

CRYOLIFE INC  
Form 10-Q  
October 31, 2017

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2017**

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)

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

Yes

No

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

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Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Yes

No

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

**Class**

**Outstanding at October 23, 2017**

Common Stock

33,457,552 Shares

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Revenues:</b>				
Products	\$ 27,029	\$ 28,004	\$ 84,519	\$ 85,067
Preservation services	16,970	17,248	52,357	50,284
<b>Total revenues</b>	<b>43,999</b>	<b>45,252</b>	<b>136,876</b>	<b>135,351</b>
<b>Cost of products and preservation services:</b>				
Products	6,220	6,598	21,196	21,299
Preservation services	7,917	8,872	23,401	26,348
<b>Total cost of products and preservation services</b>	<b>14,137</b>	<b>15,470</b>	<b>44,597</b>	<b>47,647</b>
<b>Gross margin</b>	<b>29,862</b>	<b>29,782</b>	<b>92,279</b>	<b>87,704</b>
<b>Operating expenses:</b>				
General, administrative, and marketing	24,756	20,592	71,016	69,302
Research and development	4,277	3,714	13,098	9,602
<b>Total operating expenses</b>	<b>29,033</b>	<b>24,306</b>	<b>84,114</b>	<b>78,904</b>
Gain from sale of business components	--	--	--	(7,915)
<b>Operating income</b>	<b>829</b>	<b>5,476</b>	<b>8,165</b>	<b>16,715</b>
Interest expense	851	742	2,486	2,256
Interest income	(64)	(18)	(159)	(48)
Other expense (income), net	21	21	(70)	(146)

<b>Income before income taxes</b>	<b>21</b>	<b>4,731</b>	<b>5,908</b>	<b>14,653</b>
Income tax (benefit) expense	(1,304)	1,738	(803)	6,772
<b>Net income</b>	<b>\$ 1,325</b>	<b>\$ 2,993</b>	<b>\$ 6,711</b>	<b>\$ 7,881</b>
<b>Income per common share:</b>				
<b>Basic</b>	<b>\$ 0.04</b>	<b>\$ 0.09</b>	<b>\$ 0.20</b>	<b>\$ 0.24</b>
<b>Diluted</b>	<b>\$ 0.04</b>	<b>\$ 0.09</b>	<b>\$ 0.19</b>	<b>\$ 0.24</b>
<b>Weighted-average common shares outstanding:</b>				
Basic	32,887	32,151	32,665	31,731
Diluted	34,057	33,165	33,851	32,568
<b>Net income</b>	<b>\$ 1,325</b>	<b>\$ 2,993</b>	<b>\$ 6,711</b>	<b>\$ 7,881</b>
Other comprehensive income (loss)	217	(31)	582	(459)
<b>Comprehensive income</b>	<b>\$ 1,542</b>	<b>\$ 2,962</b>	<b>\$ 7,293</b>	<b>\$ 7,422</b>

See accompanying Notes to Summary Consolidated Financial Statements.

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 54,242	\$ 56,642
Restricted securities	771	699
Receivables, net	33,659	30,096
Inventories	27,763	26,293
Deferred preservation costs	35,008	30,688
Prepaid expenses and other	4,142	2,815
<b>Total current assets</b>	<b>155,585</b>	<b>147,233</b>
Property and equipment, net	20,607	18,502
Goodwill	78,294	78,294
Patents, net	827	1,008
Trademarks and other intangibles, net	62,454	65,633
Deferred income taxes	1,190	--
Investment in company owned life insurance	4,360	2,991
Other	2,823	2,479
<b>Total assets</b>	<b>\$ 326,140</b>	<b>\$ 316,140</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,066	\$ 5,744
Accrued expenses and other	17,813	19,796
Current portion of long-term debt	3,234	4,562
<b>Total current liabilities</b>	<b>26,113</b>	<b>30,102</b>
Long-term debt	64,835	67,012
Deferred compensation liability	3,753	2,600
Deferred rent obligations	2,982	2,355
Other	5,101	5,088
<b>Total liabilities</b>	<b>102,784</b>	<b>107,157</b>

**Commitments and contingencies****Shareholders equity:**

Preferred stock	--	--
Common stock (issued shares of 34,844 in 2017 and 34,230 in 2016)	348	342
Additional paid-in capital	194,958	187,061
Retained earnings	40,616	34,143
Accumulated other comprehensive income (loss)	153	(429)
Treasury stock at cost (shares of 1,387 in 2017 and 1,356 in 2016)	(12,719)	(12,134)
<b>Total shareholders equity</b>	<b>223,356</b>	<b>208,983</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 326,140</b>	<b>\$ 316,140</b>

See accompanying Notes to Summary Consolidated Financial Statements.

**CRYOLIFE, INC. AND SUBSIDIARIES**

**SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(IN THOUSANDS)**

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
	(Unaudited)	
<b>Net cash flows from operating activities:</b>		
Net income	\$ 6,711	\$ 7,881
Adjustments to reconcile net income to net cash from operating activities:		
Gain from sale of business components	--	(7,915)
Depreciation and amortization	6,683	6,248
Non-cash compensation	5,652	4,617
Other non-cash adjustments to income	879	5,595
Changes in operating assets and liabilities:		
Receivables	(4,303)	3,729
Inventories and deferred preservation costs	(6,901)	(5,739)
Prepaid expenses and other assets	(3,040)	(46)
Accounts payable, accrued expenses, and other liabilities	(855)	304
<b>Net cash flows provided by operating activities</b>	<b>4,826</b>	<b>14,674</b>
<b>Net cash flows from investing activities:</b>		
Acquisition of On-X, net of cash acquired	--	(91,152)
Acquisition of PhotoFix technology	--	(1,226)
Proceeds from sale of business components	740	19,795
Decrease in restricted cash	--	5,000
Capital expenditures	(5,384)	(3,511)
Other	5	(12)
<b>Net cash flows used in investing activities</b>	<b>(4,639)</b>	<b>(71,106)</b>
<b>Net cash flows from financing activities:</b>		
Proceeds from issuance of term loan	--	75,000
Repayment of term loan	(3,916)	(1,406)
Payment of debt issuance costs	--	(2,289)
Proceeds from exercise of stock options and issuance of common stock	2,599	2,116
Redemption and repurchase of stock to cover tax withholdings	(1,600)	(599)
Other	(3)	571

<b>Net cash flows (used in) provided by financing activities</b>	<b>(2,920)</b>	<b>73,393</b>
Effect of exchange rate changes on cash	333	(418)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,400)</b>	<b>16,543</b>
Cash and cash equivalents, beginning of period	56,642	37,588
<b>Cash and cash equivalents, end of period</b>	<b>\$ 54,242</b>	<b>\$ 54,131</b>

See accompanying Notes to Summary Consolidated Financial Statements.



**CRYOLIFE, INC. AND SUBSIDIARIES****NOTES TO SUMMARY CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****1. Basis of Presentation***Overview*

The accompanying summary consolidated financial statements include the accounts of CryoLife, Inc. and 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, 2016 has been derived from audited financial statements. The accompanying unaudited summary consolidated financial statements as of, and for the three and nine months ended, September 30, 2017 and 2016 have been prepared in accordance with (i) accounting principles generally accepted in the U.S. for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, such statements do not include all of the information and disclosures required by accounting principles generally accepted in the U.S. for a complete presentation of financial statements. In the opinion of management, all adjustments (including those of a normal, recurring nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016 filed with the SEC on February 16, 2017.

*Change in Accounting for Employee Share-Based Payments*

As of January 1, 2017 we made an entity-wide accounting policy election in accordance with ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, (ASU 2016-09) to change our accounting policy to account for stock compensation forfeitures in the period awards are forfeited rather than estimating the effect of forfeitures. We elected to make this accounting policy change to simplify the accounting for share-based compensation and believe this method provides a more accurate reflection of periodic share-based compensation cost from the grant date forward. We used the modified retrospective transition method to record a net \$238,000 cumulative-effect adjustment decrease to retained earnings for the accounting policy change, which included a \$379,000 increase to additional paid-in capital and a \$141,000 increase in deferred tax assets.

Additionally, as of January 1, 2017 and in accordance with the guidance in ASU 2016-09, we made a change to account for excess tax benefits and deficiencies resulting from the settlement or vesting of share-based awards in income tax expense on our Summary Consolidated Statement of Operations and Comprehensive Income instead of accounting for these effects through additional paid in-capital on our Summary Consolidated Balance Sheets. We applied this amendment prospectively and prior periods have not been adjusted.

**2. Financial Instruments**

The following is a summary of our financial instruments measured at fair value (in thousands):

<b>September 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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<b>Cash equivalents:</b>				
Money market funds	\$ 371	\$ --	\$ --	\$ 371
<b>Restricted securities:</b>				
Money market funds	771			