates periodically. Actual yields could differ significantly from the Company's estimates, which could result in a change in tissues available for shipment, and could increase or decrease the balance of deferred preservation costs. These changes could result in additional cost of preservation services expense or could increase per tissue preservation costs, which would impact gross margins on tissue preservation services in future periods.

The Company regularly evaluates its deferred preservation costs to determine if the costs are appropriately recorded at the lower of cost or market value. The Company also evaluates its deferred preservation costs for costs not deemed to be recoverable, including tissues not expected to ship prior to the expiration date of their packaging. Lower of cost or market value write-downs are recorded if the tissue processing costs incurred exceed the estimated market value of the tissue services, based on recent average service fees at the time of the evaluation. Impairment write-downs are recorded based on the book value of tissues deemed to be impaired. Actual results may differ from these estimates. Write-downs of deferred preservation costs are expensed as cost of preservation services, and these write-downs are permanent impairments that create a new cost basis, which cannot be restored to its previous levels if the Company's estimates change.

The Company recorded write-downs to its deferred preservation costs totaling \$897,000, \$483,000, and \$540,000 for the years ended December 31, 2016, 2015, and 2014, respectively, due primarily to tissues not expected to ship prior to the expiration date of the packaging.

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 periodically assesses the recoverability of its deferred tax assets, as necessary, when the Company experiences changes that could materially affect its determination of the recoverability of its deferred tax assets. Management provides a valuation allowance against its deferred tax assets when, as a result of this analysis, management believes it is more likely than not that some portion or all of its deferred tax assets will not be realized.

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Assessing the recoverability of deferred tax assets involves judgment and complexity. Estimates and judgments used in the determination of the need for a valuation allowance and in calculating the amount of a needed valuation allowance include, but are not limited to, the following:

Projected future operating results;

Anticipated future state tax apportionment;

Timing and amounts of anticipated future taxable income;

Timing of the anticipated reversal of book/tax temporary differences;

Evaluation of statutory limits regarding usage of certain tax assets; and

Evaluation of the statutory periods over which certain tax assets can be utilized.

Significant changes in the factors above, or other factors, could affect the Company's ability to use its deferred tax assets. Such changes could have a material, adverse impact on the Company's profitability, financial position, and cash flows. The Company will continue to assess the recoverability of its deferred tax assets, as necessary, when the Company experiences changes that could materially affect its prior determination of the recoverability of its deferred tax assets.

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 former subsidiaries Hemosphere, Inc. (Hemosphere) and Cardiogenesis Corporation (Cardiogenesis), as mandated by Section 382 of the Internal Revenue Code of 1986, as amended. The Company believes that its acquisitions of these companies each constituted a change in control, and that prior to the Company's acquisition, Hemosphere had experienced other equity ownership changes that should be considered a change in control. The Company also acquired net operating loss carryforwards in the acquisition of On-X that are limited under Section 382. However, the Company believes that such net operating loss carryforwards from On-X will be fully realizable prior to expiration. The deferred tax assets recorded on the Company's Consolidated Balance Sheets exclude amounts that it expects will not be realizable due to these changes in control. A portion of the acquired net operating loss carryforwards is related to state income taxes for which 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.

Valuation of Acquired Assets or Businesses

As part of its corporate strategy, the Company is seeking to identify and capitalize upon acquisition opportunities of complementary product lines and companies. The Company evaluates and accounts for acquired patents, licenses, distribution rights, and other tangible or intangible assets as the purchase of an asset or asset group, or as a business combination, as appropriate. The determination of whether the purchase of a group of assets should be accounted for as an asset group or as a business combination requires significant judgment based on the weight of available evidence.

For the purchase of an asset group, the Company allocates the cost of the asset group, including transaction costs, to the individual assets purchased based on their relative estimated fair values. In-process research and development acquired as part of an asset group is expensed upon acquisition. The Company accounts for business combinations using the acquisition method. Under this method, the allocation of the purchase price is based on the fair value of the tangible and identifiable intangible assets acquired and the liabilities assumed as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the tangible net assets and identifiable intangible assets is recorded as goodwill. Transaction costs related to a business combination are expensed as incurred. In-process research and development acquired as part of a business combination is accounted for as an indefinite-lived intangible asset until the related research and development project gains regulatory approval or is discontinued.

The Company typically engages external advisors to assist in determining the fair value of acquired asset groups or business combinations, using valuation methodologies such as: the excess earnings, the discounted cash flow, or the relief from royalty methods. The determination of fair value in accordance with the fair value measurement framework requires significant judgments and estimates, including, but not limited to: timing of product life cycles, estimates of future revenues, estimates of profitability for new or acquired products, cost estimates for new or changed manufacturing processes, estimates of the cost or timing of obtaining regulatory approvals, estimates of the success of competitive products, and discount rates. Management, in consultation with its advisor(s), makes these estimates based on its prior experiences and industry knowledge. Management believes that its estimates are reasonable, but actual results could differ significantly from the Company's estimates. A significant change in management's estimates used to value acquired asset groups or business combinations could result in future write-downs of tangible or intangible assets acquired by the Company and, therefore, could materially impact the Company's financial position and profitability. If the value of the liabilities assumed by the

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Company, including contingent liabilities, is determined to be significantly different from the amounts previously recorded in purchase accounting, the Company may need to record additional expenses or write-downs in future periods, which could materially impact the Company's financial position and profitability.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) amended its Accounting Standards Codification and created a new Topic 842, *Leases*. The final guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at the commencement date and recognize expenses on their income statements similar to the current Topic 840, *Leases*. It is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is evaluating the impact the adoption of this standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company expects that the allowed change in accounting for forfeitures as they occur will not have a material impact on the Company's results of operations over time, as the Company believes that its estimated forfeiture rate approximates its actual forfeiture rate. However, the Company believes that this could have a favorable or unfavorable impact in any given quarter due to the timing of actual forfeitures. The Company believes that the change in accounting for excess tax benefits and the discontinuance of the APIC pool could have a material impact on its results of operations, which could be favorable or unfavorable, depending on movements in the Company's stock price. The Company does not believe that the adoption of this standard will have a material impact on its financial position and cash flows.

In May 2014 the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. Since ASU 2014-09 was issued, several additional ASUs have been issued to clarify various elements of the guidance. These standards provide guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. The standard requires that an entity recognize revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is effective for reporting periods beginning after December 15, 2017, and early adoption is permitted. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is performing its initial evaluation of its standard arrangements with customers and its arrangements specific to certain of the Company's product lines or product offerings. The Company is continuing to evaluate the effect that ASU 2014-09 will have on its financial position, results of operations, cash flows, and related disclosures.

Table of Contents**Results of Operations***(In thousands)***Year Ended December 31, 2016 Compared to Year Ended December 31, 2015****Revenues**

	Revenues for the		Revenues as a Percentage of	
	Three Months Ended December 31,		Total Revenues for the	
	2016	2015	2016	2015
Products:				
BioGlue and BioFoam	\$ 15,982	\$ 16,488	36%	41%
On-X	9,073	--	20%	--%
CardioGenesis cardiac laser therapy	2,367	3,487	5%	9%
PerClot	1,038	1,096	2%	3%
PhotoFix	465	437	1%	1%
HeRO Graft	--	2,008	--%	5%
ProCol	--	397	--%	1%
Total products	28,925	23,913	64%	60%
Preservation services:				
Cardiac tissue	7,442	6,970	17%	18%
Vascular tissue	8,662	8,955	19%	22%
Total preservation services	16,104	15,925	36%	40%
Total	\$ 45,029	\$ 39,838	100%	100%

	Revenues for the		Revenues as a Percentage of	
	Twelve Months Ended		Total Revenues for the	
	2016	2015	2016	2015
Products:				
BioGlue and BioFoam	\$ 63,461	\$ 59,332	35%	41%
On-X	34,232	--	19%	--%
CardioGenesis cardiac laser therapy	7,864	9,419	5%	6%
PerClot	4,021	4,083	2%	3%
PhotoFix	1,871	1,396	1%	1%

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HeRO Graft	2,325	7,546	1%	5%
ProCol	218	1,305	--%	1%
Total products	113,992	83,081	63%	57%
Preservation services:				
Cardiac tissue	29,697	28,059	17%	19%
Vascular tissue	36,691	34,758	20%	24%
Total preservation services	66,388	62,817	37%	43%
Total	\$ 180,380	\$ 145,898	100%	100%

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Revenues increased 13% and 24% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. A detailed discussion of the changes in product revenues and preservation services revenues for the three and twelve months ended December 31, 2016 is presented below.

Products

Revenues from products increased 21% and 37% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. These increases were primarily due to the acquisition of On-X during the first quarter of 2016. A detailed discussion of the changes in product revenues for BioGlue and BioFoam; On-X; CardioGenesis cardiac laser therapy; PerClot; PhotoFix; Hemodialysis Reliable Outflow Graft (HeR® Graft); and ProC® Vascular Bioprosthesis (ProCol) is presented below.

The Company's sales of certain products through its direct sales force to U.K. hospitals are denominated in British Pounds, and its sales to German, Austrian, French, and Irish hospitals and certain distributors are denominated in Euros and are, therefore, subject to changes in foreign exchange rates. During 2015, the U.S. Dollar strengthened materially, as compared to the British Pound and Euro and, as a result, the Company's revenues denominated in these currencies decreased when translated into U.S. Dollars. This trend continued during the twelve months ended December 31, 2016. Any further change in these exchange rates could have a material, adverse effect on the Company's revenues denominated in these currencies. Additionally, the Company's sales to many distributors around the world are denominated in U.S. Dollars and, although these sales are not directly impacted by the strong U.S. Dollar, the Company believes that its distributors may be delaying or reducing purchases of products in U.S. Dollars due to the relative price of these goods in their local currencies.

BioGlue and BioFoam

Revenues from the sale of surgical sealants, consisting of BioGlue and BioFoam, decreased 3% for the three months ended December 31, 2016, as compared to the three months ended December 31, 2015. This decrease was primarily due to a 4% decrease in the volume of milliliters sold, which decreased revenues by 3%, and the unfavorable impact of foreign exchange rates, which decreased revenues by 1%, partially offset by an increase in average sales prices, which increased revenues by 1%.

Revenues from the sale of surgical sealants increased 7% for the twelve months ended December 31, 2016, as compared to the twelve months ended December 31, 2015. This increase was primarily due to a 7% increase in the volume of milliliters sold, which increased revenues by 7%.

The decrease in sales volume of surgical sealants for the three months ended December 31, 2016 was primarily due to a decrease in sales of BioGlue in Japan, partially offset by an increase in BioGlue sales in domestic markets. The increase in sales volume of surgical sealants for the twelve months ended December 31, 2016 was primarily due to sales of BioGlue in France. In October 2015 the Company transitioned the French market from a distributor to a direct sales model, and as a result, there were no shipments of BioGlue into France for the first three quarters of the comparable period in 2015. To a lesser extent, BioGlue revenues in the twelve months ended December 31, 2016 were affected by an increase in sales volume in Europe and domestic markets and a decrease in sales volume in Japan.

Sales of BioGlue in Japan decreased due to the timing of distributor ordering patterns. The Company is currently seeking regulatory approval for BioGlue in China and, if this effort is successful, management believes this will provide an additional international growth opportunity for BioGlue in future years.

Domestic BioGlue revenues accounted for 58% and 56% of total BioGlue revenues for the three and twelve months ended December 31, 2016, respectively, and 55% and 58% of total BioGlue revenues for the three and twelve months ended December 31, 2015, respectively. BioFoam sales accounted for less than 1% of surgical sealant sales for the three and twelve months ended December 31, 2016 and 2015. BioFoam is currently approved for sale in certain international markets.

On-X

On January 20, 2016 CryoLife acquired On-X, an Austin, Texas-based, privately held mechanical heart valve company. The On-X catalogue of products includes the On-X prosthetic aortic and mitral heart valves and the On-X ascending aortic prosthesis (AAP). On-X product revenues also include revenues from the distribution of CarbonAid Diffusion catheters, the sale of Chord-X ePTFE sutures for mitral chordal replacement, and revenue from pyrolytic carbon coating services to other medical device manufacturers. On-X products are distributed in both domestic and international markets.

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On-X combined pre- and post-acquisition revenues for the three and twelve months ended December 31, 2016 increased 9% and 7%, respectively, when compared to On-X's pre-acquisition revenues for the three and twelve months ended December 31, 2015, respectively, despite disruptions in the sales channel caused by the transition to direct selling in various domestic and international markets that On-X previously served through distributors.

Management believes that the growth rate for On-X products will accelerate in future years due to the selling efforts of the Company's larger, realigned sales force as they undertake additional training and become more experienced with selling On-X products. The Company expects this sales force will drive an increase in implants and will open additional hospitals to using On-X products.

CardioGenesis Cardiac Laser Therapy

Revenues from the Company's CardioGenesis cardiac laser therapy product line consist primarily of sales of handpieces and, in certain periods, revenues from the sale of laser consoles. Revenues from cardiac laser therapy decreased 32% for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. Revenues from the sale of laser consoles were \$507,000 and \$1.1 million for the three months ended December 31, 2016 and 2015, respectively. Revenues from the sale of handpieces decreased 25% for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. This decrease was primarily due to a 22% decrease in unit shipments of handpieces, which decreased revenues by 23%, and a decrease in average sales prices, which decreased revenues by 2%.

Revenues from cardiac laser therapy decreased 17% for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015. Revenues from the sale of laser consoles were \$507,000 and \$1.2 million for the twelve months ended December 31, 2016 and 2015, respectively. Revenues from the sale of handpieces decreased 13% for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015. This decrease was primarily due to a 14% decrease in unit shipments of handpieces, which decreased revenues by 14%, partially offset by an increase in average sales prices, which increased revenues by 1%.

The decrease in revenues from both handpiece and laser console sales was due in part to the deemphasizing of this product line during 2016, during the On-X integration period and the realignment of the Company's salesforce, and due to a reduction in procedure volume, which can vary from quarter to quarter due to physician case volume and patient-specific factors, which determine whether cardiac laser therapy can be used adjunctively with cardiac bypass surgery.

PerClot

Revenues from the sale of PerClot decreased 5% for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. This decrease was primarily due to the unfavorable effect of foreign currency exchange, which decreased revenues by 3%, a 5% decrease in the volume of grams sold, which decreased revenues by 1%, and a decrease in average selling prices, which decreased revenues by 1%.

Revenues from the sale of PerClot decreased 2% for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015. This decrease was primarily due to a decrease in average selling prices, which decreased revenues by 3% and the unfavorable effect of foreign currency exchange, which decreased revenues by 2%, partially offset by favorable sales volume, which increased revenues by 3%.

The sales volume increase for the twelve months ended December 31, 2016 was primarily due to sales of PerClot in France, due to our transition to a direct sales model in this market in October 2015. The decrease in average selling prices for the twelve months ended December 31, 2016 was primarily due to price reductions to certain customers in Europe as a

result of pricing pressures from competitive products.

The Company is conducting its pivotal clinical trial to gain approval to commercialize PerClot for surgical indications in the U.S. The Company began enrollment in the trial in the second quarter of 2015 but later suspended enrollment pending consultation with the FDA regarding the trial protocol. These discussions resulted in two amendments to the trial protocol, the last of which was approved by the FDA in July 2016. The Company is in the process of conducting site start-up activities and resumed enrollment into the trial in the fourth quarter of 2016 with the goal of receiving PMA from the FDA in the first half of 2019.

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PhotoFix revenues increased 6% for the three months ended December 31, 2016, as compared to the three months ended December 31, 2015. This increase was primarily due to an increase in units sold, which increased revenues by 6%. PhotoFix revenues increased 34% for the twelve months ended December 31, 2016, as compared to the twelve months ended December 31, 2015. This increase was primarily due to an increase in units sold, which increased revenues by 36%, partially offset by a decrease in average sales prices, which decreased revenues by 2%. The increase in volume for both the three and twelve months ended December 31, 2016 is primarily due to an increase in the number of implanting physicians when compared to the prior year period, as the Company launched its distribution of PhotoFix in the first quarter of 2015.

HeRO Graft

On February 3, 2016 the Company sold its HeRO Graft product line to Merit Medical Systems, Inc. (Merit), and the Company agreed to continue to manufacture the HeRO Graft for Merit for up to six months under a transition supply agreement. Revenues from HeRO Grafts include revenues related to the sale of vascular grafts, venous outflow components, and accessories, which are generally sold together as a kit. Revenues include sales to hospitals through February 3, 2016 and to Merit from that date through the second quarter of 2016. The sales transfer to Merit was completed in the second quarter of 2016, at which time the Company ceased sales of the HeRO Graft.

ProCol

On March 18, 2016 the Company sold its ProCol product line to LeMaitre Vascular, Inc. (LeMaitre), at which time the Company ceased sales of these products.

Preservation Services

Revenues from preservation services increased 1% and 6% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. A detailed discussion of the changes in cardiac and vascular preservation services revenues is presented below.

During 2014 the Company made significant changes to various tissue processing and quality procedures, which resulted in a decrease in tissue processing throughput and an increase in the Company's cost of processing tissues. These factors adversely impacted revenues and costs during 2015 as the Company continued to ship tissues that were processed in 2014. In 2015 the Company reviewed and modified its procedures as part of its ongoing compliance efforts and in an effort to improve tissue processing throughput and reduce costs. The Company continued these efforts during 2016 and expects to continue these efforts as part of its ongoing commitments to quality and efficiency. As a result of these efforts, tissue availability began to increase in the second half of 2015, particularly vascular tissue availability as discussed further below, and the cost of tissue processing decreased.

Preservation services revenues, particularly revenues for certain high-demand cardiac tissues, can vary from quarter to quarter and year to year due to a variety of factors including: quantity and type of incoming tissues, yields of tissue through the preservation process, timing of receipt of donor information, timing of the release of tissues to an implantable status, demand for certain tissue types due to the number and type of procedures being performed, and pressures from competing products or services. See further discussion below of specific items affecting cardiac and vascular preservation services revenues for the three and twelve months ended December 31, 2016.

Cardiac Preservation Services

Revenues from cardiac preservation services, consisting of revenues from the distribution of heart valves and cardiac patch tissues increased 7% for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. This increase was primarily due to a 6% increase in unit shipments of cardiac tissues, which increased revenues by 4% and an increase in average service fees, which increased revenues by 3%.

Revenues from cardiac preservation services increased 6% for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015. This increase was primarily due to a 6% increase in unit shipments of cardiac tissues, which increased revenues by 3% and an increase in average service fees, which increased revenues by 3%.

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The increase in volume for the three months ended December 31, 2016 was primarily due to an increase in the volume of cardiac valve and patch shipments. The increase in volume for the twelve months ended December 31, 2016 was primarily due to an increase in the volume of cardiac patch shipments. The increase in average service fees for the three and twelve months ended December 31, 2016 was primarily due to list fee increases in domestic markets and the routine negotiation of pricing contracts with certain customers.

The Company's cardiac valves are primarily used in cardiac replacement and reconstruction surgeries, including the Ross procedure, for patients with endocarditis or congenital heart defects. The Company's cardiac tissues are primarily distributed in domestic markets.

Vascular Preservation Services

Revenues from vascular preservation services decreased 3% for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. This decrease was primarily due to a 2% decrease in unit shipments of vascular tissues, which decreased revenues by 4%, partially offset by an increase in average service fees, which increased revenues by 1%.

Revenues from vascular preservation services increased 6% for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015. This increase was primarily due to an increase in average service fees, which increased revenues by 3%, and the combined effect of favorable tissue mix and a 3% decrease in unit shipments of vascular tissues, which in the aggregate increased revenues by 3%.

The Company's vascular preservation services revenues benefited in the second half of 2015 and the first half of 2016 from an increase in vascular tissue availability, due to factors discussed above. The Company used this increase in available tissue to meet the previously unmet demand from its existing vascular tissue customers. Although the Company's vascular tissue customers continue to receive tissue shipments, the volume of these requests has normalized. The decrease in shipments of vascular tissues for the three and twelve months ended December 31, 2016 was primarily due to these factors. Now that the Company has a sufficient vascular tissue supply, it is beginning the process of pursuing new and previous vascular tissue customers to broaden its revenue base for vascular preservation services.

The increase in average service fees for the three and twelve months ended December 31, 2016 was primarily due to fee differences due to physical characteristics of vascular tissues, list fee increases in domestic markets, and the routine negotiation of pricing contracts with certain customers.

The majority of the Company's vascular preservation services revenues are related to shipments of saphenous veins, which are mainly used in peripheral vascular reconstruction surgeries to avoid limb amputations. These tissues are primarily distributed in domestic markets.

Cost of Products and Preservation Services*Cost of Products*

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Cost of products	\$ 6,734	\$ 5,108	\$ 28,033	\$ 18,663

Cost of products increased 32% and 50% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. Cost of products in 2016 and 2015 includes costs related to BioGlue, BioFoam, CardioGenesis cardiac laser therapy, PerClot, PhotoFix, HeRO Graft through the second quarter of 2016, and ProCol through the first quarter of 2016. Cost of products in 2016 also includes costs related to On-X.

The increase in cost of products in the three and twelve months ended December 31, 2016 was primarily due to sales of On-X products following the Company's acquisition of On-X in January 2016, partially offset by a reduction in cost of products following the sale of the HeRO Graft and ProCol product lines. Cost of products in the three and twelve months ended December 31, 2016 includes \$822,000 and \$3.0 million, respectively, in acquisition inventory basis step-up expense, related to the On-X inventory fair value adjustment recorded in purchase accounting. Cost of products in the twelve months ended December 31, 2015 included the write-down of PerClot inventory manufactured for the U.S. market following the Company's cessation of marketing, sales, and distribution of PerClot in the U.S. during the first quarter of 2015.

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	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Cost of preservation services	\$ 7,100	\$ 8,214	\$ 33,448	\$ 36,516

Cost of preservation services decreased 14% and 8% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. Cost of preservation services includes costs for cardiac and vascular tissue preservation services.

Cost of preservation services decreased in the three and twelve months ended December 31, 2016 primarily due to a decrease in the per unit cost of processing tissues, as a result of processing changes implemented in 2015, as discussed in Preservation Services above.

Gross Margin

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Gross margin	\$ 31,195	\$ 26,516	\$ 118,899	\$ 90,719
Gross margin as a percentage of total revenues	69%	67%	66%	62%

Gross margin increased 18% and 31% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. These increases were primarily due to the addition of margins related to the On-X product line; increases in tissue margins due to a decrease in the per unit cost of processing tissues; and, for the twelve months ended December 31, 2016, an increase in BioGlue margins due to increased revenues. The increases were partially offset by decreases in margins for the divested HeRO Graft and ProCol product lines and a decrease in margins for CardioGenesis cardiac laser therapy due to decreased revenues.

Gross margin as a percentage of total revenues increased in the three and twelve months ended December 31, 2016, as compared to the three and twelve months ended December 31, 2015, respectively. These increases were primarily due to increases in tissue margins, due to a decrease in the per unit cost of processing tissues, partially offset by the unfavorable impact of the On-X acquisition inventory basis step-up expense discussed above. The gross margin and gross margin as a percentage of total revenues for the twelve months ended December 31, 2015 were impacted by the write-down of PerClot inventory, as discussed above.

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015

General, administrative, and marketing expenses	\$ 22,246	\$ 19,139	\$ 91,548	\$ 74,929
General, administrative, and marketing expenses as a percentage of total revenues	49%	48%	51%	51%

General, administrative, and marketing expenses increased 16% and 22% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively.

General, administrative, and marketing expenses for the three and twelve months ended December 31, 2016 included \$832,000 and \$7.9 million, respectively, in business development costs primarily related to the acquisition of On-X in January 2016, which include, among other costs, expenses related to the termination of international and domestic distribution agreements. The Company also incurred additional general, administrative, and marketing expenses during 2016 related to the expanded sales force and the ongoing operations of On-X. General, administrative, and marketing expenses for the twelve months ended December 31, 2015 included severance and termination benefits of approximately \$3.0 million,

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related to one-time expenses associated with certain employee departures, including the retirement of Mr. Anderson, the Company's former President, Chief Executive Officer, and Executive Chairman, in April 2015. General, administrative, and marketing expenses included \$1.1 million and \$3.0 million for the three and twelve months ended December 31, 2015, respectively, in business development expenses, primarily related to the acquisition of On-X.

Research and Development Expenses

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Research and development expenses	\$ 3,844	\$ 2,540	\$ 13,446	\$ 10,436
Research and development expenses as a percentage of total revenues	9%	6%	7%	7%

Research and development expenses increased 51% and 29% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. Research and development spending in these periods was primarily focused on clinical work with respect to PerClot, the Company's tissue processing, On-X products, and BioGlue.

Gain from Sale of Business Components

Gain on sale of business components for the twelve months ended December 31, 2016 consisted of the net of an \$8.8 million gain on the HeRO Sale and an \$845,000 loss on the ProCol Sale. The Company sold its HeRO Graft and ProCol product lines during the first quarter of 2016.

Gain on Sale of Medafor Investment

On October 1, 2013 Bard completed its acquisition of all outstanding shares of Medafor common stock. The Company recorded gain on sale of investment of zero and \$891,000 for the three and twelve months ended December 31, 2015, respectively. The gain on the sale of Medafor investment in 2015 represents additional consideration received by the Company in April 2015 related to the release of transaction consideration from escrow. The final release of funds from escrow is expected to be received in October 2017 and is expected to be nominal.

Interest Expense

Interest expense was \$787,000 and \$3.0 million for the three and twelve months ended December 31, 2016, respectively, and interest expense was a favorable \$44,000 and \$62,000 for the three and twelve months ended December 31, 2015, respectively. Interest expense in the 2016 and 2015 periods included interest on debt and uncertain tax positions. The increase in interest expense in 2016 was due to borrowings under the \$75 million term loan the Company entered into in January 2016 to finance, in part, the acquisition of On-X. In the three and twelve months ended December 31, 2015 interest expense was favorable due to the reversal of interest on uncertain tax positions.

Earnings

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Income before income taxes	\$ 3,759	\$ 4,617	\$ 18,412	\$ 5,868
Income tax expense	862	1,981	7,634	1,863
Net income	\$ 2,897	\$ 2,636	\$ 10,778	\$ 4,005
Diluted income per common share	\$ 0.09	\$ 0.09	\$ 0.32	\$ 0.14
Diluted weighted-average common shares outstanding	33,443	28,687	32,822	28,542

Income before income taxes decreased 19% and increased 214% for the three and twelve months ended December 31, 2016, respectively, as compared to the three and twelve months ended December 31, 2015, respectively. The decrease in income before income taxes for the three months ended December 31, 2016 was due to an increase in operating expenses and interest expense, partially offset by an increase in gross margins, as discussed above. The increase in income before income taxes for the twelve months ended December 31, 2016 was primarily due to an increase in gross margins and the gain on sale of business components, partially offset by increases in operating expenses and interest expense, as discussed above.

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The Company's effective income tax rate was 23% and 41% for the three and twelve months ended December 31, 2016, respectively, as compared to 43% and 32% for the three and twelve months ended December 31, 2015, respectively. The Company's income tax rate for the three months ended December 31, 2016 was favorably affected by increases in pretax book income and the tax deduction for domestic manufacturers as compared to prior estimates. The Company's income tax rate for the twelve months ended December 31, 2016 was unfavorably impacted by the tax treatment of certain expenses related to the On-X acquisition, which had a larger impact on the tax rate in the first quarter of 2016, and by book/tax basis differences related to the HeRO Sale.

The Company's income tax rate for the twelve months ended December 31, 2015 was favorably affected by the reversal of \$869,000 in uncertain tax positions, primarily related to research and development tax credits for which the statute of limitations has expired, partially offset by the expiration of certain state net operating losses and other permanent differences.

Net income increased for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015, primarily due to a decrease in income tax expense, partially offset by an decrease in income before income taxes, as discussed above. Net income and diluted income per common share increased for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015, primarily due to the increase in income before income taxes, partially offset by an increase in income tax expense, as discussed above.

Diluted income per common share could be affected in future periods by changes in the Company's common stock outstanding.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**Revenues**

	Revenues for the		Revenues as a Percentage of	
	Three Months Ended		Total Revenues for the	
	December 31,		Three Months Ended	
	2015	2014	2015	2014
Products:				
BioGlue and BioFoam	\$ 16,488	\$ 16,346	41%	44%
PerClot	1,096	1,232	3%	3%
CardioGenesis cardiac laser therapy	3,487	2,151	9%	6%
HeRO Graft	2,008	1,827	5%	5%
ProCol	397	117	1%	--%
PhotoFix	437	--	1%	--%
Total products	23,913	21,673	60%	58%
Preservation services:				
Cardiac tissue	6,970	7,456	18%	20%
Vascular tissue	8,955	8,022	22%	22%
Total preservation services	15,925	15,478	40%	42%



Total	\$	39,838	\$	37,151	100%	100%
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	Revenues for the Twelve Months Ended December 31,		Revenues as a Percentage of Total Revenues for the Twelve Months Ended December 31,	
	2015	2014	2015	2014
Products:				
BioGlue and BioFoam	\$ 59,332	\$ 62,091	41%	43%
PerClot	4,083	4,289	3%	3%
CardioGenesis cardiac laser therapy	9,419	8,225	6%	6%
HeRO Graft	7,546	7,131	5%	5%
ProCol	1,305	147	1%	--%
PhotoFix	1,396	--	1%	--%
Total products	83,081	81,883	57%	57%
Cardiac tissue	28,059	29,437	19%	20%
Vascular tissue	34,758	33,321	24%	23%
Total preservation services	62,817	62,758	43%	43%
Total	\$ 145,898	\$ 144,641	100%	100%

Revenues increased 7% and 1% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. A detailed discussion of the changes in product revenues and preservation services revenues for the three and twelve months ended December 31, 2015 is presented below.

Products

Revenues from products increased 10% and 1% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. These increases were primarily due to increases in CardioGenesis cardiac laser therapy, ProCol, and PhotoFix revenues. In the twelve months ended December 31, 2015, this increase was partially offset by a decrease in BioGlue revenues. A detailed discussion of the changes in product revenues for BioGlue and BioFoam; PerClot; CardioGenesis cardiac laser therapy; HeRO Graft; and ProCol and PhotoFix is presented below.

The Company's sales of products through its direct sales force to U.K. hospitals are denominated in British Pounds, and its sales to German, Austrian, and Irish hospitals and certain distributors are denominated in Euros and are, therefore, subject to changes in foreign exchange rates. During 2015, the U.S. Dollar strengthened materially, as compared to the British Pound and Euro and, as a result, the Company's revenues denominated in these currencies decreased when translated into U.S. Dollars. Any further change in these exchange rates could have a material, adverse effect on the Company's revenues denominated in these currencies. Additionally, the Company's sales to many distributors around the world are denominated in U.S. Dollars, and, although these sales are not directly impacted by the strong U.S. Dollar, the Company believed that its distributors may be delaying or reducing purchases of products in U.S. Dollars due to the relative price of these goods in their local currencies.

BioGlue and BioFoam

Revenues from the sale of surgical sealants, consisting of BioGlue and BioFoam, increased 1% for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. This increase was primarily due to an increase in average sales prices, which increased revenues by 4%, partially offset by the unfavorable impact of foreign exchange rates, which decreased revenues by 2%, and unfavorable volume, which decreased revenues by 1%.

Revenues from the sale of surgical sealants decreased 4% for the twelve months ended December 31, 2015, as compared to the twelve months ended December 31, 2014. This decrease was primarily due to a 4% decrease in the volume of milliliters sold, which decreased revenues by 4% and the unfavorable impact of foreign exchange rates, which decreased revenues by 2%, partially offset by an increase in average sales prices, which increased revenues by 2%.

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The increase in average sales prices for the three and twelve months ended December 31, 2015 was primarily due to the favorable impact of the transition to a direct sales model in France, list price increases in domestic markets, and the routine negotiation of pricing contracts with certain customers.

The decrease in sales volume of surgical sealants for the twelve months ended December 31, 2015 was primarily due to a lack of shipments of BioGlue to the Company's French distributor during the first nine months of 2015, as the Company transitioned this market from a distributor to a direct sales model effective October 1, 2015 and due to a reduction in shipments to the Company's distributor in Brazil, as a result of factors such as economic instability and local currency devaluation in Brazil. To a lesser extent the decrease in volume was due to a decrease in sales in domestic markets primarily due to declining procedure volume, as doctors are performing more minimally invasive procedures, and hospitals seeking to control costs by reducing spending on consumable items such as BioGlue.

Revenues from shipments to Japan were \$1.5 million and \$5.5 million for the three and twelve months ended December 31, 2015, respectively, and \$1.1 million and \$5.0 million for the three and twelve months ended December 31, 2014, respectively. The Company received an expanded indication for BioGlue in Japan in mid-2015.

Domestic revenues accounted for 55% and 58% of total BioGlue revenues for the three and twelve months ended December 31, 2015, respectively, and 55% and 56% of total BioGlue revenues for the three and twelve months ended December 31, 2014, respectively. BioFoam sales accounted for less than 1% of surgical sealant sales for the three and twelve months ended December 31, 2015 and 2014. BioFoam is currently approved for sale in certain international markets.

PerClot

Revenues from the sale of PerClot decreased 11% for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. This decrease was primarily due to an 11% decrease in the volume of grams sold, which decreased revenues by 5%, the unfavorable effect of foreign currency exchange, which decreased revenues by 4%, and a decrease in average selling prices, which decreased revenues by 2%.

Revenues from the sale of PerClot decreased 5% for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014. This decrease was primarily due to the unfavorable effect of foreign currency exchange, which decreased revenues by 7%, and a decrease in average selling prices, which decreased revenues by 3%, partially offset by favorable sales volume, which increased revenues by 5%.

Revenues during these three and twelve month periods were largely for sales in certain international markets, as PerClot was only distributed domestically from August 2014 to March 2015 as discussed in Note 9 of the Notes to Consolidated Financial Statements.

The decrease in revenues for the three months ended December 31, 2015 was primarily due to decreased sales in the Company's markets in Asia Pacific and Latin America, as large orders in the fourth quarter of 2014 did not recur in 2015. The increase in revenues for the twelve months ended December 31, 2015 was primarily due to increased sales in the U.K., largely for use in gynecology procedures.

The decrease in average selling prices for the three and twelve months ended December 31, 2015 was primarily due to price reductions to certain distributors in Europe, as a result of pricing pressures from competitive products and to offset the relatively higher price of PerClot due to the strengthening of the U.S. Dollar. The effect of foreign exchange rate changes discussed above had a larger impact on the Company's PerClot revenues, as a larger percentage of these revenues are denominated in foreign currencies than revenues from the Company's other products.

CardioGenesis Cardiac Laser Therapy

Revenues from the Company's CardioGenesis cardiac laser therapy product line consist primarily of sales of handpieces and, in certain periods, revenues from the sale of laser consoles. Revenues from cardiac laser therapy increased 62% for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. Revenues from the sale of laser consoles were \$1.1 million and \$240,000 for the three months ended December 31, 2015 and 2014, respectively. Revenues from the sale of handpieces increased 29% for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. This increase was primarily due to a 23% increase in unit shipments of handpieces, which increased revenues by 26%, and an increase in average sales prices, which increased revenues by 3%.

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Revenues from cardiac laser therapy increased 15% for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014. Revenues from the sale of laser consoles were \$1.2 million and \$384,000 for the twelve months ended December 31, 2015 and 2014, respectively. Revenues from the sale of handpieces increased 6% for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014. This increase was primarily due to a 4% increase in unit shipments of handpieces, which increased revenues by 4%, and an increase in average sales prices, which increased revenues by 2%.

Revenues from laser console sales increased for both the three and twelve months ended December 31, 2015 due primarily to an increase in the average price paid per laser console and, to a lesser extent, due to an increase in the number of laser consoles sold during the 2015 periods.

HeRO Graft

Revenues from HeRO Grafts include revenues related to the sale of vascular grafts, venous outflow components, and accessories, which are generally sold together as a kit. HeRO Grafts were primarily distributed in domestic markets as a solution for ESRD in certain hemodialysis patients. HeRO Graft revenues increased 10% for the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. This increase was primarily due to a 5% increase in number of kits sold, which increased revenues by 5%, and an increase in average sales prices, which increased revenues by 6%, partially offset by the unfavorable effect of foreign currency exchange, which decreased revenues by 1%.

HeRO Graft revenues increased 6% for the twelve months ended December 31, 2015, as compared to the twelve months ended December 31, 2014. This increase was primarily due to a 4% increase in number of kits sold, which increased revenues by 3% and an increase in average sales prices, which increased revenues by 4%, partially offset by the unfavorable effect of foreign currency exchange, which decreased revenues by 1%.

The increase in HeRO Graft volume for the three months ended December 31, 2015 was primarily due to an increase in the volume of kits sold in domestic markets due to the timing of surgical cases. The increase in HeRO Graft volume for the twelve months ended December 31, 2015 was primarily due to an increase in the volume of kits sold in international markets as a result of an increase in procedure volume and an increase in the number of implanting physicians, partially offset by a decrease in domestic sales volume. As discussed above the Company divested its HeRO Graft business in February 2016.

ProCol and PhotoFix

In 2014 CryoLife acquired the exclusive worldwide distribution rights from Hancock Jaffe for ProCol, a biological graft derived from a bovine mesenteric vein. ProCol is distributed in the U.S. to provide vascular access for ESRD hemodialysis patients. The Company began limited distribution of ProCol in the second quarter of 2014 and began its full U.S. launch in the fourth quarter of 2014.

In 2014 CryoLife acquired the distribution rights from GBI for PhotoFix, a bovine pericardial patch. PhotoFix is distributed in the U.S. and is indicated for use in intracardiac repair, including ventricular repair and atrial repair, great vessel repair and suture line buttressing, and pericardial closure. The Company launched its distribution of PhotoFix in the first quarter of 2015.

Preservation Services

Revenues from preservation services increased 3% and less than 1% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. The increase in

revenues for the three and twelve month periods was primarily due to an increase in vascular preservation services revenues, partially offset by a decrease in cardiac preservation services revenues. See further discussion of cardiac and vascular preservation services revenues below.

During 2014 the Company made significant changes to various tissue processing and quality procedures, which resulted in a decrease in tissue processing throughput and an increase in the Company's cost of processing tissues. Preservation services revenues and costs were negatively impacted during 2014 due to these factors. These factors continued to impact revenues and costs during 2015 as the Company continued to ship tissues that were processed in 2014. The Company continues to review and modify its procedures as part of its ongoing compliance efforts and in an effort to improve tissue processing throughput and reduce costs. These efforts have begun to increase tissue availability, particularly vascular tissue availability as discussed further below, and have had begun to reduce costs.

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Preservation services revenues, particularly revenues for certain high-demand cardiac tissues, can vary from quarter to quarter and year to year due to a variety of factors including: quantity and type of incoming tissues, yields of tissue through the preservation process, timing of receipt of donor information, timing of the release of tissues to an implantable status, demand for certain tissue types due to the number and type of procedures being performed, and pressures from competing products or services. See further discussion below of specific items affecting cardiac and vascular preservation services revenues for the three and twelve months ended December 31, 2015.

Cardiac Preservation Services

Revenues from cardiac preservation services, consisting of revenues from the distribution of heart valves and cardiac patch tissues, decreased 7% for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. This decrease was primarily due to a 13% decrease in unit shipments of cardiac tissues, which decreased revenues by 10%, partially offset by an increase in average service fees, which increased revenues by 3%.

Revenues from cardiac preservation services decreased 5% for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014. This decrease was primarily due to an 11% decrease in unit shipments of cardiac tissues, which decreased revenues by 9%, partially offset by an increase in average service fees, which increased revenues by 4%.

The decrease in volume for the three and twelve months ended December 31, 2015 was primarily due to a decrease in the volume of pulmonary valve and patch shipments. The Company believes that the decrease in cardiac tissue shipments during these periods was due to increasing competition from lower cost bioprosthetic valves and patches.

The increase in average service fees for the three and twelve months ended December 31, 2015 was primarily due to list fee increases in domestic markets and due to the routine negotiation of pricing contracts with certain customers.

Revenues from SynerGraft processed tissues, including the CryoValve SGPV and CryoPatch SG, accounted for 62% and 63% of total cardiac preservation services revenues for the three and twelve months ended December 31, 2015, respectively, and 66% and 64% of total cardiac preservation services revenues for the three and twelve months ended December 31, 2014, respectively.

The Company's cardiac valves are primarily used in cardiac replacement and reconstruction surgeries, including the Ross procedure, for patients with endocarditis or congenital heart defects. The Company's cardiac tissues are primarily distributed in domestic markets.

Vascular Preservation Services

Revenues from vascular preservation services increased 12% for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. This increase was primarily due to an increase in average service fees, which increased revenues by 6%, and favorable tissue volume, which increased revenues by 6%.

Revenues from vascular preservation services increased 4% for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014. This increase was primarily due to an increase in average service fees, which increased revenues by 5%, partially offset by an unfavorable tissue volume, which decreased revenues by 1%.

The increase in average service fees for the three and twelve months ended December 31, 2015 was primarily due to list fee increases in domestic markets, fee differences due to physical characteristics of vascular tissues, and the routine negotiation of pricing contracts with certain customers.

The increase in vascular volume for the three months ended December 31, 2015 was primarily due to increases in shipments of saphenous veins and aortoiliac arteries, due to improving tissue availability as discussed above.

The majority of the Company's vascular preservation services revenues are related to shipments of saphenous veins, which are mainly used in peripheral vascular reconstruction surgeries to avoid limb amputations. These tissues are primarily distributed in domestic markets.

Table of Contents**Cost of Products and Preservation Services*****Cost of Products***

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Cost of products	\$ 5,108	\$ 5,068	\$ 18,663	\$ 17,167

Cost of products increased 1% and 9% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. Cost of products in 2015 and 2014 includes costs related to BioGlue, BioFoam, PerClot, CardioGenesis cardiac laser therapy, HeRO Grafts, and ProCol. Cost of products in 2015 also includes costs related to PhotoFix.

The increase in cost of products was primarily due to sales of the Company's new distributed products, PhotoFix and ProCol, partially offset by a decrease in the per unit cost of manufacturing BioGlue. The increase in cost of products in the twelve months ended December 31, 2015 was also affected by the write-down of PerClot inventory manufactured for the U.S. market following the Company's cessation of marketing, sales, and distribution of PerClot in the U.S.

Cost of Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Cost of preservation services	\$ 8,214	\$ 9,448	\$ 36,516	\$ 36,183

Cost of preservation services decreased 13% and increased 1% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. Cost of preservation services includes costs for cardiac and vascular tissue preservation services.

Cost of preservation services decreased in the three months ended December 31, 2015 primarily due to a decrease in unit shipments of cardiac tissues and due to a decrease in the per unit cost of processing tissues, as a result of processing changes implemented in 2015. Cost of preservation services increased in the twelve months ended December 31, 2015 primarily due to an increase in the per unit cost of processing tissues, as a result of lower processing throughput of tissues, increased compliance and personnel costs, and an increase in the cost of materials for tissues processed in 2014 and in the beginning of 2015. This was partially offset by a decrease in the unit shipments of cardiac and vascular tissue for the twelve months ended December 31, 2015. See "Preservation Services" above for a further discussion of the factors impacting tissue processing costs.

Gross Margin

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014

Gross margin	\$ 26,516	\$ 22,635	\$ 90,719	\$ 91,291
Gross margin as a percentage of total revenues	67%	61%	62%	63%

Gross margin increased 17% and decreased 1% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. Gross margin as a percentage of total revenues increased in the three months ended December 31, 2015 as compared to the three months ended December 31, 2014, primarily due to decreases in the per unit cost of processing tissues and per unit cost of BioGlue. Gross margin as a percentage of total revenues decreased in the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014, primarily due to an increase in the per unit cost of processing tissues and due to the write-down of PerClot inventory, as discussed above.

Table of Contents**Operating Expenses*****General, Administrative, and Marketing Expenses***

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
General, administrative, and marketing expenses	\$ 19,139	\$ 18,638	\$ 74,929	\$ 73,754
General, administrative, and marketing expenses as a percentage of total revenues	48%	50%	51%	51%

General, administrative, and marketing expenses increased 3% and 2% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively.

General, administrative, and marketing expenses for the twelve months ended December 31, 2015 included severance and termination benefits of approximately \$3.0 million, related to one-time expenses associated with certain employee departures, including the retirement of Mr. Anderson, the Company's former President, Chief Executive Officer (CEO), and Executive Chairman, in April 2015. General, administrative, and marketing expenses included \$1.1 million and \$3.0 million for the three and twelve months ended December 31, 2015, respectively, in business development expenses, primarily related to the acquisition of On-X. General, administrative, and marketing expenses included \$565,000 and \$2.0 million for the three and twelve months ended December 31, 2014, respectively, in compensation charges related to personnel changes, including the appointment of Mr. Mackin as President and CEO in the third quarter of 2014 and one-time expenses associated with certain employee departures. The increase in general, administrative, and marketing expenses in the current year periods was also due to higher expenses to support the Company's increasing revenue base, international expansion, new product offerings, and increasing employee headcount. The increase in expenses for the twelve months ended December 31, 2015 included the impairment of a PerClot Topical intangible asset and higher legal fees related to the litigation with Medafor, Inc. (Medafor).

Research and Development Expenses

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Research and development expenses	\$ 2,540	\$ 2,092	\$ 10,436	\$ 8,699
Research and development expenses as a percentage of total revenues	6%	6%	7%	6%

Research and development expenses increased 21% and 20% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. Research and development spending in these periods was primarily focused on clinical and pre-clinical work with respect to PerClot, the Company's tissue processing, and BioGlue and BioFoam.

Gain on Sale of Medafor Investment

On October 1, 2013 Bard completed its acquisition of all outstanding shares of Medafor common stock. The Company recorded gain on sale of investment of zero and \$891,000 for the three and twelve months ended December 31, 2015 and

\$530,000 for the three and twelve months ended December 31, 2014. The gain on the sale of Medafor investment in 2015 represents additional consideration received by the Company in April 2015 related to the release of transaction consideration from escrow.

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	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Income before income taxes	\$ 4,617	\$ 1,625	\$ 5,868	\$ 8,703
Income tax expense (benefit)	1,981	(151)	1,863	1,381
Net income	\$ 2,636	\$ 1,776	\$ 4,005	\$ 7,322
Diluted income per common share	\$ 0.09	\$ 0.06	\$ 0.14	\$ 0.25
Diluted weighted-average common shares outstanding	28,687	28,238	28,542	28,313

Income before income taxes increased 184% and decreased 33% for the three and twelve months ended December 31, 2015, respectively, as compared to the three and twelve months ended December 31, 2014, respectively. The increase in income before income taxes for the three months ended December 31, 2015 was due to an increase in gross margins, partially offset by an increase in operating expenses, as discussed above. The decrease in income before income taxes for the twelve months ended December 31, 2015 was primarily due to an increase in operating expenses, as discussed above.

The Company's effective income tax rate was 43% and 32% for the three and twelve months ended December 31, 2015, respectively, as compared to a benefit of 9% and expense of 16% for the three and twelve months ended December 31, 2014, respectively. The Company's income tax rate for the twelve months ended December 31, 2015 was favorably affected by the reversal of \$869,000 in uncertain tax positions, primarily related to research and development tax credits for which the statute of limitations has expired, partially offset by the expiration of certain state net operating losses and other permanent differences.

The Company's income tax rate for the three and twelve months ended December 31, 2014 was favorably affected by the reduction in uncertain tax positions, nontaxable gains recorded as change in stock basis of subsidiary, and favorable deductions taken on the Company's 2013 federal tax return, which was filed in 2014.

Net income and diluted income per common share increased for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014, primarily due to the increase in income before income taxes, partially offset by an increase in income tax expense, as discussed above. Net income and diluted income per common share decreased for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014, primarily due to the decrease in income before income taxes, and by an increase in income tax expense, as discussed above.

Seasonality

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 seasons in Europe and the U.S. The Company believes that demand for BioGlue in Japan may continue to be lowest in the second quarter of each year due to distributor ordering patterns driven by the slower summer holiday season in Japan.

The Company is uncertain whether the demand for On-X products, PerClot, or PhotoFix will be seasonal, as these products have not fully penetrated many markets and, therefore, the nature of any seasonal trends may be obscured.

The Company does not believe the demand for CardioGenesis cardiac laser therapy is seasonal, as the Company's data does not indicate a significant trend.

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

The Company's 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 vascular surgeries being scheduled during the winter holiday months.

Table of Contents**Liquidity and Capital Resources*****Net Working Capital***

At December 31, 2016 net working capital (current assets of \$147.2 million less current liabilities of \$30.1 million) was \$117.1 million, with a current ratio (current assets divided by current liabilities) of 5 to 1, compared to net working capital of \$90.1 million and a current ratio of 6 to 1 at December 31, 2015.

Overall Liquidity and Capital Resources

The Company's largest cash requirement for the twelve months ended December 31, 2016 was cash used to fund the acquisition of On-X. To a lesser extent, the Company's cash requirements included capital expenditures for facilities and equipment, debt issuance costs and principal payments on the Company's borrowings, and to fund the purchase of the PhotoFix Technology. The Company funded its cash requirements by issuing debt in the form of a new \$75 million term loan, discussed further below, through the sale of certain components of the Company's business, the Company's existing cash reserves, and its operating activities, which generated cash during the period.

The Company believes that its 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 are expected to include interest and principal payments under our debt agreement, expenditures for clinical trials, additional research and development expenditures, general working capital needs, capital expenditures, and other corporate purposes and may include cash to fund business development activities. These items may have a significant effect on the Company's cash flows during the next twelve months. Subject to the terms of its credit facility and other obligations of the Company, the Company may seek additional borrowing capacity or financing, pursuant to its current or any future shelf registration statement, for general corporate purposes or to fund other future cash requirements. If the Company undertakes any further significant business development activity, it may need to finance such activities by drawing down monies under its credit agreement, discussed below, obtaining additional debt financing, or using a registration statement to sell equities. There can be no assurance that the Company will be able to obtain any additional debt or equity financing at the time needed or that such financing will be available on terms that are favorable or acceptable to the Company.

Significant Sources and Uses of Liquidity

On January 20, 2016 the Company completed its acquisition of On-X, an Austin, Texas-based, privately held mechanical heart valve company, which is being operated as a wholly owned subsidiary of CryoLife. The purchase price of the transaction totaled approximately \$128.2 million, consisting of cash of \$93.6 million and 3,703,699 shares of CryoLife common stock, with a value of \$34.6 million as determined on the date of the closing.

In connection with the closing of the On-X acquisition, on January 20, 2016 the Company and certain of its subsidiaries entered into the Third Amended and Restated Credit Agreement (" Amended Debt Agreement ") with Capital One, National Association. Capital One Financial Corporation acquired GE Capital's Healthcare Financial Services lending business in late 2015. The designated credit parties are Healthcare Financial Solutions, LLC; Fifth Third Bank; and Citizens Bank, National Association, collectively the (" Lending Parties "). The Amended Debt Agreement amended and restated the GE Credit Agreement and provides the Company with a senior secured credit facility in an aggregate principal amount of \$95 million, which includes a \$75 million term loan and a \$20 million revolving credit facility (including a \$4 million letter of credit sub-facility and a \$3 million swing-line sub-facility). The \$75 million term loan was used to finance, in part, the acquisition of On-X and will mature on January 20, 2021. The Company and its domestic subsidiaries, subject to certain exceptions and exclusions, have guaranteed the obligations of the Amended Debt Agreement. Borrowings under the

Amended Debt Agreement are secured by substantially all of the Company's real and personal property.

On February 3, 2016 the Company sold its HeRO Graft product line to Merit for \$18.5 million in cash, of which \$17.8 million had been received by December 31, 2016. The remaining \$740,000 was received in the first quarter of 2017. On March 18, 2016 the Company sold its ProCol Vascular Bioprosthesis distribution rights and purchase option to LeMaitre for \$2.0 million in cash, all of which was received by December 31, 2016. The Company recorded a pre-tax gain of approximately \$8.8 million on the HeRO Sale and a pre-tax loss of approximately \$845,000 on the ProCol Sale.

On April 13, 2016 the Company exercised its right to acquire the PhotoFix technology from GBI for approximately \$2.3 million, of which \$1.2 million was paid in cash. GBI will continue to manufacture PhotoFix until the Company is able to establish manufacturing operations, which is expected to occur by mid-2017.

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The Company is conducting its pivotal clinical trial to gain approval to commercialize PerClot for surgical indications in the U.S. The Company began enrollment in the trial in the second quarter of 2015 but later suspended enrollment pending consultation with the FDA regarding the trial protocol. These discussions resulted in two amendments to the trial protocol, the last of which was approved by the FDA in July 2016. The Company is in the process of conducting site start-up activities and resumed enrollment into the trial in the fourth quarter of 2016 with the goal of receiving PMA from the FDA in the first half of 2019. See also Part I, Item 1A, Risk Factors Risks Relating To Our Business Our investment in PerClot subject to significant risks, and our ability to fully realize our investment is dependent on our ability to obtain FDA approval and to successfully commercialize PerClot in the U.S.

The Company acquired net operating loss carryforwards from its acquisitions of On-X, Hemosphere, Inc., and Cardiogenesis Corporation that the Company believes will reduce required cash payments for federal income taxes by approximately \$6.6 million for the 2016 tax year.

As of December 31, 2016 approximately 4% of the Company's cash and cash equivalents were held in foreign jurisdictions.

Net Cash Flows from Operating Activities

Net cash provided by operating activities was \$19.7 million for the twelve months ended December 31, 2016 as compared to \$11.4 million for the twelve months ended December 31, 2015.

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, items classified as investing and financing cash flows, and for changes in operating assets and liabilities from the prior year end. For the twelve months ended December 31, 2016 these items included \$8.4 million in depreciation and amortization expenses and \$6.3 million in non-cash compensation, partially offset by \$7.9 million in gain from sale of business components. The gain from sale of business components is the gain on the HeRO Sale, partially offset by the loss on the ProCol Sale.

The Company's working capital needs, or changes in operating assets and liabilities, also affected cash from operations. For the twelve months ended December 31, 2016 these changes included an unfavorable adjustment of \$9.5 million due to increases in inventory balances and deferred preservation costs, partially offset by a favorable effect of \$4.7 million due to timing differences between the recording of accounts payable and other current liabilities and the payment of cash and \$4.1 million due to the timing difference between recording receivables and the receipt of cash.

Net Cash Flows from Investing Activities

Net cash used in investing activities was \$73.9 million for the twelve months ended December 31, 2016 as compared to \$4.5 million for the twelve months ended December 31, 2015. The current year cash used was primarily due to \$91.2 million for the acquisition of On-X, net of cash acquired, and \$6.2 million in capital expenditures, partially offset by \$19.8 million in proceeds from the sale of business components related to the HeRO Sale and the ProCol Sale and \$5.0 million for the decrease in restricted cash.

Net Cash Flows from Financing Activities

Net cash provided by financing activities was \$73.4 million for the twelve months ended December 31, 2016 as compared to net cash used of \$2.8 million for the twelve months ended December 31, 2015. The current year cash provided was primarily due to \$75.0 million in proceeds from the issuance of a term loan, which was used to finance, in part, the acquisition of On-X, and \$2.2 million in proceeds from the exercise of stock options and issuance of common stock under

the Company's employee stock purchase plan, partially offset by \$2.3 million in debt issuance costs and \$1.4 million in debt repayments.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Table of Contents**Scheduled Contractual Obligations and Future Payments**

Scheduled contractual obligations and the related future payments as of December 31, 2016 are as follows (in thousands):

	Total	2017	2018	2019	2020	2021	Thereafter
Long-term debt obligations	\$ 73,594	\$ 5,096	\$ 3,750	\$ 3,750	\$ 5,156	\$ 55,842	\$ --
Operating leases	25,533	4,470	4,779	4,722	4,127	3,647	3,788
Interest payments	9,150	2,463	2,316	2,184	2,028	159	--
Research obligations	7,564	5,312	2,199	28	25	--	--
Purchase commitments	4,272	2,506	1,642	124	--	--	--
Contingent payments	1,000	--	--	1,000	--	--	--
Other long-term liabilities	940	922	18	--	--	--	--
Total contractual obligations	\$ 122,053	\$ 20,769	\$ 14,704	\$ 11,808	\$ 11,336	\$ 59,648	\$ 3,788

The Company's long-term debt obligations result from scheduled principal payments and anticipated interest payments related to the Company's Amended Debt Agreement.

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 obligations from agreements with suppliers, one of which is the minimum purchase requirements for PerClot under the Distribution Agreement. Pursuant to the terms of the Distribution Agreement, the Company may terminate that agreement, including the minimum purchase requirements set forth in the agreement for various reasons, one of which is if the Company obtains FDA approval for PerClot. These minimum purchases are included in the table above through 2018, based on the assumption that CryoLife will not terminate the Distribution Agreement before its target date for receiving FDA approval for PerClot in 2019. However, if the Company does not obtain FDA approval for PerClot and chooses not to terminate the Distribution Agreement, CryoLife may have minimum purchase obligations of up to \$1.75 million per year through the end of the contract term in 2025.

The contingent payments obligation includes payments that the Company may make if certain U.S. regulatory approvals and certain commercial milestones are achieved related to the Company's transaction with SMI for PerClot.

The Company's research obligations represent commitments for ongoing studies and payments to support research and development activities.

The schedule of contractual obligations above excludes (i) obligations for estimated liability claims unless they are due as a result of a settlement agreement or other contractual obligation, as no assessments have been made for specific litigation, and (ii) any estimated liability for uncertain tax positions and interest and penalties, currently estimated to be \$3.6 million, as no specific assessments have been made by any taxing authorities.

Capital Expenditures

Capital expenditures for the twelve months ended December 31, 2016 and 2015 were \$6.2 million and \$3.5 million, respectively. Capital expenditures in the twelve months ended December 31, 2016 were primarily related to the routine purchases of computer software; manufacturing and tissue processing equipment; computer and office equipment; CardioGenesis cardiac laser therapy laser consoles; and leasehold improvements needed to support the Company's business.

Item 7A. 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 \$56.6 million as of December 31, 2016, and interest paid on the outstanding balances, if any, of the Company's variable rate line of credit and \$75 million term loan. A 10% adverse change in interest rates as compared to the rates experienced by the

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Company in the twelve months ended December 31, 2016, affecting the Company's cash and cash equivalents, restricted cash and securities, \$75 million term loan, and line of credit would not have had 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 portion of the Company's international BioGlue, On-X, and PerClot 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, Euros, Swiss Francs, and Singapore Dollars. 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 December 31, 2016 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 twelve months ended December 31, 2016 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 8. Financial Statements and Supplementary Data.

Our financial statements and supplementary data required by this item are submitted as a separate section of this annual report on Form 10-K. See "Financial Statements" commencing on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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.

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The Company's management utilizes the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of its Disclosure Controls over financial reporting. Based upon the most recent Disclosure Controls evaluation conducted by management with the participation of the CEO and CFO, as of December 31, 2016, 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 this Form 10-K, the Company completed the acquisition of On-X Life Technologies Holdings, Inc. (On-X) during the first quarter of 2016. Management's assessment and conclusion on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2016 excludes an assessment of the internal control over financial reporting of On-X. See Part II, Item 8, Note 4, Notes to Consolidated Financial Statements contained in this Form 10-K for a description of the significance of the acquired business to the Company.

During the quarter ended December 31, 2016 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.

The report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to Management's Report on Internal Control over Financial Reporting under Sarbanes-Oxley Section 404 on page F-1 of this report.

The attestation report called for by Item 308(b) of Regulation S-K is incorporated herein by reference to Report of Independent Registered Public Accounting Firm on page F-2 of this report.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

The response to Item 10 is incorporated herein by reference to the information to be set forth in the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2016, with the exception of information concerning executive officers, which is included in Part I, Item 4A, Executive Officers of the Registrant of this Form 10-K.

Item 11. Executive Compensation.

The response to Item 11 is incorporated herein by reference to the information to be set forth in the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters.

The response to Item 12 is incorporated herein by reference to the information to be set forth in the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The response to Item 13 is incorporated herein by reference to the information to be set forth in the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2016.

Item 14. Principal Accounting Fees and Services.

The response to Item 14 is incorporated herein by reference to the information to be set forth in the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2016.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following are filed as part of this report:

(a) 1. Financial Statements.

Consolidated Financial Statements begin on page F-1.

2. Financial Statement Schedules.

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

3. Exhibits

The information required by this Item is set forth on the exhibit index that follows the signature page of this Annual Report on Form 10-K.

Table of Contents**SIGNATURES**

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

CRYOLIFE, INC.

February 16, 2017

By

/s/ J. PATRICK MACKIN

J. Patrick Mackin

President, Chief Executive Officer, and
Chairman of the Board of Directors

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

Signature	Title	Date
/s/ J. PATRICK MACKIN J. Patrick Mackin	President, Chief Executive Officer, and Chairman of the Board of Directors (Principal Executive Officer)	February 16, 2017
/s/ D. ASHLEY LEE D. Ashley Lee	Executive Vice President, Chief Operating Officer, and Chief Financial Officer (Principal Financial Officer)	February 16, 2017
/s/ AMY D. HORTON Amy D. Horton	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 16, 2017
/s/ THOMAS F. ACKERMAN Thomas F. Ackerman	Director	February 16, 2017
/s/ JAMES S. BENSON James S. Benson	Director	February 16, 2017
/s/ DANIEL J. BEVEVINO Daniel J. Bevevino	Director	February 16, 2017
/s/ JAMES W. BULLOCK James W. Bullock	Director	February 16, 2017

James W. Bullock

/s/ RONALD C. ELKINS, M.D.

Director

February 16, 2017

Ronald C. Elkins, M.D.

/s/ RONALD D. MCCALL

Director

February 16, 2017

Ronald D. McCall

/s/ HARVEY MORGAN

Director

February 16, 2017

Harvey Morgan

/s/ JON W. SALVESON

Director

February 16, 2017

Jon W. Salvesson

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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. (Incorporated herein by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.)
2.2	Agreement and Plan of Merger, dated May 14, 2012, by and among CryoLife, Inc., CL Crown, Inc., Hemosphere, Inc. and a Stockholder Representative. (Incorporated herein by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)
2.3	Agreement and Plan of Merger, dated as of December 22, 2015, by and among CryoLife, Inc., On-X Life Technologies Holdings, Inc., Cast Acquisition Corporation, Fortis Advisors LLC and each of the security holders who becomes a party thereto. (Incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed January 25, 2016.)
3.1	Amended and Restated Articles of Incorporation of CryoLife, Inc. (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed November 23, 2015.)
3.2	Amended and Restated By-Laws of CryoLife, Inc. (Incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed March 1, 2016.)
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.)
4.3	Registration Rights Agreement, dated as of January 20, 2016, by and between CryoLife, Inc. and the Investors party thereto. (Incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed January 25, 2016.)
4.4	Form of Indenture for Senior Debt Securities (Incorporated herein by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-3 filed August 5, 2015 (No. 333-206119).)
4.5	Form of Subordinated Indenture for Subordinated Debt Securities (Incorporated herein by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-3 filed August 5, 2015 (No. 333-206119).)
10.1	CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.)
10.1(a)	First Amendment, dated July 24, 2012, to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
10.1(b)	CryoLife, Inc. Equity and Cash Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q filed July 28, 2015.)
10.2	CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Appendix 1 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)
10.3	Form of 2012 Grant Agreement to Executive Officers pursuant to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.7 to the Registrant's Annual Report on 10-K for the fiscal year ended December 31, 2012.)
10.3(a)	Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2002 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed

August 7, 2006.)

- 10.3(b) Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 2, 2007.)

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Exhibit Number	Description
10.4	Form of Incentive Stock Option Grant Agreement under the 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 2, 2007.)
10.5	Employment Agreement, dated as of October 23, 2012, by and between the Company and Steven G. Anderson. (Incorporated herein by reference to Exhibit 10.9 to the Registrant's Annual Report on 10-K for the fiscal year ended December 31, 2012.)
10.5(a)	First Amendment, dated as of May 28, 2014, to the Employment Agreement, dated as of October 23, 2012, by and between the Company and Steven G. Anderson. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.)
10.5(b)	Second Amendment, dated as of September 3, 2014, to the Employment Agreement, dated as of October 23, 2012, by and between the Company and Steven G. Anderson. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 9, 2014.)
10.5(c)	Form of Change of Control Agreement (entered into with respect to Jeffrey W. Burris, David M. Fronk, and Scott B. Capps). (Incorporated herein by reference to Exhibit 10.9(a) to the Registrant's Annual Report on 10-K for the fiscal year ended December 31, 2012.)
10.5(d)	Change of Control Agreement, by and between the Company and D. Ashley Lee, dated October 24, 2008. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 28, 2008.)
10.5(e)	Compensation Arrangement between CryoLife and David M. Fronk dated April 24, 2015. (Incorporated herein by reference to Item 5.02 to Registrant's Current Report on Form 8-K filed April 27, 2015.)
10.6	Form of Secrecy and Noncompete Agreement, by and between the Company and its Officers. (Incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
10.7	Form of Key Employee Secrecy and Noncompete Agreement, by and between the Company and its Officers and Key Employees (Incorporated herein by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.).
10.8	Separation and Release Agreement, by and between the Company and Jeffrey W. Burris. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed October 28, 2014.)
10.8(a)	Separation Agreement between CryoLife and Steven G. Anderson dated April 9, 2015. (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed April 10, 2015.)
10.8(b)	Separation and Release Agreement between CryoLife and Bruce G. Anderson dated October 8, 2015. (Incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed October 27, 2015.)
10.8(c)	Separation and Release Agreement - Amended between CryoLife and David M. Fronk dated October 8, 2015. (Incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed October 27, 2015.)
10.8(d)	Change of Control Severance Agreement between CryoLife and Scott B. Capps dated November 21, 2016. (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed November 22, 2016.)
10.8(e)	Change of Control Severance Agreement between CryoLife and David C. Gale, Ph.D. dated November 21, 2016. (Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed

November 22, 2016.)

10.8(f)

Change of Control Severance Agreement between CryoLife and Jean F. Holloway dated November 21, 2016 (Incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed November 22, 2016.)

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Exhibit Number	Description
10.8(g)	Change of Control Severance Agreement between CryoLife and D. Ashley Lee dated November 21, 2016. (Incorporated herein by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed November 22, 2016.)
10.9	CryoLife, Inc. Non-Employee Directors Stock Option Plan, as amended. (Incorporated herein by reference to Appendix 2 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)
10.10	Lease Agreement between the Company and Amli Land Development I Limited Partnership, dated April 18, 1995. (Incorporated herein by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.)
10.10(a)	First Amendment to Lease Agreement, dated April 18, 1995, between the Company and Amli Land Development I Limited Partnership dated August 6, 1999. (Incorporated herein by reference to Exhibit 10.16(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)
10.10(b)	Restatement and Amendment to Funding Agreement between the Company and Amli Land Development I Limited Partnership, dated August 6, 1999. (Incorporated herein by reference to Exhibit 10.16(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.10(c)	Amended and Restated Lease Agreement between the Company and P&L Barrett, L.P., dated May 10, 2010. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)
10.10(d)	Lease, dated October 23, 2014, by and between Roberts Boulevard, LLC, as Landlord, and CryoLife, Inc., as Tenant. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 27, 2014.)
10.11	CryoLife, Inc. 2004 Employee Stock Incentive Plan, adopted on June 29, 2004. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
10.11(a)	First Amendment to the CryoLife, Inc. 2004 Employee Stock Incentive Plan, dated October 27, 2009. (Incorporated herein by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.)
10.11(b)	Second Amendment to the CryoLife, Inc. 2004 Employee Stock Incentive Plan, dated May 24, 2011. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.)
10.12	Form of Incentive Stock Option Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 25, 2008.)
10.13	Form of Non-Qualified Employee Stock Option Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 25, 2008.)
10.14	Technology License Agreement between the Company and Colorado State University Research Foundation dated March 28, 1996. (Incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.)
10.15	Form of Section 16 Officer Stock Option Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)

- 10.16 Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)

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Exhibit Number	Description
10.17	Form of Incentive Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.18	Form of Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.19	Form of Non-Qualified Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.20	International Distribution Agreement, dated September 17, 1998, between the Company and Century Medical, Inc. (Incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.21	CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)
10.22	Settlement and Release Agreement, dated August 2, 2002, by and between Colorado State University Research Foundation, the Company, and Dr. E. Christopher Orton. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.)
10.23	Settlement Agreement and Release, dated September 25, 2006, by and between CryoLife, Inc. and St. Paul Mercury Insurance Company. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.24	Summary of Compensation Arrangements with Non-Employee Directors. (Incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.)
10.24(a)*	Summary of 2016 Compensation Arrangements with Non-Employee Directors.
10.25	CryoLife, Inc. 2009 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.)
10.26	Form of 2013 Grant Agreement to Executive Officers pursuant to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.)
10.27	Form of Non-Qualified Stock Option Grant Agreement pursuant to the CryoLife, Inc. 2009 Employee Stock Incentive Plan entered into with each Named Executive Officer. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.)
10.28+	Distribution Agreement between the Company and Starch Medical, Inc., dated September 28, 2010. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 30, 2014.)
10.28(a)	First Amendment to the Distribution Agreement between the Company and Starch Medical, Inc., dated May 18, 2011. (Incorporated herein by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.)
10.28(b)	Second Amendment to the Distribution Agreement between the Company and Starch Medical, Inc., dated September 20, 2013. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)

10.29+ License Agreement between the Company and Starch Medical, Inc., dated September 28, 2010.
(Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed
December 30, 2014.)

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Exhibit Number	Description
10.29(a)	Indemnification Agreement between the Company and Starch Medical, Inc., dated May 21, 2013. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.)
10.30	CryoLife, Inc. Executive Deferred Compensation Plan. (Incorporated herein by reference to Exhibit 10.52 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.)
10.31	Form of Non-Qualified Stock Option Grant Agreement pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.)
10.32	Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2009 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.)
10.33++	Loan and Security Agreement by and between ValveXchange, Inc., and CryoLife, Inc. dated July 6, 2011. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.)
10.33(a)	First Amendment to Loan and Security Agreement by and between ValveXchange, Inc., and CryoLife, Inc. dated September 6, 2011. (Incorporated herein by reference to Exhibit 10.56(a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.)
10.33(b)	Second Amendment, dated July 18, 2012, to the Loan and Security Agreement by and between ValveXchange, Inc. and CryoLife, Inc. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
10.34	Form of Indemnification Agreement for Non-Employee Directors and Certain Officers. (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed February 18, 2015.)
10.35	Form of Performance Share Agreement with Named Executive Officers. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 22, 2012.)
10.35(a)	First Amendment, dated July 23, 2012, to the 2012 Grant Agreement to Executive Officers pursuant to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
10.35(b)	Stock Option Grant Agreement, dated September 2, 2014, by and between CryoLife, Inc. and J. Patrick Mackin. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed October 28, 2014.)
10.35(c)	Restricted Stock Award Agreement, dated September 2, 2014, by and between CryoLife, Inc. and J. Patrick Mackin. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed October 28, 2014.)
10.35(d)	Form of Performance Share Agreement with Named Executive Officers pursuant to the Second Amended and Restated CryoLife, Inc. 2009 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed April 29, 2015.)
10.35(e)	Form of Amendment to Performance Share Agreement with Named Executive Officers. (Incorporated herein by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q filed July 28, 2015.)
10.36	Amended and Restated CryoLife, Inc. 2009 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 99.1 to the Registrant's Form S-8 filed June 22, 2012.)
10.36(a)	First Amendment, dated July 24, 2012, to the Amended and Restated CryoLife, Inc. 2009 Stock Incentive

Plan. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)

10.36(b) Second Amended and Restated CryoLife Inc. 2009 Stock Incentive Plan. (Incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement filed April 8, 2014.)

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Exhibit Number	Description
10.37	Waiver Agreement, dated May 14, 2012, by and among CryoLife, Inc. and certain of its subsidiaries, as borrowers, and General Electric Capital Corporation, as lender and administrative agent for all lenders, under the Amended and Restated Credit Agreement between the parties, dated October 28, 2011. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)
10.38	Final Settlement Agreement, dated June 28, 2012, by and among CryoLife, Inc. and Medafor, Inc. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)
10.39	Settlement Agreement, dated June 14, 2012, by and among CryoLife, Inc. and CardioFocus, Inc. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)
10.40	Exclusive Supply and Distribution Agreement, dated as of March 26, 2014, by and between CryoLife, Inc. and Hancock Jaffe Laboratories, Inc. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.)
10.41	Employment Agreement dated as of July 7, 2014, between CryoLife, Inc. and J. Patrick Mackin. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 11, 2014.)
10.42	Form of Non-Employee Directors Restricted Stock Award Agreement pursuant to the Second Amended and Restated CryoLife, Inc. 2009 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K filed February 16, 2016.)
10.43	Commitment Letter by and among CryoLife, Inc.; Capital One, National Association; Healthcare Financial Solutions, LLC; Fifth Third Bank; and Citizens Bank, National Association, dated as of December 22, 2015. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 23, 2015.)
10.44	Third Amended and Restated Credit Agreement, dated as of January 20, 2016, by and among CryoLife, Inc., On-X Life Technologies Holdings, Inc., AuraZyme Pharmaceuticals, Inc., CryoLife International, Inc., On-X Life Technologies, Inc., Valve Special Purpose Co., LLC, the lenders from time to time party thereto and Healthcare Financial Solutions, LLC, as agent. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 25, 2016.)
10.45	Amended and Restated Guaranty and Security Agreement, dated as of January 20, 2016, by and among CryoLife, Inc., AuraZyme Pharmaceuticals, Inc., CryoLife International, Inc., On-X Life Technologies Holdings, Inc., On-X Life Technologies, Inc., Valve Special Purpose Co., LLC and each other grantor from time to time party thereto in favor of Healthcare Financial Solutions, LLC, as Administrative Agent. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed January 25, 2016.)
10.46	Asset Purchase Agreement between Merit Medical System, Inc. and CryoLife, Inc., dated February 3, 2016. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 8, 2016.)
14.1	Form of Code of Conduct, as amended (Incorporated herein by reference to Exhibit 14.1 to the Registrant's Current Report on Form 8-K filed November 23, 2015.)
21.1*	Subsidiaries of CryoLife, Inc.
23.1*	Consent of Ernst & Young LLP.

- 31.1* Certification by J. Patrick Mackin 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.

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Exhibit Number	Description
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

Indicates management contract or compensatory plan or arrangement.

+ 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.

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

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Management's Report on Internal Control over Financial Reporting under Sarbanes-Oxley Section 404.

The management of CryoLife, Inc. and subsidiaries (CryoLife or we) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. CryoLife's internal control system was designed to provide reasonable assurance to CryoLife's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

On January 20, 2016 we completed the acquisition of 100% of the outstanding equity of On-X Life Technologies Holdings, Inc. (On-X), a privately held company. As permitted by SEC guidance, we excluded On-X from management's assessment of internal control over financial reporting as of December 31, 2016. On-X, which is included in the 2016 consolidated financial statements of CryoLife, constituted \$140.4 million of total assets as of December 31, 2016 and \$34.2 million and \$20.3 million of revenues and gross margin, respectively, for the year then ended. On-X will be included in management's assessment of the internal control over financial reporting as of December 31, 2017.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

CryoLife management assessed the effectiveness of CryoLife's internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, we have determined that, as of December 31, 2016, the company's internal control over financial reporting was effective based on those criteria.

CryoLife's independent registered public accounting firm, Ernst & Young, LLP, has issued an audit report on the effectiveness of CryoLife's internal control over financial reporting as of December 31, 2016.

CryoLife, Inc.

February 16, 2017

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Report of Independent Registered Public Accounting Firm on the Financial Statements

The Board of Directors and Shareholders of CryoLife, Inc.

We have audited the accompanying consolidated balance sheets of CryoLife, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CryoLife, Inc. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CryoLife, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2017 expressed an unqualified opinion thereon.

Ernst & Young LLP

Atlanta, GA

February 16, 2017

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Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of CryoLife, Inc.

We have audited CryoLife, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CryoLife, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting under Sarbanes-Oxley Section 404. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of On-X Life Technologies Holdings, Inc., which is included in the 2016 consolidated financial statements of CryoLife, Inc. and constituted \$140.4 million of total assets as of December 31, 2016 and \$34.2 million and \$20.3 million of revenues and gross margin, respectively, for the year then ended. Our audit of internal control over financial reporting of CryoLife, Inc. also did not include an evaluation of the internal control over financial reporting of On-X Life Technologies Holdings, Inc.

In our opinion, CryoLife, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CryoLife, Inc. and subsidiaries as of December 31, 2016 and 2015, and the

related consolidated statements of operations and comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2016 of CryoLife, Inc. and subsidiaries and our report dated February 16, 2017 expressed an unqualified opinion thereon.

Ernst & Young, LLP

Atlanta, Georgia

February 16, 2017

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Table of Contents**CRYOLIFE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands)

	December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,642	\$ 37,588
Restricted securities	699	830
Receivables:		
Trade accounts, net	27,769	23,419
Other	2,327	3,253
Total receivables	30,096	26,672
Inventories	26,293	14,643
Deferred preservation costs	30,688	24,741
Prepaid expenses and other	2,815	5,189
Total current assets	147,233	109,663
Property and equipment:		
Equipment and software	37,086	28,608
Furniture and fixtures	4,670	4,483
Leasehold improvements	31,981	30,902
Total property and equipment	73,737	63,993
Less accumulated depreciation and amortization	55,235	52,509
Net property and equipment	18,502	11,484
Other assets:		
Restricted cash	--	5,000
Goodwill	78,294	11,365
Patents, less accumulated amortization of \$2,702 in 2016 and \$2,664 in 2015	1,008	1,417
Trademarks and other intangibles, less accumulated amortization of \$10,733 in 2016 and \$7,997 in 2015	65,633	18,480
Deferred income taxes	--	18,188

Other		5,470		5,582
Total assets		\$ 316,140	\$	181,179

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Table of Contents**CRYOLIFE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	December 31,	
	2016	2015
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,744	\$ 4,590
Accrued compensation	8,815	6,335
Accrued procurement fees	4,806	4,445
Accrued expenses	5,054	2,847
Current portion of long-term debt	4,562	--
Other	1,121	1,388
Total current liabilities	30,102	19,605
Long-term debt	67,012	--
Deferred compensation liability	2,600	1,927
Deferred rent obligations	2,355	1,735
Other	5,088	2,661
Total liabilities	107,157	25,928
Commitments and contingencies		
Shareholders equity:		
Preferred stock \$0.01 par value per share, 5,000 shares authorized, no shares issued:		
Series A Junior Participating Preferred Stock, 2,000 shares auth., no shares issued	--	--
Convertible preferred stock, 460 shares auth., no shares issued	--	--
Common stock \$0.01 par value per share, 75,000 shares authorized, 34,230 shares issued in 2016 and 29,766 shares issued in 2015	342	298
Additional paid-in capital	187,061	142,888
Retained earnings	34,143	23,365
Accumulated other comprehensive loss	(429)	(76)
Treasury stock at cost, 1,356 shares in 2016 and 1,265 shares in 2015	(12,134)	(11,224)

Total shareholders equity	208,983	155,251
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Total liabilities and shareholders equity	\$ 316,140	\$ 181,179
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See accompanying Notes to Consolidated Financial Statements.

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Table of Contents**CRYOLIFE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(in thousands, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Products	\$ 113,992	\$ 83,081	\$ 81,883
Preservation services	66,388	62,817	62,758
Total revenues	180,380	145,898	144,641
Cost of products and preservation services:			
Products	28,033	18,663	17,167
Preservation services	33,448	36,516	36,183
Total cost of products and preservation services	61,481	55,179	53,350
Gross margin	118,899	90,719	91,291
Operating expenses:			
General, administrative, and marketing	91,548	74,929	73,754
Research and development	13,446	10,436	8,699
Total operating expenses	104,994	85,365	82,453
Gain from sale of business components	(7,915)	--	--
Operating income	21,820	5,354	8,838
Interest expense	3,043	(62)	175
Interest income	(72)	(45)	(50)
Gain on sale of Medafor investment	--	(891)	(530)
Other expense, net	437	484	540
Income before income taxes	18,412	5,868	8,703
Income tax expense	7,634	1,863	1,381

Net income	\$	10,778	\$	4,005	\$	7,322
Income per common share:						
Basic	\$	0.33	\$	0.14	\$	0.26
Diluted	\$	0.32	\$	0.14	\$	0.25
Dividends declared per common share	\$	--	\$	0.120	\$	0.118
Weighted-average common shares outstanding:						
Basic		31,855		27,744		27,379
Diluted		32,822		28,542		28,313
Net income	\$	10,778	\$	4,005	\$	7,322
Other comprehensive (loss) income		(353)		45		(128)
Comprehensive income	\$	10,425	\$	4,050	\$	7,194

See accompanying Notes to Consolidated Financial Statements.

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CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net cash flows from operating activities:			
Net income	\$ 10,778	\$ 4,005	\$ 7,322
Adjustments to reconcile net income to net cash from operating activities:			
Gain from sale of business components	(7,915)	--	--
Gain on sale of Medafor investment	--	(891)	(530)
Depreciation and amortization	8,384	5,863	6,028
Non-cash compensation	6,328	5,089	3,436
Write-down of inventories and deferred preservation costs	1,364	1,341	680
Deferred income taxes	595	3,681	178
Other non-cash adjustments to income	268	268	(474)
Changes in operating assets and liabilities:			
Receivables	4,142	(3,809)	(4,556)
Inventories and deferred preservation costs	(9,460)	(2,262)	(1,131)
Prepaid expenses and other assets	515	(1,187)	(2,771)
Accounts payable, accrued expenses, and other liabilities	4,720	(656)	(64)
Net cash flows provided by operating activities	19,719	11,442	8,118
Net cash flows from investing activities:			
Acquisition of On-X, net of cash acquired	(91,152)	--	--
Acquisition of PhotoFix technology	(1,226)	--	--
Acquisition of French distribution business	--	(1,349)	--
Capital expenditures	(6,198)	(3,490)	(4,310)
Proceeds from sale of business components	19,795	--	--
Proceeds from sale of Medafor investment	--	891	530
Decrease in restricted cash	5,000	--	--
Sales and maturities of restricted securities and investments	1,067	1,157	639
Purchases of restricted securities and investments	(1,014)	(1,085)	(1,208)
Other	(126)	(610)	(1,004)
Net cash flows used in investing activities	(73,854)	(4,486)	(5,353)
Net cash flows from financing activities:			

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Proceeds from issuance of term loan	75,000	--	--
Repayment of term loan	(1,406)	--	--
Payment of debt issuance costs	(2,289)	--	--
Proceeds from exercise of stock options and issuance of common stock	2,203	1,526	2,675
Cash dividends paid	--	(3,408)	(3,295)
Repurchases of common stock	--	--	(5,588)
Redemption and repurchase of stock to cover tax withholdings	(697)	(1,386)	(1,483)
Other	617	458	738
Net cash flows provided by (used in) financing activities	73,428	(2,810)	(6,953)
Effect of exchange rate changes on cash	(239)	67	(80)
Increase (decrease) in cash and cash equivalents	19,054	4,213	(4,268)
Cash and cash equivalents, beginning of year	37,588	33,375	37,643
Cash and cash equivalents, end of year	\$ 56,642	\$ 37,588	\$ 33,375

See accompanying Notes to Consolidated Financial Statements.

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CRYOLIFE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)

	Common Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income		Treasury Stock		Total Shareholders Equity
	Shares	Amount			Shares	Amount			
Balance at December 31, 2013	28,244	\$ 282	\$ 128,585	\$ 18,741	\$ 7	(413)	\$ (2,868)	\$ 144,747	
Net income	--	--	--	7,322	--	--	--	7,322	
Other comprehensive loss	--	--	--	--	(128)	--	--	(128)	
Comprehensive income								7,194	
Cash dividends paid (\$0.118 per share)	--	--	--	(3,295)	--	--	--	(3,295)	
Equity compensation	642	6	3,691	--	--	--	--	3,697	
Exercise of options	297	3	2,150	--	--	(18)	(191)	1,962	
Employee stock purchase plan	111	1	712	--	--	--	--	713	
Excess tax benefit	--	--	738	--	--	--	--	738	
Repurchase of common stock	--	--	--	--	--	(585)	(5,588)	(5,588)	
Redemption and repurchase of stock to cover tax withholdings	(65)	--	(649)	--	--	(85)	(834)	(1,483)	
Balance at December 31, 2014	29,229	\$ 292	\$ 135,227	\$ 22,768	\$ (121)	(1,101)	\$ (9,481)	\$ 148,685	
Net income	--	--	--	4,005	--	--	--	4,005	

Other comprehensive income	--	--	--	--	45	--	--	45
Comprehensive income								4,050
Cash dividends paid (\$0.120 per share)	--	--	--	(3,408)	--	--	--	(3,408)
Equity compensation	271	3	5,323	--	--	--	--	5,326
Exercise of options	248	2	1,837	--	--	(93)	(1,002)	837
Employee stock purchase plan	78	1	688	--	--	--	--	689
Excess tax benefit	--	--	458	--	--	--	--	458
Redemption and repurchase of stock to cover tax withholdings	(60)	--	(645)	--	--	(71)	(741)	(1,386)
Balance at December 31, 2015	29,766	\$ 298	\$ 142,888	\$ 23,365	\$ (76)	(1,265)	\$ (11,224)	\$ 155,251
Net income	--	--	--	10,778	--	--	--	10,778
Other comprehensive loss	--	--	--	--	(353)	--	--	(353)
Comprehensive income								10,425
Stock Issued for On-X Transaction	3,704	37	34,556	--	--	--	--	34,593
Equity compensation	342	3	6,599	--	--	--	--	6,602
Exercise of options	372	3	2,083	--	--	(69)	(712)	1,374
Employee stock purchase plan	90	1	828	--	--	--	--	829
Excess tax benefit	--	--	606	--	--	--	--	606
Redemption and repurchase of stock to cover tax withholdings	(44)	--	(499)	--	--	(22)	(198)	(697)
Balance at December 31, 2016	34,230	\$ 342	\$ 187,061	\$ 34,143	\$ (429)	(1,356)	\$ (12,134)	\$ 208,983

See accompanying Notes to Consolidated Financial Statements.

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CRYOLIFE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Business

CryoLife, Inc. (CryoLife, the Company, we, or us), incorporated in 1984 in Florida, is a leader in medical device manufacturing, processing, and distribution of medical devices and implantable human tissues used in cardiac surgical procedures. CryoLife's medical devices include: BioGlue® Surgical Adhesive (BioGlue); BioFoam® Surgical Matrix (BioFoam); On-X valves and surgical products; the CardioGenesis cardiac laser therapy product line, which includes a laser console system and single-use, fiber-optic handpieces, that are used for the treatment of coronary artery disease in patients with severe angina; PerClot®, an absorbable powdered hemostat, which the Company distributes internationally for Starch Medical, Inc. (SMI); and PhotoFix™, a bovine pericardial patch stabilized using a dye-mediated photo-fixation process that requires no glutaraldehyde. The cardiac and vascular human tissues distributed by CryoLife include the CryoValve® SG pulmonary heart valve (CryoValve SGPV) and the CryoPatch® SG pulmonary cardiac patch (CryoPatch SG), both of which are processed using CryoLife's proprietary SynerGraft® technology.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Translation of Foreign Currencies

The Company's revenues and expenses transacted in foreign currencies are translated as they occur at exchange rates in effect at the time of each transaction. Realized gains and losses on foreign currency transactions are recorded as a component of other (income) expense, net on the Company's Consolidated Statements of Operations and Comprehensive Income. Assets and liabilities of the Company denominated in foreign currencies are translated at the exchange rate in effect as of the balance sheet date and are recorded as a separate component of accumulated other comprehensive income (loss) in the shareholders' equity section of the Company's Consolidated Balance Sheets.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Estimates and assumptions are used when accounting for investments, allowance for doubtful accounts, inventory, deferred preservation costs, acquired assets or businesses, long-lived tangible and intangible assets, deferred income taxes, commitments and contingencies (including product and tissue processing liability claims, claims incurred but not reported, and amounts recoverable from insurance companies), stock-based compensation, certain accrued liabilities (including accrued procurement fees, income taxes, and financial instruments), contingent consideration liability, and other items as appropriate.

Revenue Recognition

Revenues for products, including: BioGlue, BioFoam, On-X products, CardioGenesis cardiac laser therapy handpieces and accessories, PerClot, PhotoFix, and other medical devices, are typically recognized at the time the product is shipped, at which time title passes to the customer, and there are no further performance obligations. Revenues from consignment are recognized when the medical device is implanted. The Company recognizes revenues for preservation services when services are completed and tissue is shipped to the customer. Revenues from upfront licensing agreements are recognized ratably over the period the Company expects to fulfill its obligations.

Revenues from the sale of laser consoles are considered multiple element arrangements, and such revenues are allocated to the elements of the sale. The Company allocates revenues based primarily on the revenue these individual elements would generate if sold separately. Revenues from the sales of domestic laser consoles are typically recognized when the laser is installed at a customer site and all materials for the laser console's use are delivered. Revenues from the sales of laser consoles to international distributors are evaluated individually based on the terms of the sale and collectability to determine when revenue has been earned and can be recognized.

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Table of Contents***Shipping and Handling Charges***

Fees charged to customers for shipping and handling of products and tissues are included in product revenues and preservation services revenues, respectively. The costs for shipping and handling of products and tissues are included as a component of cost of products and cost of preservation services, respectively.

Advertising Costs

The costs to develop, produce, and communicate the Company's advertising are expensed as incurred and are classified as general, administrative, and marketing expenses. The Company records the cost to print or copy certain sales materials as a prepaid expense and amortizes these costs as an advertising expense over the period they are expected to be used, typically six months to one year. The total amount of advertising expense included in the Company's Consolidated Statements of Operations and Comprehensive Income was \$384,000, \$521,000, and \$821,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

Stock-Based Compensation

The Company has stock option and stock incentive plans for employees and non-employee Directors that provide for grants of restricted stock awards (RSAs), performance stock awards (PSAs), restricted stock units (RSUs), performance stock units (PSUs), and options to purchase shares of CryoLife 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. The RSAs, PSAs, RSUs, PSUs, and stock options granted by the Company typically vest over a one to three-year period. The stock options granted by the Company typically expire within seven years of the grant date.

The Company values its RSAs, PSAs, RSUs, and PSUs based on the stock price on the date of grant. The Company expenses the related compensation cost of RSAs, PSAs, and RSUs using the straight-line method over the vesting period. The Company expenses the related compensation cost of PSUs based on the number of shares expected to be issued if achievement of the performance component is probable using a straight-line method over each vesting tranche of the award. The amount of compensation costs expensed related to PSUs is adjusted as needed if the Company deems that achievement of the performance component is no longer probable, or if the Company's expectation of the number of shares to be issued changes. 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, volatility, dividend yield, and the risk-free interest rate. The expected term is primarily based on the contractual term of the option and Company data related to historic exercise and post-vesting forfeiture patterns, which is adjusted based on management's expectations of future results. The Company's anticipated volatility level is primarily based on the historic volatility of the Company's common stock, adjusted to remove the effects of certain periods of unusual volatility not expected to recur, and adjusted based on management's expectations of future volatility, for the life of the option or option group. The Company's model included a zero dividend yield assumption when the Company's quarterly dividends were discontinued after the fourth quarter of 2015. The risk-free interest rate is based on recent U.S. Treasury note auction results with a similar life to that of the option. The Company's model does not include a discount for post-vesting restrictions, as the Company has not issued awards with such restrictions.

The period expense for the Company's stock compensation is determined based on the valuations discussed above 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 later adjusted to reflect actual forfeitures.

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Income Per Common Share

Income per common share is computed using the two class method, which requires the Company to include unvested RSAs and PSAs that contain non-forfeitable rights to dividends (whether paid or unpaid) as participating securities in the income per common share calculation.

Under the two class method, net income is allocated to the weighted-average number of common shares outstanding during the period and the weighted-average participating securities outstanding during the period. The portion of net income that is allocated to the participating securities is excluded from basic and dilutive net income per common share. Diluted net income per share is computed using the weighted-average number of common shares outstanding plus the dilutive effects of outstanding stock options and awards and other dilutive instruments as appropriate.

Dividends

Cash dividends approved by the Company's Board of Directors were paid every three months in the amount of \$0.0275 per share in the first quarter of 2014 and \$0.03 in the remainder of 2014 and in 2015. In December 2015 the Board of Directors undertook a review of the Company's dividend policy and determined that it would be in the best interest of the shareholders to discontinue dividend payments for the foreseeable future. The Company did not pay quarterly dividends in 2016 and does not currently anticipate paying out further quarterly dividends.

Financial Instruments

The Company's financial instruments include cash equivalents, marketable securities, restricted securities, accounts receivable, notes receivable, accounts payable, debt obligations, contingent consideration, and derivatives. 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. Other financial instruments are recorded as discussed in the sections below.

Fair Value Measurements

The Company records certain financial instruments at fair value, including: cash equivalents, certain marketable securities, certain restricted securities, contingent consideration, and derivative instruments. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis; although as of December 31, 2016 the Company has not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value measurement framework.

The Company also measures certain non-financial assets at fair value on a non-recurring basis. These non-recurring valuations include evaluating assets such as cost method investments, long-lived assets, and non-amortizing intangible assets for impairment; allocating value to assets in an acquired asset group; applying accounting for business combinations; and allocating goodwill to divested components of a business. The Company uses the fair value measurement framework to value these assets and reports these fair values in the periods in which they are recorded or written down.

The fair value measurement framework includes a 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 requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include: estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist in determining fair value, as appropriate.

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Although the Company believes that the recorded fair value of its financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

Cash and Cash Equivalents

Cash equivalents consist primarily of highly liquid investments with maturity dates of three months or less at the time of acquisition. The carrying value of cash equivalents approximates fair value.

Cash Flow Supplemental Disclosures

Supplemental disclosures of cash flow information for the years ended December 31 (in thousands):

	2016	2015	2014
Cash paid during the year for:			
Interest	\$ 2,446	\$ 1	\$ 34
Income taxes	2,501	145	3,450
Non-cash investing and financing activities:			
Issuance of common stock for acquisition of On-X intangible assets	\$ 34,593	\$ --	\$ --

Marketable Securities and Other Investments

The Company typically invests its excess cash for short-term periods in large, well-capitalized financial institutions, and the Company's policy excludes investment in any securities rated less than investment-grade by national rating services, unless specifically approved by the Board of Directors. The Company sometimes makes longer term strategic investments in medical device companies, and these investments must be approved by the Board of Directors.

The Company determines the classification of its investments as trading, available-for-sale, or held-to-maturity at the time of purchase and reevaluates such designations quarterly. Trading securities are securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Debt securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity. Any securities not designated as trading or held-to-maturity are considered available-for-sale. The Company typically states its investments at their fair values; however, for held-to-maturity securities or when current fair value information is not readily available, investments are recorded using the cost method. The cost of securities sold is based on the specific identification method.

Under the fair value method, the Company adjusts each investment to its market price and records the unrealized gains or losses in other (income) expense, net for trading securities, or accumulated other comprehensive income (loss), for available-for-sale securities. Interest, dividends, realized gains and losses, and declines in value judged to be other than temporary are included in other (income) expense, net. Under the cost method, investments are recorded at cost, with subsequent dividends received recognized as income. Cost method investments are reviewed for impairment if factors indicate that a decrease in the value of the investment has occurred.

The Company reviews its contracts to determine if they require any restrictions to cash or investments. If there is a contractual agreement restricting the availability of the Company's cash or investments, the Company will classify these amounts as current or long-term restricted cash or investments.

Accounts and Notes Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable are primarily from hospitals and distributors that either use or distribute the Company's products and tissues. The Company assesses the likelihood of collection based on a number of factors, including past transaction history and the credit worthiness of the customer, as well as the increased risks related to international customers and large distributors. The Company determines the allowance for doubtful accounts based upon specific reserves for known collection issues, as well as a non-specific reserve based upon aging buckets. The Company charges off uncollectable amounts against the reserve in the period in which it determines they are uncollectible. The Company's accounts receivable balances were reported net of allowance for doubtful accounts of \$503,000 and \$232,000 as of December 31, 2016 and 2015, respectively.

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The Company may lend money from time-to-time through a note receivable, which may be made in conjunction with a longer term strategic investment in a medical device company, as approved by the Board of Directors. The Company assesses the likelihood of collection of its notes receivable based on a number of factors, including past transaction history, credit worthiness, and the liquidity position of the recipient as well as the expected value of any collateral. The Company's notes receivable balance was zero as of December 31, 2016 and 2015, respectively. See Note 8 for further discussion of the Company's note receivable from ValveXchange, Inc. (ValveXchange).

Inventories

Inventories are comprised of BioGlue; BioFoam; On-X; PerClot; CardioGenesis cardiac laser therapy laser consoles, handpieces, and accessories; PhotoFix; other medical devices; supplies; and raw materials. In 2015, inventories also included HeRO Grafts and ProCol. Inventories are valued at the lower of cost or market on a first-in, first-out basis. Typically, upon shipment, or upon implant of a medical device on consignment, revenue is recognized and the related inventory costs are expensed as cost of products. Cost of products also includes, as applicable, lower of cost or market write-downs and impairments for products not deemed to be recoverable and, as incurred, idle facility expense, excessive spoilage, extra freight, and rehandling costs.

Inventory costs for manufactured products consist primarily of direct labor and materials (including salary and fringe benefits, raw materials, and supplies) and indirect costs (including allocations of costs from departments that support manufacturing activities and facility allocations). The allocation of fixed production overhead costs is based on actual production levels, to the extent that they are within the range of the facility's normal capacity. Inventory costs for products purchased for resale or manufactured under contract consist primarily of the purchase cost, freight-in charges, and indirect costs as appropriate.

The Company regularly evaluates its inventory to determine if the costs are appropriately recorded at the lower of cost or market value. The Company also evaluates its inventory for costs not deemed to be recoverable, including inventory not expected to ship prior to its expiration. Lower of cost or market value write-downs are recorded if the book value exceeds the estimated market value of the inventory, based on recent sales prices at the time of the evaluation. Impairment write-downs are recorded based on the book value of inventory deemed to be impaired. Actual results may differ from these estimates. Write-downs of inventory are expensed as cost of products, and these write-downs are permanent impairments that create a new cost basis, which cannot be restored to its previous levels if the Company's estimates change.

The Company recorded write-downs to its inventory totaling \$467,000, \$858,000, and \$140,000 for the years ended December 31, 2016, 2015, and 2014, respectively. The 2015 write-down is primarily related to the write-down of PerClot Topical inventory following the Company's cessation of marketing, sales, and distribution of PerClot Topical in the U.S. See Note 9 for further discussion of PerClot Topical.

Deferred Preservation Costs

Deferred preservation costs includes costs of cardiac and vascular tissues available for shipment, tissues currently in active processing, and tissues held in quarantine pending release to implantable status. By federal law, human tissues cannot be bought or sold; therefore, the tissues the Company preserves are not held as inventory. The costs the Company incurs to procure and process cardiac and vascular tissues are instead accumulated and deferred. Deferred preservation costs are stated at the lower of cost or market value on a first-in, first-out basis and are deferred until revenue is recognized. Upon shipment of tissue to an implanting facility, revenue is recognized and the related deferred preservation costs are expensed as cost of preservation services. Cost of preservation services also includes, as applicable, lower of cost or market write-downs and impairments for tissues not deemed to be recoverable, and includes, as incurred, idle facility expense,

excessive spoilage, extra freight, and rehandling costs.

The calculation of deferred preservation costs involves judgment and complexity and uses the same principles as inventory costing. Donated human tissue is procured from deceased human donors by organ and tissue procurement organizations (OTPOs), which consign the tissue to the Company for processing, preservation, and distribution. Deferred preservation costs consist primarily of the procurement fees charged by the OTPOs, direct labor and materials (including salary and fringe benefits, laboratory supplies and expenses, and freight-in charges), and indirect costs (including allocations of costs from support departments and facility allocations). Fixed production overhead costs are allocated based on actual tissue processing levels, to the extent that they are within the range of the facility's normal capacity.

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These costs are then allocated among the tissues processed during the period based on cost drivers, such as the number of donors or number of tissues processed. The Company applies a yield estimate to all tissues in process and in quarantine to estimate the portion of tissues that will ultimately become implantable. Management estimates quarantine yields based on its experience and reevaluates these estimates periodically. Actual yields could differ significantly from the Company's estimates, which could result in a change in tissues available for shipment, and could increase or decrease the balance of deferred preservation costs. These changes could result in additional cost of preservation services expense or could increase per tissue preservation costs, which would impact gross margins on tissue preservation services in future periods.

The Company regularly evaluates its deferred preservation costs to determine if the costs are appropriately recorded at the lower of cost or market value. The Company also evaluates its deferred preservation costs for costs not deemed to be recoverable, including tissues not expected to ship prior to the expiration date of their packaging. Lower of cost or market value write-downs are recorded if the tissue processing costs incurred exceed the estimated market value of the tissue services, based on recent average service fees at the time of the evaluation. Impairment write-downs are recorded based on the book value of tissues deemed to be impaired. Actual results may differ from these estimates. Write-downs of deferred preservation costs are expensed as cost of preservation services, and these write-downs are permanent impairments that create a new cost basis, which cannot be restored to its previous levels if the Company's estimates change.

The Company recorded write-downs to its deferred preservation costs totaling \$897,000, \$483,000, and \$540,000 for the years ended December 31, 2016, 2015, and 2014, respectively, due primarily to tissues not expected to ship prior to the expiration date of the packaging.

Property and Equipment

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

Depreciation expense for the years ended December 31 is as follows (in thousands):

	2016	2015	2014
Depreciation expense	\$ 3,958	\$ 3,728	\$ 4,001

Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill, patents, trademarks, and other intangible assets, as discussed in Note 11. The Company's goodwill is attributable to a segment or segments of the Company's business, as appropriate, as the related acquired business that generated the goodwill is integrated into the Company's operations. Upon divestiture of a component of the Company's business, the goodwill related to the operating segment is allocated to the divested business using the relative fair value allocation method.

The Company amortizes its definite lived intangible assets over their expected useful lives using the straight-line method, which the Company believes approximates the period of economic benefits of the related assets. The Company's indefinite lived intangible assets do not amortize, but are instead subject to periodic impairment testing as discussed in *Impairments of Long-Lived Assets and Non-Amortizing Intangible Assets* below.

Impairments of Long-Lived Assets and Non-Amortizing Intangible Assets

The Company assesses the potential impairment of its long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include, but are not limited to, the following:

Significant underperformance relative to expected historical or projected future operating results;

Significant negative industry or economic trends;

Significant decline in the Company's stock price for a sustained period; or

Significant decline in the Company's market capitalization relative to net book value.

If CryoLife determines that an impairment review is necessary, the Company will evaluate its assets or asset groups by comparing their carrying values to the sum of the undiscounted future cash flows expected to result from their use and eventual disposition. If the carrying values exceed the future cash flows, then the asset or asset group is considered impaired, and the Company will write down the value of the asset or asset group. For the years ended December 31, 2016, 2015, and 2014 the Company did not experience any factors that indicated that an impairment review of its long-lived assets was warranted.

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CryoLife evaluates its goodwill and other non-amortizing intangible assets for impairment on an annual basis as of October 31 and, if necessary, during interim periods if factors indicate that an impairment review is warranted. As of October 31, 2016 the Company's non-amortizing intangible assets consisted of goodwill, acquired procurement contracts and agreements, trademarks, and other acquired technology. The Company performed an analysis of its non-amortizing intangible assets as of October 31, 2016 and 2015, and determined that the fair value of the assets and the fair value of the reporting unit exceeded their associated carrying values and were, therefore, not impaired. Management will continue to evaluate the recoverability of these non-amortizing intangible assets.

Accrued Procurement Fees

Donated tissue is procured from deceased human donors by OTPOs, which consign the tissue to the Company for processing, preservation, and distribution. The Company reimburses the OTPOs for their costs to recover the tissue and includes these costs as part of deferred preservation costs, as discussed above. The Company accrues estimated procurement fees due to the OTPOs at the time tissues are received based on contractual agreements between the Company and the OTPOs.

Leases

The Company has operating lease obligations resulting from the lease of land and buildings that comprise the Company's corporate headquarters and manufacturing facilities; leases related to additional manufacturing, office, and warehouse space; leases on Company vehicles; and leases on a variety of office equipment, as discussed in Note 14. Certain of the Company's leases contain escalation clauses, rent concessions, and renewal options for additional periods. Rent expense is computed on the straight-line method over the lease term and the related liability is recorded as deferred rent obligations on the Company's Consolidated Balance Sheets.

Debt Issuance Costs

Debt issuance costs related to the Company's term loan and line of credit are capitalized and reported net of the current and long-term debt or as a prepaid asset when there are no outstanding borrowings. The Company amortizes debt issuance costs to interest expense on its term loan using the effective interest method over the life of the debt agreement. The Company amortizes debt issuance costs to interest expense on its line of credit on a straight line basis over the life of the debt agreement.

Liability Claims

In the normal course of business, the Company is made aware of adverse events involving its products and tissues. Future adverse events could ultimately give rise to a lawsuit against the Company, and liability claims may be asserted against the Company in the future based on past events it is not aware of at the present time. The Company maintains claims-made insurance policies to mitigate its financial exposure to product and tissue processing liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and incidents that have been incurred but not reported to the insurance carrier during the policy period. Any punitive damage components of claims are uninsured.

The Company engages external advisors to assist it in estimating its liability and any related recoverable under the Company's insurance policies as of each balance sheet date. The Company uses a frequency-severity approach to estimate its unreported product and tissue processing liability claims, whereby projected losses are calculated by multiplying the estimated number of claims by the estimated average cost per claim. The estimated claims are determined based on the

reported claim development method and the Bornhuetter-Ferguson method using a blend of the Company's historical claim experience and industry data. The estimated cost per claim is calculated using a lognormal claims model blending the Company's historical average cost per claim with industry claims data. The Company uses a number of assumptions in order to estimate the unreported loss liability including: the future claim reporting time lag, the frequency of reported claims, the average cost per claim, and the maximum liability per claim. The Company believes that the assumptions it uses provide a reasonable basis for its calculation. However, the accuracy of the estimates is limited by various factors, including, but not limited to, Company specific conditions, uncertainties surrounding the assumptions used, and the scarcity of industry data directly relevant to the Company's business activities. Due to these factors, actual results may differ significantly from the Company's assumptions and from the amounts accrued.

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The Company accrues its estimate of unreported product and tissue processing liability claims as a component of other long-term liabilities and records the related recoverable insurance amounts as a component of other long-term assets. The amounts recorded represent management's estimate of the probable losses and anticipated recoveries for unreported claims related to products sold and services performed prior to the balance sheet date.

Legal Contingencies

The Company accrues losses from a legal contingency when the loss is both probable and reasonably estimable. The accuracy of the Company's estimates of losses for legal contingencies is limited by uncertainties surrounding litigation. Therefore, actual results may differ significantly from the amounts accrued, if any. The Company accrues for legal contingencies as a component of accrued expenses and/or other long-term liabilities. Gains from legal contingencies are recorded when the contingency is resolved.

Legal Fees

The Company expenses the costs of legal services, including legal services related to product and tissue processing liability claims and legal contingencies, as they are incurred. Reimbursement of legal fees by an insurance company or other third party is recorded as a reduction to legal expense.

Uncertain Tax Positions

The Company periodically assesses its uncertain tax positions and recognizes tax benefits if they are more-likely-than-not to be upheld upon review by the appropriate taxing authority. The Company measures the tax benefit by determining the maximum amount that has a greater than 50 percent likelihood of ultimately being realized. The Company reverses previously accrued liabilities for uncertain tax positions when audits are concluded, statutes expire, administrative practices dictate that a liability is no longer warranted, or in other circumstances as deemed necessary. These assessments can be complex and the Company often obtains assistance from external advisors to make these assessments. The Company recognizes interest and penalties related to uncertain tax positions in other (income) expense, net on its Consolidated Statements of Operations and Comprehensive Income. See Note 12 for further discussion of the Company's liabilities for uncertain tax positions.

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 periodically assesses the recoverability of its deferred tax assets, as necessary, when the Company experiences changes that could materially affect its determination of the recoverability of its deferred tax assets. Management provides a valuation allowance against its deferred tax assets when, as a result of this analysis, management believes it is more likely than not that some portion or all of its deferred tax assets will not be realized.

Assessing the recoverability of deferred tax assets involves judgment and complexity. Estimates and judgments used in the determination of the need for a valuation allowance and in calculating the amount of a needed valuation allowance include, but are not limited to, the following:

Projected future operating results;

Anticipated future state tax apportionment;

Timing and amounts of anticipated future taxable income;

Timing of the anticipated reversal of book/tax temporary differences;

Evaluation of statutory limits regarding usage of certain tax assets; and

Evaluation of the statutory periods over which certain tax assets can be utilized.

Significant changes in the factors above, or other factors, could affect the Company's ability to use its deferred tax assets. Such changes could have a material, adverse impact on the Company's profitability, financial position, and cash flows. The Company will continue to assess the recoverability of its deferred tax assets, as necessary, when the Company experiences changes that could materially affect its prior determination of the recoverability of its deferred tax assets.

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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 former subsidiaries Hemosphere, Inc. (Hemosphere) and Cardiogenesis Corporation (Cardiogenesis), as mandated by Section 382 of the Internal Revenue Code of 1986, as amended. The Company believes that its acquisitions of these companies each constituted a change in control, and that prior to the Company's acquisition, Hemosphere had experienced other equity ownership changes that should be considered a change in control. The Company also acquired net operating loss carryforwards in the acquisition of On-X Life Technologies that are limited under Section 382. However, the Company believes that such net operating loss carryforwards from On-X will be fully realizable prior to expiration. The deferred tax assets recorded on the Company's Consolidated Balance Sheets exclude amounts that it expects will not be realizable due to these changes in control. A portion of the acquired net operating loss carryforwards is related to state income taxes for which 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.

Valuation of Acquired Assets or Businesses

As part of its corporate strategy, the Company is seeking to identify and capitalize upon acquisition opportunities of complementary product lines and companies. The Company evaluates and accounts for acquired patents, licenses, distribution rights, and other tangible or intangible assets as the purchase of an asset or asset group or as a business combination, as appropriate. The determination of whether the purchase of a group of assets should be accounted for as an asset group or as a business combination requires significant judgment based on the weight of available evidence.

For the purchase of an asset group, the Company allocates the cost of the asset group, including transaction costs, to the individual assets purchased based on their relative estimated fair values. In-process research and development acquired as part of an asset group is expensed upon acquisition. The Company accounts for business combinations using the acquisition method. Under this method, the allocation of the purchase price is based on the fair value of the tangible and identifiable intangible assets acquired and the liabilities assumed as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the tangible net assets and identifiable intangible assets is recorded as goodwill. Transaction costs related to business combinations are expensed as incurred. In-process research and development acquired as part of a business combination is accounted for as an indefinite-lived intangible asset until the related research and development project gains regulatory approval or is discontinued.

The Company typically engages external advisors to assist it in determining the fair value of acquired asset groups or business combinations, using valuation methodologies such as: the excess earnings, the discounted cash flow, or the relief from royalty methods. The determination of fair value in accordance with the fair value measurement framework requires significant judgments and estimates, including, but not limited to: timing of product life cycles, estimates of future revenues, estimates of profitability for new or acquired products, cost estimates for new or changed manufacturing processes, estimates of the cost or timing of obtaining regulatory approvals, estimates of the success of competitive products, and discount rates. Management, in consultation with its advisor(s), makes these estimates based on its prior experiences and industry knowledge. Management believes that its estimates are reasonable, but actual results could differ significantly from the Company's estimates. A significant change in management's estimates used to value acquired asset groups or business combinations could result in future write-downs of tangible or intangible assets acquired by the Company and, therefore, could materially impact the Company's financial position and profitability. If the value of the liabilities assumed by the Company, including contingent liabilities, is determined to be significantly different from the amounts previously recorded in purchase accounting, the Company may need to record additional expenses or write-downs in future periods, which could materially impact the Company's financial position and profitability.

Derivative Instruments

The Company determines the fair value of its stand-alone and embedded derivative instruments at issuance and records any resulting asset or liability on the Company's Consolidated Balance Sheets. Changes in the fair value of the derivative instruments are recognized in other (income) expense on the Company's Consolidated Statements of Operations and Comprehensive Income.

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Table of Contents***New Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (FASB) amended its Accounting Standards Codification and created a new Topic 842, *Leases*. The final guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at the commencement date and recognize expenses on their income statements similar to the current Topic 840, *Leases*. It is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is evaluating the impact the adoption of this standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company expects that the allowed change in accounting for forfeitures as they occur will not have a material impact on the Company's results of operations over time, as the Company believes that its estimated forfeiture rate approximates its actual forfeiture rate. However, the Company believes that this could have a favorable or unfavorable impact in any given quarter due to the timing of actual forfeitures. The Company believes that the change in accounting for excess tax benefits and the discontinuance of the APIC pool could have a material impact on its results of operations, which could be favorable or unfavorable, depending on movements in the Company's stock price. The Company does not believe the adoption of this standard will have a material impact on its financial position and cash flows.

In May 2014 the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. Since ASU 2014-09 was issued, several additional ASUs have been issued to clarify various elements of the guidance. These standards provide guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. The standard requires that an entity recognize revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is effective for reporting periods beginning after December 15, 2017, and early adoption is permitted. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is performing its initial evaluation of its standard arrangements with customers and its arrangements specific to certain of the Company's product lines or product offerings. The Company is continuing to evaluate the effect that ASU 2014-09 will have on its financial position, results of operations, cash flows, and related disclosures.

2. Financial Instruments

A summary of financial instruments measured at fair value is as follows (in thousands):

<u>December 31, 2016</u>	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 3,466	\$ --	\$ --	\$ 3,466
Restricted securities:				
Money market funds	699	--	--	699
Total assets	\$ 4,165	\$ --	\$ --	\$ 4,165

<u>December 31, 2015</u>	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 549	\$ --	\$ --	\$ 549
Restricted securities:				
Money market funds	830	--	--	830
Total assets	\$ 1,379	\$ --	\$ --	\$ 1,379

The Company used prices quoted from its investment management companies to determine the Level 1 valuation of its investments in money market funds.

Table of Contents**3. Cash Equivalents and Restricted Cash and Securities**

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

December 31, 2016	Cost Basis	Unrealized Holding Gains (Losses)	Estimated Market Value
Cash equivalents:			
Money market funds	\$ 3,466	\$ --	\$ 3,466
Restricted securities:			
Money market funds	699	--	699
December 31, 2015	Cost Basis	Unrealized Holding Gains (Losses)	Estimated Market Value
Cash equivalents:			
Money market funds	\$ 549	\$ --	\$ 549
Restricted cash and securities:			
Cash	5,000	--	5,000
Money market funds	830	--	830

As of December 31, 2016 and 2015 \$699,000 and \$830,000, 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 primarily to international tax obligations. As of December 31, 2015 \$5.0 million of the Company's cash was designated as long-term restricted cash due to a financial covenant requirement under the Company's debt agreement. As of December 31, 2016 the Company no longer had a financial covenant for restricted cash under the Company's amended debt agreement. See further discussion of the Company's debt agreements in Note 13.

There were no gross realized gains or losses on cash equivalents or restricted securities for the years ended December 31, 2016, 2015, and 2014. As of December 31, 2015 \$5.0 million of the Company's restricted cash had no maturity date. As of December 31, 2016 \$490,000 of the Company's restricted securities had a maturity date within three months and \$209,000 had a maturity date between three months and one year. As of December 31, 2015 \$595,000 of the Company's restricted securities had a maturity date within three months and \$235,000 of the Company's restricted securities had a maturity date between three months and one year.

4. Acquisition of On-X Life Technologies***Overview***

On December 22, 2015 the Company entered into an Agreement and Plan of Merger ("On-X Agreement") to acquire On-X Life Technologies Holdings, Inc. ("On-X"), an Austin, Texas-based, privately held mechanical heart valve company, for approximately \$130.0 million, subject to certain adjustments. The transaction closed on January 20, 2016, and On-X is being operated as a wholly owned subsidiary of CryoLife.

The On-X catalogue of products includes the On-X prosthetic aortic and mitral heart valves and the On-X ascending aortic prosthesis (AAP). On-X also distributes CarbonAid CO₂ Diffusion catheters, manufactures Chord-X ePTFE sutures for mitral chordal replacement, and offers pyrolytic carbon coating services to other medical device manufacturers. CryoLife

believes that the On-X products fit well into its product portfolio of medical devices for cardiac surgery and that the Company is capitalizing on the significant opportunity for CryoLife's sales team to leverage their strong relationships with cardiac surgeons to introduce and to expand utilization of the On-X valves in the U.S. and internationally.

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Table of Contents***Accounting for the Transaction***

The purchase price of the On-X transaction totaled approximately \$128.2 million, consisting of cash of \$93.6 million and 3,703,699 shares of CryoLife common stock, with a value of \$34.6 million as determined on the date of the closing. The Company recorded an allocation of the \$128.2 million purchase price to On-X's tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of January 20, 2016. Goodwill was recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired and is not deductible for tax purposes. Goodwill from this transaction has been allocated to the Company's Medical Devices segment.

The purchase price allocation as of December 31, 2016 is as follows (in thousands):

	Opening Balance Sheet
Cash and cash equivalents	\$ 2,472
Receivables	6,826
Inventories	12,889
Intangible assets	53,950
Goodwill	68,229
Other assets	6,891
Liabilities assumed	(23,040)
 Total purchase price	 \$ 128,217

CryoLife incurred transaction and integration costs of \$7.4 million for the year ended December 31, 2016 related to the acquisition, which include, among other costs, expenses related to the termination of international and domestic distribution agreements. These costs were expensed as incurred and were primarily recorded as general, administrative, and marketing expenses on the Company's Consolidated Statements of Operations and Comprehensive Income.

The Company paid approximately \$10 million of the purchase price into an escrow account upon closing of the On-X transaction. The Company is currently negotiating with the shareholder representative of On-X concerning the resolution of these escrow funds.

Pro Forma Results

On-X revenues of \$34.2 million from the date of acquisition through December 31, 2016 are included in the Consolidated Statements of Operations and Comprehensive Income. The Company's pro forma results of operations for the years ended December 31, 2016 and 2015, assuming the On-X acquisition had occurred as of January 1, 2015, are presented for comparative purposes below. These amounts are based on available information of the results of operations of On-X prior to the acquisition date and are not necessarily indicative of what the results of operations would have been had the acquisition been completed on January 1, 2014. This unaudited pro forma information does not project operating results post acquisition.

This pro forma information is as follows (in thousands, except per share amounts):

Twelve Months Ended December 31,**2016** **2015**

Total revenues	\$ 182,007	\$ 179,266
Net income (loss)	17,692	(4,787)
Pro forma income (loss) per common share - basic	\$ 0.54	\$ (0.15)
Pro forma income (loss) per common share - diluted	\$ 0.53	\$ (0.15)

Pro forma net income (loss) was calculated using a normalized tax rate of approximately 38%.

5. Sales of Business Components***Acquisition and Divestiture of HeRO Graft Product Line***

On May 16, 2012 CryoLife completed its acquisition of Hemosphere, a privately held company, and its Hemodialysis Reliable Outflow Graft (HeRO[®] Graft) product line for a total purchase price of approximately \$22.0 million, net of \$3.2 million cash acquired. CryoLife used cash on hand to fund the transaction and operated Hemosphere as a wholly owned subsidiary until December 31, 2014, when it was merged into the CryoLife, Inc. parent entity. The HeRO Graft is a proprietary graft-based solution for ESRD hemodialysis patients with limited access options and central venous obstruction.

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As of the acquisition date, CryoLife recorded a contingent consideration liability of \$1.8 million in long-term liabilities on its Consolidated Balance Sheet, representing the estimated fair value of the contingent consideration expected to be paid to the former shareholders of Hemosphere upon the achievement of certain revenue-based milestones. The acquisition agreement provides for a maximum of \$4.5 million in future consideration payments through December 2015 based on specified sales targets.

The fair value of the contingent consideration liability was estimated by discounting to present value the contingent payments expected to be made based on a probability-weighted scenario approach. The Company applied a risk-based estimate of the probability of achieving each scenario and then applied a cost of debt based discount rate. This fair value measurement was based on unobservable inputs, including management estimates and assumptions about future revenues, and was, therefore, classified as Level 3 within the fair value hierarchy presented in Note 2. The Company remeasured this liability at each reporting date and recorded changes in the fair value of the contingent consideration in other (income) expense on the Company's Consolidated Statements of Operations and Comprehensive Income. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing and amount of Company revenue estimates. As of December 31, 2014 the Company reviewed the full year revenue performance of Hemosphere for 2014 and 2013, and reviewed its 2015 annual budgets, which were updated in the fourth quarter of 2014. As a result of this review, as of December 31, 2014 the Company believed that achievement of the minimum revenue target to trigger payment was remote, and, therefore, estimated the fair value of the contingent consideration to be zero.

The Company recorded gains of zero for the years ended December 31, 2016 and 2015 and \$1.9 million during the year ended December 31, 2014, on the remeasurement of the contingent consideration liability. The balance of the contingent consideration liability was zero as of December 31, 2016 and 2015.

On February 3, 2016 the Company sold its HeRO Graft product line to Merit Medical Systems, Inc. (Merit) for \$18.5 million in cash (HeRO Sale), of which \$17.8 million had been received by December 31, 2016. The remaining \$740,000 was received in the first quarter of 2017. Under terms of the agreement, Merit acquired the HeRO Graft product line, including worldwide marketing rights, customer relationships, intellectual property, inventory, and certain property and equipment. The Company continued to manufacture the HeRO Graft under a transition supply agreement until the sales transfer to Merit was completed in the second quarter of 2016. The HeRO Graft product line was included as part of the Company's Medical Devices segment. The Company recorded a pre-tax gain of approximately \$8.8 million on the HeRO Sale.

ProCol Distribution Agreement and Divestiture of the ProCol Product Line

In 2014 CryoLife acquired the exclusive worldwide distribution rights to ProCol® Vascular Bioprosthesis (ProCol) from Hancock Jaffe Laboratories, Inc. (Hancock Jaffe). In accordance with the terms of the agreement with Hancock Jaffe, CryoLife made payments to Hancock Jaffe of \$1.7 million during 2014 and \$576,000 in January 2015. In exchange for these payments, CryoLife obtained the right to receive a designated amount of ProCol inventory for resale, portions of which the Company received in 2014, 2015, and 2016. CryoLife made additional payments of \$1.2 million in the aggregate during 2015 and the first quarter of 2016. As of March 18, 2016 CryoLife had made a total of \$3.4 million in payments to Hancock Jaffe and had received \$1.7 million in inventory. The remaining \$1.7 million in prepayments were settled as part of the ProCol Sale, described below.

On March 18, 2016 the Company sold its ProCol® Vascular Bioprosthesis (ProCol) distribution rights and purchase option to LeMaitre Vascular, Inc. (LeMaitre) for \$2.0 million in cash (ProCol Sale), all of which was received by March 31, 2016. Under terms of the agreement, LeMaitre acquired the ProCol related assets, including inventory, customer lists, related marketing assets, and the Company's purchase option to acquire ProCol. LeMaitre exercised the option to acquire

ProCol from Hancock Jaffe Laboratories. The ProCol product was included as part of the Company's Medical Devices segment. The Company recorded a pre-tax loss of approximately \$845,000 on the ProCol Sale.

Disclosure of the HeRO Sale and the ProCol Sale

Financial Accounting Standards Board (FASB) ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, defines the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. The standard requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on the Company's operations and financial results.

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In the first quarter of 2016 the Company completed the HeRO Sale and the ProCol Sale. The Company received cash for these transactions and recorded the results of these sales in March 2016. Therefore, as of March 31, 2016 both transactions met the disposed of by sale criteria under discontinued operations.

The Company evaluated the impact of the HeRO Sale and the ProCol Sale on the Company's business to determine whether these disposals represent a strategic shift that has, or will have, a major effect on the Company's financial position, results of operations, or cash flows. As the HeRO Graft and ProCol product lines combined represented less than 10% of total Company revenues for the year ended December 31, 2015 and the Company's total assets as of December 31, 2015, the Company believes that these transactions did not have a major effect on the Company's operations and financial condition, either individually or in the aggregate, and therefore the Company did not disclose these transactions as discontinued operations. The combined net gain from the HeRO Sale and ProCol Sale was therefore reported as gain from sale of business components on the Company's Summary Consolidated Statements of Operations and Comprehensive Income.

6. PhotoFix Distribution Agreement and Acquisition

Overview

In 2014 CryoLife entered into an exclusive supply and distribution agreement with Genesee Biomedical, Inc. (GBI) to acquire the distribution rights to PhotoFix™, a bovine pericardial patch stabilized using a dye-mediated photo-fixation process that requires no glutaraldehyde. PhotoFix has received U.S. Food and Drug Administration (FDA) 510(k) clearance and is indicated for use in intracardiac repair, including ventricular repair and atrial repair, great vessel repair and suture line buttressing, and pericardial closure. CryoLife believes that PhotoFix fits well into its product portfolio of medical devices for cardiac surgery. In January 2015 the Company received its initial shipments and launched its distribution of PhotoFix.

The agreement between CryoLife and GBI (the GBI Agreement) had an initial five-year term and was renewable for two one-year periods at CryoLife's option. Under the terms of the GBI Agreement, CryoLife purchased PhotoFix inventory for resale at an agreed upon transfer price and had the option, which became effective in March 2015, to acquire the PhotoFix product line from GBI.

Accounting for the Transaction

On April 13, 2016 the Company exercised its right to acquire the PhotoFix technology from GBI for approximately \$2.3 million, of which \$1.2 million was paid in cash at closing, approximately \$600,000 was previously provided to GBI as an advance under the distribution agreement, and approximately \$400,000 is payable to GBI within 18 months of signing or earlier, subject to certain conditions. The Company's preliminary allocation of the purchase price to the tangible and identifiable intangible assets acquired, based on their estimated fair values resulted in the allocation of the majority of the purchase price to amortizable intangible assets. GBI will continue to manufacture PhotoFix until the Company is able to establish manufacturing operations.

7. Direct Sales in France

In June 2015 CryoLife signed a Business Transfer Agreement with its French distribution partner to facilitate an orderly transition of the Company to a direct sales model in France. In October 2015 the Company completed the acquisition of a portion of the business of its French distribution partner. The Company acquired in the transaction certain intangible assets, including commercial and business information, assignment of contracts, and a non-compete agreement with its former French distribution partner for a purchase price of 1.2 million or \$1.3 million. During the third quarter of 2015 the

Company established a wholly owned subsidiary in France, CryoLife France SAS, and certain members of the distributor's sales team who were responsible for selling the Company's products in France became employees of the Company's newly created subsidiary.

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Table of Contents**8. Investment in ValveXchange*****Preferred Stock Investment***

In July 2011 the Company purchased shares of series A preferred stock of ValveXchange for approximately \$3.5 million. ValveXchange was 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. As ValveXchange's stock was not actively traded on any public stock exchange, and as the Company's investment was in preferred stock, the Company initially accounted for this investment using the cost method as a long-term asset, investment in equity securities, on the Company's Consolidated Balance Sheet. The Company determined that its investment in ValveXchange was fully impaired as of December 31, 2013, and the impairment was other than temporary. As of December 31, 2016 and 2015 the carrying value of the Company's investment in ValveXchange preferred stock was zero.

Loan Agreement

In July 2011 the Company entered into an agreement with ValveXchange, as amended, to make available to ValveXchange up to \$2.0 million in debt financing through a revolving credit facility (the Loan). The Loan included various affirmative and negative covenants, including financial covenant requirements, and would have expired on July 30, 2018, unless terminated earlier. Amounts under the Loan earned interest at an 8% annual rate and were secured by substantially all of the tangible and intangible assets of ValveXchange. The Company advanced \$2.0 million to ValveXchange under this loan in 2012.

During the quarter ended December 31, 2014 CryoLife became aware of various factors, including ValveXchange's inability to secure additional funding, its lack of capital to continue basic operations, and the likelihood of impending default on the Loan. In December 2014 CryoLife notified ValveXchange that it was in breach of the Loan, and in January 2015, after ValveXchange failed to cure this breach, CryoLife accelerated the amounts due under the Loan. In January 2015 ValveXchange informed CryoLife management of its intent to file for bankruptcy, which created substantial uncertainty regarding the disposition of CryoLife's claim for amounts it is owed under the Loan. Given these circumstances, CryoLife believed that its Loan became fully impaired in the fourth quarter of 2014. As a result, during the three months ended December 31, 2014 the Company recorded other non-operating expense of \$2.0 million to write-down its long-term note receivable from ValveXchange. ValveXchange was dissolved in June 2015. The net carrying value of the long-term note receivable was zero as of December 31, 2016 and 2015.

9. Medafor Matters***Investment in Medafor Common Stock***

In 2009 and 2010 CryoLife purchased shares of common stock in Medafor, a developer and supplier of plant based hemostatic agents. The Company initially recorded its investment using the cost method as a long-term asset, investment in equity securities, on the Company's Consolidated Balance Sheets.

On October 1, 2013 C.R. Bard, Inc., a developer, manufacturer, and marketer of medical technologies in the fields of vascular, urology, oncology, and surgical specialty products (Bard), and its subsidiaries completed its acquisition of all outstanding shares of Medafor common stock. The Company received an initial payment of approximately \$15.4 million in 2013, \$530,000 in 2014, and \$891,000 in 2015 for its 2.4 million shares of Medafor common stock.

The final release of transaction consideration from escrow is expected to be received in October 2017 and is expected to be nominal. This subsequent payment will be recorded as an additional gain if, and when, received by the Company.

Legal Action

In April 2014 CryoLife filed a declaratory judgment lawsuit against Bard, and its subsidiaries Davol, Inc. (Davol) and Medafor (collectively, Defendants), in the District Court for the District of Delaware (the Court). CryoLife requested that the Court declare that CryoLife's manufacture, use, offer for sale, and sale of PerClot in the U.S. does not, and would not, infringe Bard's U.S. Patent No. 6,060,461 (the 461 Patent). In addition, CryoLife requested that the Court declare that the claims of the 461 Patent are invalid. CryoLife also requested injunctive relief and an award of attorneys' fees.

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The lawsuit against the Defendants followed the receipt by CryoLife of a letter from Medafor in September 2012 stating that PerClot, when introduced in the U.S., would infringe the 461 Patent when used in accordance with the method published in CryoLife's literature and with the instructions for use. CryoLife received FDA 510(k) clearance for the sale of PerClot Topical in April 2014 and began distributing this product in August 2014. PerClot Topical is a version of the Company's PerClot product, which was manufactured by the Company at its headquarters and labeled for use in certain topical indications. CryoLife also received investigational device exemption approval in March 2014 to begin clinical trials for PerClot in certain surgical indications.

In August 2014 Medafor filed a counterclaim against CryoLife for infringement of the 461 Patent. In September 2014 Medafor filed a motion for a preliminary injunction, asking the Court to enjoin CryoLife's marketing and sale of PerClot in the U.S. In March 2015 the Court ruled that CryoLife's declaratory judgment lawsuit against Medafor may proceed but dismissed Bard and Davol from the lawsuit. The Court also granted Medafor's motion for a preliminary injunction, which prohibited CryoLife from marketing, selling, and distributing PerClot in the U.S. while the litigation proceeded. In March 2015 CryoLife ceased all marketing, sales, and distribution of PerClot in the U.S., including PerClot Topical, in accordance with the Court's order. In April 2015 CryoLife appealed the Court's ruling on the preliminary injunction motion to the U.S. Court of Appeals for the Federal Circuit. CryoLife dismissed this appeal in June 2015. On November 18, 2015, the lawsuit was resolved by entry by the Court of the Parties' Joint Stipulation for Dismissal, which resulted in the dismissal with prejudice of all parties' claims and counterclaims in the lawsuit, the continuation of the preliminary injunction prohibiting CryoLife from marketing, selling and distributing PerClot in the U.S. until expiration of the 461 Patent on February 8, 2019, each party bearing its own attorneys' fees and costs associated with the lawsuit, and the continuation of the Court's jurisdiction over the parties to enforce the resolution.

10. Inventories and Deferred Preservation Costs

Inventories at December 31, 2016 and 2015 are comprised of the following (in thousands):

	2016	2015
Raw materials and supplies	\$ 9,321	\$ 8,590
Work-in-process	3,321	633
Finished goods	13,651	5,420
Total inventories	\$ 26,293	\$ 14,643

Deferred preservation costs at December 31, 2016 and 2015 are comprised of the following (in thousands):

	2016	2015
Cardiac tissues	\$ 15,768	\$ 11,722
Vascular tissues	14,920	13,019
Total deferred preservation costs	\$ 30,688	\$ 24,741

The Company maintains consignment inventory of its On-X heart valves at domestic and international hospital locations to facilitate usage. The Company retains title to this consignment inventory until the valve is implanted, at which time the Company invoices the hospital. As of December 31, 2016 the Company had \$4.9 million in consignment inventory, with

approximately 80% in domestic locations and 20% in foreign locations.

11. Goodwill and Other Intangible Assets

Indefinite Lived Intangible Assets

As of December 31, 2016 and 2015 the carrying values of the Company's indefinite lived intangible assets are as follows (in thousands):

	2016	2015
Goodwill	\$ 78,294	\$ 11,365
Procurement contracts and agreements	2,013	2,013
Trademarks	841	860
Total indefinite lived intangible assets	\$ 81,148	\$ 14,238

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Based on its experience with similar agreements, the Company believes that its acquired procurement contracts and agreements have indefinite useful lives, as the Company expects to continue to renew these contracts for the foreseeable future. The Company believes that its trademarks have indefinite useful lives as the Company currently anticipates that these trademarks will contribute to cash flows of the Company indefinitely.

As of December 31, 2016 and 2015 the value of the Company's goodwill, all of which is related to its Medical Devices segment, is as follows (in thousands):

	2016	2015
Balance as of January 1,	\$ 11,365	\$ 11,365
Goodwill from On-X Acquisition	68,229	--
Goodwill allocated to sale of HeRO Graft product line	(1,200)	--
Goodwill allocated to sale of ProCol distribution rights and purchase option	(100)	--
Balance as of December 31,	\$ 78,294	\$ 11,365

Definite Lived Intangible Assets

As of December 31, 2016 and 2015 gross carrying values, accumulated amortization, and approximate amortization periods of the Company's definite lived intangible assets are as follows (dollars in thousands):

	Gross Carrying Value	Accumulated Amortization	Amortization Period
December 31, 2016			
Acquired technology	\$ 38,478	5,956	11 22 Years
Patents	3,710	2,702	17 Years
Distribution and manufacturing rights and know-how	4,059	1,532	11 15 Years
Customer lists and relationships	29,140	2,141	13 22 Years
Non-compete agreement	381	381	10 Years
Other	1,262	531	3 Years

	Gross Carrying Value	Accumulated Amortization	Amortization Period
December 31, 2015			
Acquired technology	\$ 14,020	\$ 4,954	11 16 Years
Patents	4,081	2,664	17 Years
Distribution and manufacturing rights and know-how	4,059	1,245	11 15 Years
Customer lists and relationships	3,370	1,054	13 17 Years
Non-compete agreement	381	343	10 Years
Other	1,583	210	3 5 Years

The increase in gross carrying value of the Company's intangible assets as of December 31, 2016 when compared to December 31, 2015 is primarily due to the Company's acquisitions of On-X and PhotoFix, partially offset by reductions due to the HeRO Sale and the ProCol Sale. See Note 4 for further discussion of the acquisition of On-X, Note 6 for further discussion of the acquisition of PhotoFix, and Note 5 for further discussion of the HeRO Sale and the ProCol Sale.

Amortization Expense

Amortization expense recorded in general, administrative, and marketing expenses on the Company's Consolidated Statements of Operations and Comprehensive Income for the years ended December 31 is as follows (in thousands):

	2016	2015	2014
Amortization expense	\$ 4,426	\$ 2,135	\$ 2,027

As of December 31, 2016 scheduled amortization of intangible assets for the next five years is as follows (in thousands):

	2017	2018	2019	2020	2021	Total
Amortization expense	\$ 4,566	\$ 4,449	\$ 4,107	\$ 3,946	\$ 3,925	\$ 20,993

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Table of Contents**12. Income Taxes*****Income Tax Expense***

Income before income taxes consists of the following (in thousands):

	2016	2015	2014
Domestic	\$ 17,874	\$ 5,701	\$ 8,350
Foreign	538	167	353
Income before income taxes	\$ 18,412	\$ 5,868	\$ 8,703

Income tax expense consists of the following (in thousands):

	2016	2015	2014
Current:			
Federal	\$ 3,948	\$ 231	\$ 898
State	626	142	211
Foreign	353	160	99
	4,927	533	1,208
Deferred:			
Federal	2,836	1,011	127
State	(9)	319	46
Foreign	(120)	--	--
	2,707	1,330	173
Income tax expense	\$ 7,634	\$ 1,863	\$ 1,381

The Company's income tax expense in 2016, 2015, and 2014 included the Company's federal, state, and foreign tax obligations. The Company's effective income tax rate was approximately 41%, 32%, and 16% for the years ended December 31, 2016, 2015, and 2014, respectively. The Company's income tax rate for the twelve months ended December 31, 2016 was unfavorably impacted by the tax treatment of certain expenses related to the On-X acquisition, which had a larger impact on the tax rate in the first quarter of 2016, and by book/tax basis differences related to the HeRO Sale. The Company's income tax rate for the twelve months ended December 31, 2015 was favorably affected by the reversal of \$869,000 in uncertain tax positions, primarily related to research and development tax credits for which the statute of limitations has expired, partially offset by the expiration of certain state net operating losses and other permanent differences. The Company's income tax rate for the twelve months ended December 31, 2014 was favorably affected by the reduction in uncertain tax positions, nontaxable gains recorded as change in stock basis of subsidiary, and favorable deductions taken on the Company's 2013 federal tax return, which was filed in 2014.

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The income tax expense amounts differ from the amounts computed by applying the U.S. federal statutory income tax rate of 35% for the year ended December 31, 2016 and 34% for the years ended December 31, 2015 and 2014 to pretax income as a result of the following (in thousands):

	2016	2015	2014
Tax expense at statutory rate	\$ 6,444	\$ 1,995	\$ 2,959
Increase (reduction) in income taxes resulting from:			
Non-Deductible transaction costs	908	--	--
State income taxes, net of federal benefit	531	499	220
Non-deductible loss on unit disposals	455	--	--
Non-deductible entertainment expenses	221	184	218
Equity compensation	135	144	63
Foreign income taxes	130	118	69
Provision to return adjustments	29	122	(321)
Non-deductible change in stock basis of subsidiary	--	--	(641)
Domestic production activities deduction	(456)	(87)	(153)
Research and development credit	(296)	(281)	(237)
Net change in uncertain tax positions	(153)	(869)	(781)
State valuation allowance adjustment	(84)	(19)	83
Other	(230)	57	(98)
Total Income tax expense	\$ 7,634	\$ 1,863	\$ 1,381

Deferred Taxes

The Company generates deferred tax assets primarily as a result of write-downs of inventory and deferred preservation costs; accruals for product and tissue processing liability claims; investment and asset impairments; and, in prior periods, due to operating losses. The Company acquired significant deferred tax assets, primarily net operating loss carryforwards, from its acquisitions of On-X in 2016, Hemosphere in 2012, and Cardiogenesis in 2011. The Company recorded significant deferred tax liabilities in 2016 related to the intangible assets acquired in the On-X acquisition.

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

	2016	2015
Deferred tax assets:		
Allowance for bad debts	\$ 208	\$ 142
Inventory and deferred preservation costs write-downs	708	536
Investment in equity securities	58	58
Property	1,780	2,987
Intangible assets	2,034	591
Accrued expenses	4,215	3,276
Loss carryforwards	8,760	12,262
Credit carryforwards	1,001	616

Stock compensation	3,678	2,546
Transaction costs	122	1,048
Deferred compensation	973	957
UNICAP	371	55
Tax benefit of tax reserves	333	53
Other	409	382
Less valuation allowance	(2,157)	(2,109)
Total deferred tax assets	22,493	23,400

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	2016	2015
Deferred tax liabilities:		
Prepaid items	(436)	(471)
Intangible assets	(21,665)	(4,400)
Other	(399)	(341)
Total deferred tax liabilities	(22,500)	(5,212)
 Total net deferred tax (liabilities) assets	 \$ (7)	 \$ 18,188

As of December 31, 2016 the Company maintained a total of \$2.2 million in valuation allowances against deferred tax assets, related to state net operating loss carryforwards, and a net deferred tax liability of \$7,000. As of December 31, 2015 the Company maintained a total of \$2.1 million in valuation allowances against deferred tax assets, related to state net operating loss carryforwards, and a net deferred tax asset of \$18.2 million.

As of December 31, 2016 the Company had approximately \$6.3 million tax-effected federal net operating loss carryforwards related to the acquisitions of Cardiogenesis and Hemosphere that will begin to expire in 2017, \$2.4 million of tax-effected state net operating loss carryforwards that began to expire in 2016, \$702,000 in research and development tax credit carryforwards that will begin to expire in 2022, and \$150,000 in credits from the state of Texas that will fully expire by 2027.

Uncertain Tax Positions

A reconciliation of the beginning and ending balances of the Company's uncertain tax position liability, excluding interest and penalties, is as follows (in thousands):

	2016	2015	2014
Beginning balance	\$ 969	\$ 1,437	\$ 2,100
Increases related to current year tax positions	86	103	92
Increases related to prior year tax positions	2,668	403	--
Decreases related to prior year tax positions	(40)	(70)	(265)
Decreases related to settlements	(66)	--	--
Decreases due to the lapsing of statutes of limitations	(227)	(904)	(490)
Ending balance	\$ 3,390	\$ 969	\$ 1,437

A reconciliation of the beginning and ending balances of the Company's liability for interest and penalties on uncertain tax positions is as follows (in thousands):

	2016	2015	2014
Beginning balance	\$ 210	\$ 366	\$ 422
Accrual of interest and penalties	92	50	91

Decreases related to prior year tax positions	(94)	(206)	(147)
Ending balance	\$ 208	\$ 210	\$ 366

As of December 31, 2016 the Company's uncertain tax liability, including interest and penalties, of \$3.6 million, was recorded as a reduction to deferred tax assets of \$234,000, and a non-current liability of \$3.4 million on the Company's Consolidated Balance Sheets, all of which, except for the portion related to interest and penalties, is expected to impact the Company's tax rate when recognized. The uncertain tax position increase related to prior year tax positions is primarily due to positions taken by On-X on tax returns in prior years. As of December 31, 2015 the Company's total uncertain tax liability, including interest and penalties of \$1.2 million, was recorded as a reduction to deferred tax assets of \$104,000, and a non-current liability of \$1.1 million on the Company's Consolidated Balance Sheets, all of which, except for the portion related to interest and penalties, is expected to impact the Company's tax rate when recognized.

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The Company believes it is reasonably possible that approximately \$235,000 of its uncertain tax liability will be recognized in 2017 due to the lapsing of various federal and state statutes of limitations.

Other

The Company's tax years 2013 through 2015 generally remain open to examination by the major taxing jurisdictions to which the Company is subject. However, certain returns from years prior to 2013, in which net operating losses and tax credits have arisen, are still open for examination by the tax authorities.

13. Debt***GE Credit Agreement***

On September 26, 2014 the Company amended and restated its credit agreement with GE Capital, extending the expiration date and amending other terms, which are discussed further below. CryoLife's second amended and restated credit agreement with GE Capital (the "GE Credit Agreement") provided revolving credit for working capital, permitted acquisitions, and general corporate purposes. The GE Credit Agreement had aggregate commitments of \$20.0 million for revolving loans, including swing loans, subject to a sublimit, and letters of credit, and was due to mature on September 26, 2019.

Amounts borrowed under the GE Credit Agreement were secured by substantially all of the tangible and intangible assets of CryoLife and its subsidiaries. Commitment fees were paid based on the unused portion of the facility. As of December 31, 2015 the aggregate interest rate was 4.75%. As of December 31, 2015 the outstanding balance of the GE Credit Agreement was zero, and the remaining availability was \$20.0 million.

The GE Credit Agreement placed limitations on the amount that the Company may borrow and included various affirmative and negative covenants, including financial covenants such as a requirement that CryoLife (i) not exceed a defined leverage ratio and (ii) maintain minimum earnings subject to defined adjustments as of specified dates. The agreement also (i) limited the payment of cash dividends, up to specified maximums and subject to satisfaction of specified conditions, (ii) required that, after giving effect to a stock repurchase, the Company maintain liquidity, as defined within the agreement, of at least \$20.0 million, (iii) limited acquisitions or mergers except for certain permitted acquisitions, (iv) set specified limits on the amount the Company can pay to purchase or redeem CryoLife common stock pursuant to a stock repurchase program and to fund estimated tax liabilities incurred by officers, directors, and employees as a result of awards of stock or stock equivalents, and (v) included customary conditions on incurring new indebtedness.

As required under the terms of the GE Credit Agreement, the Company maintained cash and cash equivalents of at least \$5.0 million in accounts in which GE Capital had a first priority perfected lien. These amounts were recorded as long-term restricted cash as of December 31, 2015 on the Company's Consolidated Balance Sheet, as they were restricted for the term of the GE Credit Agreement.

Amended Debt Agreement

In connection with the closing of the On-X acquisition, discussed above in Note 4, on January 20, 2016 the Company and certain of its subsidiaries entered into the Third Amended and Restated Credit Agreement ("Amended Debt Agreement") with Capital One, National Association, who acquired GE Capital's Healthcare Financial Services lending business in late 2015. The designated credit parties are Healthcare Financial Solutions, LLC; Fifth Third Bank; and Citizens Bank, National Association, collectively the ("Lending Parties"). The Amended Debt Agreement amended and restated the GE Credit Agreement discussed above and provides the Company with a senior secured credit facility in an aggregate

principal amount of \$95 million, which includes a \$75 million term loan and a \$20 million revolving credit facility (including a \$4 million letter of credit sub-facility and a \$3 million swing-line sub-facility). The \$75 million term loan was used to finance, in part, the acquisition of On-X and will mature on January 20, 2021.

The Company and its domestic subsidiaries, subject to certain exceptions and exclusions, have guaranteed the obligations of the Amended Debt Agreement. Borrowings under the Amended Debt Agreement are secured by substantially all of the Company's real and personal property.

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The loans under the Amended Debt Agreement (other than the swing-line loans) bear interest, at the Company's option, at either a floating rate equal to the base rate, as defined in the Amended Debt Agreement, plus a margin of between 1.75% and 2.75%, depending on the Company's consolidated leverage ratio, or a per annum rate equal to LIBOR plus a margin of between 2.75% and 3.75%, depending on the Company's consolidated leverage ratio. As of December 31, 2016 the aggregate interest rate was 3.50%. Swing-line loans shall bear interest at a floating rate equal to the base rate plus a margin of between 1.75% and 2.75%, depending on the Company's consolidated leverage ratio. The Company is obligated to pay an unused commitment fee equal to 0.50% of the un-utilized portion of the revolving loans. In addition, the Company is also obligated to pay other customary fees for a credit facility of this size and type. If and while a bankruptcy or insolvency event of default exists or a payment event of default exists, the Company is obligated to pay a per annum default rate of interest of 2.00% above the applicable interest rate on the past due principal amount of the loans outstanding.

Interest is due and payable, with respect to base rate loans, on a quarterly basis. Interest is due and payable, with respect to LIBOR loans, on the last day of the applicable interest period, if the interest is shorter than six months, or on the last day of each three month interval, if the interest period is six months or greater.

The Amended Debt Agreement prohibits the Company from exceeding a maximum consolidated leverage ratio during the term of the Amended Debt Agreement and requires the Company to maintain a minimum interest coverage ratio. In addition, the Amended Debt Agreement contains certain customary affirmative and negative covenants, including covenants that limit the ability of the Company and its subsidiaries which are parties to the loan agreement to, among other things, grant liens; incur debt; dispose of assets; make loans and investments; make acquisitions; make certain restricted payments; merge or consolidate; and change their business and accounting or reporting practices, in each case subject to customary exceptions for a credit facility of this size and type. As of December 31, 2016 the Company was in compliance with the covenants of the Amended Debt Agreement.

The Amended Debt Agreement includes certain customary events of default that include, among other things, non-payment of principal, interest or fees; inaccuracy of representations and warranties; violation of covenants; cross-default to certain other indebtedness; bankruptcy and insolvency; and change of control. Upon the occurrence and during the continuance of an event of default, the lenders may declare all outstanding principal and accrued but unpaid interest under the Amended Debt Agreement immediately due and payable and may exercise the other rights and remedies provided for under the Amended Debt Agreement and related loan documents.

The short-term and long-term balances of the Company's term loan are as follows (in thousands):

	As of December 31,	
	2016	2015
Term loan balance	\$ 73,594	\$ --
Less unamortized loan origination costs	(2,020)	--
Total borrowed	71,574	--
Less short-term loan balance	(4,562)	--
Long-term loan balance	\$ 67,012	\$ --

At December 31, 2016 the aggregate maturities of long-term debt for the next five years is as follows (in thousands):

	2017	2018	2019	2020	2021	Total
Maturities	\$ 5,096	\$ 3,750	\$ 3,750	\$ 5,156	\$ 55,842	\$ 73,594

The Company's aggregate maturity schedule is subject to change due to a provision within the Amended Debt Agreement that requires the Company to make annual prepayments based on an excess cash flow calculation.

Interest

Total interest expense was \$3.0 million in 2016 a favorable \$62,000 in 2015 and \$175,000 in 2014. Interest expense was favorable in 2015 due to the reversal of accrued interest on uncertain tax positions as discussed in Note 12 above. Interest expense includes interest on debt and uncertain tax positions in all periods.

Table of Contents**14. Commitments and Contingencies*****Leases***

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 manufacturing, office, and warehouse space, leases on Company vehicles, and leases on a variety of office equipment.

The Company had deferred rent obligations of \$2.4 million and \$1.7 million as of December 31, 2016 and 2015, respectively, primarily related to the lease on its corporate headquarters, which expires in 2022. Total rental expense for operating leases was \$4.3 million in 2016, \$3.4 million in 2015, and \$3.0 million in 2014. The increase in rent expense in 2016 is due to the acquisition of On-X and its lease for manufacturing, warehouse, and office space in Austin, TX. The increase in rent expense in 2015 is due to a lease the Company entered into for additional office space in Kennesaw, GA. The Company began subleasing some of its additional office space late in December 2016 and earned nominal sublease income in 2016. Future minimum lease payments and sublease rental income are as follows (in thousands):

	Operating Leases	Sublease Income
2017	\$ 4,470	\$ 375
2018	4,779	512
2019	4,722	525
2020	4,127	538
2021	3,647	552
Thereafter	3,788	--
Total minimum lease payments	\$ 25,533	\$ 2,502

Liability Claims

At December 31, 2016 and 2015 the Company's unreported loss liability was \$1.5 million and \$1.4 million, respectively. As of December 31, 2016 and 2015, the related insurance recoverable amounts were \$626,000 and \$600,000, respectively. The Company accrues its estimate of unreported product and tissue processing liability claims as other long-term liabilities and records the related recoverable insurance amounts as other long-term assets. Further analysis indicated that the liability as of December 31, 2016 could be estimated to be as high as \$2.8 million, after including a reasonable margin for statistical fluctuations calculated based on actuarial simulation techniques.

Employment Agreements

In July 2014 the Company's Board of Directors appointed Mr. James P. Mackin as President and Chief Executive Officer (CEO), and the Company and Mr. Mackin entered into an employment agreement, which became effective September 2, 2014. The employment agreement has an initial three-year term. Beginning on the second anniversary of the effective date, and subject to earlier termination pursuant to the agreement, the employment term will, on a daily basis, automatically extend by one day. In accordance with the agreement, on September 2, 2014, Mr. Mackin received a one-time signing bonus of \$200,000, a grant of 400,000 stock options, and a performance stock award grant of 250,000 shares. The agreement also provides for a severance payment, which would become payable upon the occurrence of

certain employment termination events, including termination by the Company without cause.

The employment agreement of the Company's former President, CEO, and Executive Chairman, Mr. Steven G. Anderson, conferred certain benefits on Mr. Anderson upon his retirement or termination of employment in conjunction with certain change in control events. On April 9, 2015 Mr. Anderson retired from service as an employee of the Company and Chair of its Board of Directors, and entered into a separation agreement with the Company. The Company recorded expense of approximately \$1.4 million related to Mr. Anderson's separation agreement in the second quarter of 2015. The Company had remaining obligations due under Mr. Anderson's separation agreement of \$83,000 and \$93,000 as of December 31, 2016 and December 31, 2015, respectively.

Table of Contents***PerClot Technology***

On September 28, 2010 the Company entered into a worldwide distribution agreement (the *Distribution Agreement*) and a license and manufacturing agreement (the *License Agreement*) with Starch Medical, Inc. (*SMI*), for PerClot, a polysaccharide hemostatic agent used in surgery. The *Distribution Agreement* has a term of 15 years, but can be terminated for any reason before the expiration date by CryoLife by providing 180 days notice. The *Distribution Agreement* also contains minimum purchase requirements that expire upon the termination of the *Distribution Agreement* or following U.S. regulatory approval for PerClot. Separate and apart from the terms of the *Distribution Agreement*, pursuant to the *License Agreement*, as amended by a September 2, 2011 technology transfer agreement, CryoLife can manufacture and sell PerClot, assuming appropriate regulatory approvals, in the U.S. and certain other jurisdictions and may be required to pay royalties to SMI at certain rates on net revenues of products.

CryoLife paid \$500,000 to SMI in January 2015 related to the achievement of a contingent milestone. The Company may make additional contingent payments to SMI of up to \$1.0 million if certain U.S. regulatory and certain commercial milestones are achieved.

The Company is conducting its pivotal clinical trial to gain approval to commercialize PerClot for surgical indications in the U.S. The Company began enrollment in the trial in the second quarter of 2015 but later suspended enrollment pending consultation with the FDA regarding the trial protocol. These discussions resulted in two amendments to the trial protocol, the last of which was approved by the FDA in July 2016. The Company is in the process of conducting site start-up activities and resumed enrollment into the trial in the fourth quarter of 2016 with the goal of receiving PMA from the FDA in the first half of 2019.

As of December 31, 2016 the Company had \$1.5 million in prepaid royalties, \$2.9 million in net intangible assets, and \$1.2 million in property and equipment, net on the Company's Consolidated Balance Sheets related to the PerClot product line. If the Company does not ultimately pursue or receive FDA approval to commercialize PerClot in the U.S., these assets could be materially impaired in future periods.

15. Shareholders' Equity***Cash Dividends***

The Company initiated a cash dividend in the third quarter of 2012 and paid the dividend quarterly until the Company's Board of Directors discontinued dividend payments for the foreseeable future in December 2015. The Company paid dividend payments from cash on hand of \$3.4 million for the year ended December 31, 2015. The dividend payments were recorded as a reduction to retained earnings on the Company's Consolidated Balance Sheet.

Shareholder Rights Plan

The Company had a shareholder rights agreement entered into in 1995 and amended in 2005. Under the rights agreement, each share of the Company's common stock outstanding on December 11, 1995 was entitled to one Right, as defined in, and subject to, the terms of the rights agreement. A Right entitled the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock (*Series A Stock*) of the Company at \$33.33 per one one-hundredth of a Preferred Share, subject to adjustment. Additionally, each common share that became outstanding after December 11, 1995 was also entitled to a Right, subject to the terms and conditions of the rights agreement. The shareholder rights agreement expired on November 23, 2015.

16. Employee Benefit Plans

401(k) Plan

The Company has a 401(k) savings plan (401(k) Plan) providing retirement benefits to all employees who have completed at least three months of service. The Company made matching contributions of 40% of each participant s contribution for up to 5% of each participant s salary in 2016, 2015, and 2014. Total Company contributions approximated \$750,000, \$573,000, and \$553,000 for the years ended December 31, 2016, 2015, and 2014, respectively. The increase in expenses in 2016 was due, in part, to the addition of participants related to the acquisition of On-X. Additionally, the Company may make discretionary contributions to the 401(k) Plan; however, no discretionary contributions were made in any of the past three years.

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Table of Contents***Deferred Compensation Plan***

On January 1, 2011 the Company initiated a nonqualified Deferred Compensation Plan (Deferred Plan). The Deferred Plan allows certain employees of CryoLife to defer receipt of a portion of their salary and cash bonus. The Deferred Plan provides for tax-deferred growth of deferred compensation. Pursuant to the terms of the Deferred Plan, the Company agrees to return the deferred amounts plus gains and losses, based on investment fund options chosen by each respective participant, to the plan participants upon distribution. All deferred amounts and deemed earnings thereon are vested at all times. The Company has no current plans to match any contributions. Amounts owed to plan participants are unsecured obligations of the Company. CryoLife has established a rabbi trust in which it will make contributions to fund its obligations under the Deferred Plan. Pursuant to the terms of the trust, the Company will be required to make contributions each year to fully match its obligations under the Deferred Plan. The trust's funds are primarily invested in Company Owned Life Insurance (COLI), and the Company plans to hold the policies until the deaths of the insured.

The Company's deferred compensation liabilities are recorded as a component of other current liabilities or long-term deferred compensation liabilities, as appropriate, based on anticipated distribution dates. The cash surrender value of COLI is recorded in other long-term assets. Changes in the value of participant accounts and changes in the cash surrender value of COLI are recorded as part of the Company's operating expenses and are subject to the Company's normal allocation of expenses to inventory and deferred preservation costs.

17. Stock Compensation***Overview***

The Company is currently authorized to grant and has available for grant the following number of shares under the Company's stock plans as of December 31, 2016 and 2015:

Plan	Authorized Shares	Available for Grant	
		2016	2015
1996 Discounted Employee Stock Purchase Plan, as amended	1,900,000	469,000	560,000
2009 Employee Stock Incentive Plan	7,100,000	2,194,000	3,361,000
Total	9,000,000	2,663,000	3,921,000

Upon the exercise of stock options or grants of RSAs, PSAs, RSUs, or PSUs, the Company may issue the required shares out of authorized but unissued common stock or out of treasury stock, at management's discretion.

Stock Awards

In 2016 the Compensation Committee of the Company's Board of Directors (the Committee) authorized awards from approved stock incentive plans of RSAs to non-employee directors, RSUs to certain employees, and RSAs and PSUs to certain Company officers, which, counting PSUs at target levels, together totaled 490,000 shares and had an aggregate grant date market value of \$5.5 million. The PSUs granted in 2016 represented the right to receive from 60% to 150% of the target number of shares of common stock. The performance component of PSU awards granted in 2016 was based on attaining specified levels of adjusted EBITDA, adjusted inventory levels, and adjusted trade accounts receivable days sales outstanding, each as defined in the PSU grant documents, for the 2016 calendar year. The PSUs granted in 2016 earned 142% of the target number of shares.

In 2015 the Committee authorized awards from approved stock incentive plans of RSAs to non-employee Directors, RSUs to certain employees, and RSAs and PSUs to certain Company officers, which, counting PSUs at target levels, together totaled 405,000 shares of common stock and had an aggregate grant date market value of \$4.3 million. The PSUs granted in 2015 earned approximately 127% of the target number of shares.

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In 2014 the Committee authorized awards from approved stock incentive plans of RSAs to non-employee Directors, RSUs to certain employees, and RSAs, PSAs, and PSUs to certain Company officers, which, counting PSUs at target levels, together totaled 655,000 shares of common stock and had an aggregate market value of \$6.6 million. The PSUs granted in 2014 earned approximately 50% of the target number of shares.

A summary of stock grant activity for the years ended December 31, 2016, 2015, and 2014 for RSAs, PSAs, RSUs, and PSUs, based on the target number of shares, is as follows:

RSAs	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	622,000	\$ 5.62
Granted	232,000	9.97
Vested	(324,000)	5.55
Forfeited	(35,000)	7.22
Unvested at December 31, 2014	495,000	7.65
Granted	207,000	10.33
Vested	(278,000)	8.10
Forfeited	(110,000)	8.49
Unvested at December 31, 2015	314,000	9.31
Granted	216,000	10.84
Vested	(138,000)	7.92
Forfeited	--	--
Unvested at December 31, 2016	392,000	10.64

RSAs	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	--	\$ --
Granted	250,000	10.18
Vested	--	--
Forfeited	--	--
Unvested at December 31, 2014	250,000	10.18
Granted	--	--

Vested	--	--
Forfeited	--	--
Unvested at December 31, 2015	250,000	10.18
Granted	--	--
Vested	--	--
Forfeited	--	--
Unvested at December 31, 2016	250,000	10.18

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RSUs	Shares	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value
Outstanding at December 31, 2013	129,000	1.56	\$ 1,425,000
Granted	5,000		
Vested	(52,000)		
Forfeited	(21,000)		
Outstanding at December 31, 2014	61,000	1.21	687,000
Granted	88,000		
Vested	(36,000)		
Forfeited	(10,000)		
Outstanding at December 31, 2015	103,000	1.17	1,110,000
Granted	146,000		
Vested	(44,000)		
Forfeited	(27,000)		
Outstanding at December 31, 2016	178,000	1.24	3,405,000
Vested and expected to vest	164,000	1.23	\$ 3,132,000
PSUs	Shares	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value
Outstanding at December 31, 2013	236,000	0.81	\$ 2,612,000
Granted	185,000		
Vested	(143,000)		
Forfeited	(21,000)		
Outstanding at December 31, 2014	257,000	0.73	2,907,000
Granted	125,000		
Vested	(139,000)		
Forfeited	(108,000)		
Outstanding at December 31, 2015	135,000	0.74	1,455,000
Granted	144,000		
Vested	(83,000)		

Forfeited	(8,000)		
Outstanding at December 31, 2016	188,000	0.77	3,603,000
Vested and expected to vest	178,000	0.73	\$ 3,412,000

During the years ended December 31, 2016, 2015, and 2014, the total fair value of \$2.9 million, \$4.8 million, and \$5.0 million, respectively, in combined RSAs, PSAs, RSUs, and PSUs vested.

Stock Options

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 387,000, 328,000, and 562,000 shares in 2016, 2015, and 2014, respectively, with exercise prices equal to the stock prices on the respective grant dates.

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A summary of the Company's stock option activity for the years ended December 31, 2016, 2015, and 2014 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value
Outstanding at December 31, 2013	1,794,000	\$ 6.57	3.31	\$ 8,274,000
Granted	562,000	10.12		
Exercised	(297,000)	7.26		
Forfeited	(23,000)	7.97		
Expired	(15,000)	7.34		
Outstanding at December 31, 2014	2,021,000	7.43	3.54	8,021,000
Granted	328,000	10.83		
Exercised	(248,000)	7.42		
Forfeited	(112,000)	9.93		
Expired	(93,000)	12.08		
Outstanding at December 31, 2015	1,896,000	7.65	3.31	5,992,000
Granted	387,000	10.34		
Exercised	(372,000)	5.60		
Forfeited	--	--		
Expired	--	--		
Outstanding at December 31, 2016	1,911,000	8.59	3.55	20,179,000
Vested and expected to vest	1,872,000	8.55	3.51	19,843,000
Exercisable at December 31, 2016	1,193,000	7.50	2.33	13,904,000

Other information concerning stock options for the years ended December 31 is as follows:

	2016	2015	2014
Weighted-average fair value of options granted	\$ 3.68	\$ 3.82	\$ 4.14
Intrinsic value of options exercised	2,422,000	761,000	918,000
Employees purchased common stock totaling 90,000, 78,000, and 111,000 shares in 2016, 2015, and 2014, respectively, through the Company's ESPP.			

Stock Compensation Expense

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

	2016		2015		2014	
	Stock Options	ESPP Options	Stock Options	ESPP Options	Stock Options	ESPP Options
Expected life of options	4.75 Years	0.5 Years	4.5 Years	0.5 Years	4.2 Years	0.5 Years
Expected stock price volatility	0.40	0.30	0.44	0.32	0.55	0.36
Dividend yield	--%	--%	1.12%	1.06%	1.16%	1.12%
Risk-free interest rate	1.20%	0.43%	1.41%	0.12%	1.34%	0.08%

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

	2016	2015	2014
RSA, PSA, RSU, and PSU expense	\$ 4,966	\$ 3,955	\$ 2,855
Stock option and ESPP option expense	1,636	1,371	842
Total stock compensation expense	\$ 6,602	\$ 5,326	\$ 3,697

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Included in the total stock compensation expense, as applicable in each period, were expenses related to RSAs, PSAs, RSUs, PSUs, 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 inventory costs and deferred preservation costs. The Company capitalized \$274,000, \$237,000 and \$261,000 in the years ended December 31, 2016, 2015, and 2014, respectively, of the stock compensation expense into its inventory costs and deferred preservation costs.

As of December 31, 2016 the Company had total unrecognized compensation costs of \$5.1 million related to RSAs, PSAs, RSUs, and PSUs and \$1.8 million related to unvested stock options, before considering the effect of expected forfeitures. As of December 31, 2016 this expense is expected to be recognized over a weighted-average period of 2.1 years for RSUs, 1.6 years for stock options, 1.3 years for RSAs, 0.8 years for PSUs, and 0.7 years for PSAs.

18. Income Per Common Share

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

Basic income per common share	2016	2015	2014
Net income	\$ 10,778	\$ 4,005	\$ 7,322
Net income allocated to participating securities	(208)	(87)	(161)
Net income allocated to common shareholders	\$ 10,570	\$ 3,918	\$ 7,161
Basic weighted-average common shares outstanding	31,855	27,744	27,379
Basic income per common share	\$ 0.33	\$ 0.14	\$ 0.26
Diluted income per common share	2016	2015	2014
Net income	\$ 10,778	\$ 4,005	\$ 7,322
Net income allocated to participating securities	(202)	(87)	(158)
Net income allocated to common shareholders	\$ 10,576	\$ 3,918	\$ 7,164
Basic weighted-average common shares outstanding	31,855	27,744	27,379
Effect of dilutive options and awards ^a	967	798	934
Diluted weighted-average common shares outstanding	32,822	28,542	28,313
Diluted income per common share	\$ 0.32	\$ 0.14	\$ 0.25

^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 per common share. Accordingly, stock options to purchase 1,000, 710,000, and 335,000 shares for the years ended December 31, 2016, 2015, and 2014, respectively, were excluded from the calculation of diluted weighted-average common shares outstanding.

19. Transactions with Related Parties

A member of the Company's Board of Directors and a shareholder of the Company is an employee of an investment banking services company. On January 20, 2016 CryoLife acquired On-X. The investment banking company represented On-X in that acquisition, for which they earned \$3.0 million in fees upon the close of the acquisition. CryoLife paid these fees directly to the investment banking company on behalf of On-X out of the proceeds of the acquisition. The Company made stock repurchases of \$5.6 million 2014 which includes the cost of stock and commissions of less than 1% to that investment banking services company. The Company did not make any stock repurchases in 2015 or 2016.

A member of the Company's Board of Directors and a shareholder of the Company was the former Chief of Thoracic Surgery of a university hospital that generated product and preservation services revenues of \$316,000, \$329,000, and \$273,000 for the Company in 2016, 2015, and 2014, respectively. Additionally, the son of this member of the Company's Board of Directors receives a retainer for performing heart and lung transplants from a medical center that generated product and preservation services revenues of \$479,000, \$617,000, and \$616,000 for the Company in 2016, 2015, and 2014, respectively.

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The Company expensed \$39,000, \$35,000, and \$45,000 in 2016, 2015, and 2014, respectively, relating to supplies for clinical trials purchased from a company whose former Chief Financial Officer is a member of the Company's Board of Directors and a shareholder of the Company.

The Company expensed \$44,000 and \$43,000 in 2016 and 2015, respectively, relating to membership fees to a medical device trade association where the Company's President and CEO is a current member of the Board of Directors.

20. Segment and Geographic Information

The Company has two reportable segments organized according to its products and services: Medical Devices and Preservation Services. The Medical Devices segment includes external revenues from product sales of BioGlue, BioFoam, On-X products, CardioGenesis cardiac laser therapy, PerClot, PhotoFix, HeRO Graft through the second quarter of 2016, and ProCol through the date of the sale of the ProCol product line in the first quarter of 2016. The Preservation Services segment includes external services revenues from the preservation of cardiac and vascular tissues. 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 products and preservation services. 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 products and preservation services, and gross margins for the Company's operating segments (in thousands):

	2016	2015	2014
Revenues:			
Medical devices	\$ 113,992	\$ 83,081	\$ 81,883
Preservation services	66,388	62,817	62,758
Total revenues	180,380	145,898	144,641
Cost of products and preservation services:			
Medical devices	28,033	18,663	17,167
Preservation services	33,448	36,516	36,183
Total cost of products and preservation services	61,481	55,179	53,350
Gross margin:			
Medical devices	85,959	64,418	64,716
Preservation services	32,940	26,301	26,575
Total gross margin	\$ 118,899	\$ 90,719	\$ 91,291

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Net revenues by product for the years ended December 31, 2016, 2015, and 2014 were as follows (in thousands):

	2016	2015	2014
Products:			
BioGlue and BioFoam	\$ 63,461	\$ 59,332	\$ 62,091
On-X	34,232	--	--
CardioGenesis cardiac laser therapy	7,864	9,419	8,225
PerClot	4,021	4,083	4,289
PhotoFix	1,871	1,396	--
HeRO Graft	2,325	7,546	7,131
ProCol	218	1,305	147
Total products	113,992	83,081	81,883
Preservation services:			
Cardiac tissue	29,697	28,059	29,437
Vascular tissue	36,691	34,758	33,321
Total preservation services	66,388	62,817	62,758
Total revenues	\$ 180,380	\$ 145,898	\$ 144,641

Net revenues by geographic location attributed to countries based on the location of the customer for the years ended December 31, 2016, 2015, and 2014 were as follows (in thousands):

	2016	2015	2014
U.S.	\$ 131,727	\$ 114,978	\$ 110,533
International	48,653	30,920	34,108
Total revenues	\$ 180,380	\$ 145,898	\$ 144,641

At December 31, 2016 and 2015 over 99% of the long-lived assets of the Company were held in the U.S., where all of the Company's manufacturing facilities and the corporate headquarters are located. At December 31, 2016 and 2015 the Company's \$78.3 million and \$11.4 million, respectively of goodwill was allocated entirely to its Medical Devices segment.

Table of Contents**SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)****(in thousands, except per share data)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
REVENUE:				
2016	\$ 43,016 *	\$ 47,083 *	\$ 45,252 *	\$ 45,029 *
2015	33,831	35,526	36,703	39,838
2014	35,731	34,690	37,069	37,151
GROSS MARGIN:				
2016	\$ 27,621 *	\$ 30,301 *	\$ 29,782 *	\$ 31,195 *
2015	19,667	21,554	22,982	26,516
2014	22,473	22,384	23,799	22,635
NET INCOME (LOSS):				
2016	\$ 2,541 *	\$ 2,347 *	\$ 2,993 *	\$ 2,897 *
2015	(274)	(502)	2,145	2,636
2014	1,059	2,161	2,326	1,776
INCOME (LOSS) PER COMMON SHARE DILUTED:				
2016	\$ 0.08 *	\$ 0.07 *	\$ 0.09 *	\$ 0.09 *
2015	(0.01)	(0.02)	0.07	0.09
2014	0.04	0.08	0.08	0.06

* In January 2016 the Company completed its acquisition of On-X Life Technologies Holdings, Inc., which is being operated as a wholly owned subsidiary of CryoLife. In 2016 the Company also sold its HeRO Graft product line and its ProCol product line, and ceased sales of these products during 2016.