

CRYOLIFE INC
Form 10-Q
April 28, 2011

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2011**

OR

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

For the transition period from _____ to _____

Commission file number: 1-13165

CRYOLIFE, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-2417093
(I.R.S. Employer
Identification No.)

1655 Roberts Boulevard, NW, Kennesaw, Georgia
(Address of principal executive offices)

30144
(Zip Code)

(770) 419-3355

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

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

Class	Outstanding at April 22, 2011
Common Stock, \$0.01 par value per share	27,933,007 shares

Part I FINANCIAL INFORMATION**Item 1. Financial Statements.****CRYOLIFE, INC. AND SUBSIDIARIES****SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS****(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	0000000000	0000000000
	Three Months Ended	
	March 31,	
	2011	2010
	(Unaudited)	
Revenues:		
Preservation services	\$ 15,674	\$ 15,583
Products	14,429	13,955
Other	93	179
Total revenues	30,196	29,717
Cost of preservation services and products:		
Preservation services	9,196	9,398
Products	2,496	2,527
Total cost of preservation services and products	11,692	11,925
Gross margin	18,504	17,792
Operating expenses:		
General, administrative, and marketing	14,291	13,817
Research and development	1,766	1,292
Total operating expenses	16,057	15,109
Operating income	2,447	2,683
Interest expense	30	51
Interest income	(9)	(4)
Gain on valuation of derivative		(817)
Other (income) expense, net	(109)	120
Income before income taxes	2,535	3,333
Income tax expense	869	1,399
Net income	\$ 1,666	\$ 1,934

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Income per common share:			
Basic		\$ 0.06	\$ 0.07
Diluted		\$ 0.06	\$ 0.07

Weighted-average common shares outstanding:			
Basic		27,385	28,235
Diluted		27,720	28,539

See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES

SUMMARY CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	0000000000 March 31, 2011	0000000000 December 31, 2010
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,582	\$ 35,497
Restricted securities	5,320	5,309
Receivables, net	16,262	14,313
Deferred preservation costs	29,703	31,570
Inventories	5,980	6,429
Deferred income taxes	6,502	6,096
Prepaid expenses and other current assets	1,807	2,276
Total current assets	103,156	101,490
Property and equipment, net	12,587	13,086
Investment in equity securities	2,594	2,594
Patents, net	3,179	3,282
Trademarks and other intangibles, net	5,550	5,601
Deferred income taxes	8,684	9,182
Other long-term assets	2,260	2,203
Total assets	\$ 138,010	\$ 137,438
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,137	\$ 4,243
Accrued compensation	2,229	3,357
Accrued procurement fees	2,937	3,081
Accrued expenses and other current liabilities	6,289	6,552
Deferred income	2,002	2,095
Total current liabilities	18,594	19,328
Other long-term liabilities	4,429	4,168
Total liabilities	23,023	23,496
Commitments and contingencies		
Shareholders equity:		
Preferred stock		
Common stock (issued shares of 29,985 in 2011 and 29,950 in 2010)	300	300
Additional paid-in capital	133,136	133,845
Retained deficit	(6,742)	(8,408)

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Accumulated other comprehensive loss	(16)	(32)
Treasury stock at cost (shares of 2,053 in 2011 and 2,049 in 2010)	(11,691)	(11,763)
Total shareholders equity	114,987	113,942
Total liabilities and shareholders equity	\$ 138,010	\$ 137,438

See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES

SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	0000000000	0000000000
	Three Months Ended	
	March 31,	
	2011	2010
	(Unaudited)	
Net cash from operating activities:		
Net income	\$ 1,666	\$ 1,934
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,017	968
Deferred income taxes	92	702
Non-cash compensation	773	721
Write-down of intangible assets	15	729
Gain on valuation of derivative		(817)
Other non-cash adjustments to income	183	128
Changes in operating assets and liabilities:		
Receivables	(1,973)	(759)
Deferred preservation costs and inventories	2,258	1,939
Prepaid expenses and other assets	412	(1,033)
Accounts payable, accrued expenses, and other liabilities	(577)	(572)
Net cash flows provided by operating activities	3,866	3,940
Net cash from investing activities:		
Capital expenditures	(274)	(481)
Purchases of restricted securities and investments		(2,604)
Other	(21)	(33)
Net cash flows used in investing activities	(295)	(3,118)
Net cash from financing activities:		
Proceeds from financing of insurance policies		1,481
Principal payments on capital leases and short-term notes payable	(13)	(36)
Proceeds from exercise of stock options and issuance of common stock	150	99
Repurchases of common stock	(1,562)	(59)
Other	(50)	(31)
Net cash flows (used in) provided by financing activities	(1,475)	1,454
Increase in cash and cash equivalents	2,096	2,276
Effect of exchange rate changes on cash	(11)	2
Cash and cash equivalents, beginning of period	35,497	30,121
Cash and cash equivalents, end of period	\$ 37,582	\$ 32,399

See accompanying Notes to Summary Consolidated Financial Statements.

CRYOLIFE, INC. AND SUBSIDIARIES

NOTES TO SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

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

2. Financial Instruments

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

The Company records certain financial instruments at fair value, including cash equivalents, certain marketable securities, and certain restricted securities. These financial instruments are discussed in further detail in the notes below. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis, although as of March 31, 2011 the Company has not chosen to make any such elections. Fair value financial instruments are recorded at fair value in accordance with the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair values in their broad levels. These levels from highest to lowest priority are as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data; and

Level 3: Unobservable inputs or valuation techniques that are used when little or no market data is available.

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

A summary of financial instruments measured at fair value as of March 31, 2011 and December 31, 2010 is as follows (in thousands):

	0000000000	0000000000	0000000000	0000000000
March 31, 2011	Level 1	Level 2	Level 3	Total
Cash equivalents:				
U.S. Treasury money market funds	\$	\$ 1,637	\$	\$ 1,637
U.S. Treasury debt securities	19,424			19,424

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Restricted securities:

Money market funds		320		320
U.S. Treasury debt securities	5,000			5,000
Total assets	\$ 24,424	\$ 1,957	\$	\$ 26,381

