

CRYOLIFE INC  
Form 10-Q/A  
November 19, 2018

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

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended **September 30, 2018**

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

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  
Non-accelerated filer

Accelerated filer  
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 13(a) of the Exchange 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 26, 2018
Common Stock, \$.01 par value	36,967,506 shares

### **Explanatory Note**

This Amendment No. 1 to our Quarterly Report on Form 10-Q (the "Form 10-Q/A") amends our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 previously filed on November 1, 2018 (the "Original Filing"). We are filing this Form 10-Q/A solely to typographically correct the amount of foreign currency translation adjustments included in the Original Filing under Other comprehensive income (loss) for the nine months ended September 30, 2018. The correct dollar amount of the foreign currency translation adjustments for such period is (5,140), rather than (540). The total Comprehensive income (loss) for that period was correct as initially filed. No other values on the Summary Consolidated Statements of Operations and Comprehensive Income (Loss) are affected.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-Q/A also contains new certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, which are attached hereto.

Except as described above, no other changes have been made to the Original Filing, and this Form 10-Q/A does not modify, amend, or update in any way, any of the financial or other information contained in the Original Filing. This Form 10-Q/A does not reflect events that may have occurred subsequent to the filing date of the Original Filing.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Revenues:</b>				
Products	\$ 45,152	\$ 27,029	\$ 138,063	\$ 84,519
Preservation services	19,446	16,970	56,979	52,357
<b>Total revenues</b>	<b>64,598</b>	<b>43,999</b>	<b>195,042</b>	<b>136,876</b>
<b>Cost of products and preservation services:</b>				
Products	12,459	6,220	40,166	21,196
Preservation services	9,425	7,917	27,083	23,401
<b>Total cost of products and preservation services</b>	<b>21,884</b>	<b>14,137</b>	<b>67,249</b>	<b>44,597</b>
<b>Gross margin</b>	<b>42,714</b>	<b>29,862</b>	<b>127,793</b>	<b>92,279</b>
<b>Operating expenses:</b>				
General, administrative, and marketing	32,871	24,756	104,946	71,016
Research and development	5,225	4,277	16,314	13,098
<b>Total operating expenses</b>	<b>38,096</b>	<b>29,033</b>	<b>121,260</b>	<b>84,114</b>
<b>Operating income</b>	<b>4,618</b>	<b>829</b>	<b>6,533</b>	<b>8,165</b>
Interest expense	4,104	851	11,863	2,486
Interest income	(52)	(64)	(141)	(159)
Other (income) expense, net	(1,542)	21	(257)	(70)

<b>Income (loss) before income taxes</b>	<b>2,108</b>	<b>21</b>	<b>(4,932)</b>	<b>5,908</b>
Income tax expense (benefit)	543	(1,304)	(2,868)	(803)
<b>Net income (loss)</b>	<b>\$ 1,565</b>	<b>\$ 1,325</b>	<b>\$ (2,064)</b>	<b>\$ 6,711</b>
<b>Income (loss) per common share:</b>				
<b>Basic</b>	<b>\$ 0.04</b>	<b>\$ 0.04</b>	<b>\$ (0.06)</b>	<b>\$ 0.20</b>
<b>Diluted</b>	<b>\$ 0.04</b>	<b>\$ 0.04</b>	<b>\$ (0.06)</b>	<b>\$ 0.19</b>
<b>Weighted-average common shares outstanding:</b>				
Basic	36,526	32,887	36,331	32,665
Diluted	37,610	34,057	36,331	33,851
<b>Net income (loss)</b>	<b>\$ 1,565</b>	<b>\$ 1,325</b>	<b>\$ (2,064)</b>	<b>\$ 6,711</b>
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	(514)	217	(5,140)	582
<b>Comprehensive income (loss)</b>	<b>\$ 1,051</b>	<b>\$ 1,542</b>	<b>\$ (7,204)</b>	<b>\$ 7,293</b>

See accompanying Notes to Summary Consolidated Financial Statements.

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

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 34,558	\$ 39,977
Restricted securities	753	776
Trade receivables, net	48,882	47,525
Other receivables	3,974	3,916
Inventories	46,149	46,684
Deferred preservation costs	33,509	35,671
Prepaid expenses and other	6,127	4,731
<b>Total current assets</b>	<b>173,952</b>	<b>179,280</b>
Property and equipment, net	32,072	33,579
Goodwill	188,118	188,305
Acquired technology, net	121,254	130,359
Other intangibles, net	42,184	49,071
Other	12,115	9,099
<b>Total assets</b>	<b>\$ 569,695</b>	<b>\$ 589,693</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,941	\$ 9,767
Accrued compensation	8,628	10,208
Current portion of long-term debt	1,266	718
Taxes payable	924	4,020
Accrued expenses and other	13,990	18,227
<b>Total current liabilities</b>	<b>30,749</b>	<b>42,940</b>
Long-term debt	216,579	218,236
Deferred income taxes	26,116	30,431
Other	19,444	21,028
<b>Total liabilities</b>	<b>292,888</b>	<b>312,635</b>

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

Preferred stock	--	--
Common stock (issued shares of 38,445 in 2018 and 37,618 in 2017)	384	376
Additional paid-in capital	258,555	249,935
Retained earnings	35,742	37,609
Accumulated other comprehensive (loss) income	(3,283)	1,857
Treasury stock at cost (shares of 1,484 in 2018 and 1,387 in 2017)	(14,591)	(12,719)
<b>Total shareholders equity</b>	<b>276,807</b>	<b>277,058</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 569,695</b>	<b>\$ 589,693</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>2018</b>	<b>2017</b>
	(Unaudited)	
<b>Net cash flows from operating activities:</b>		
Net (loss) income	\$ (2,064)	\$ 6,711
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	13,636	6,683
Non-cash compensation	4,685	5,652
Other non-cash adjustments to (loss) income	(1,330)	879
Changes in operating assets and liabilities:		
Receivables	(2,310)	(4,303)
Inventories and deferred preservation costs	1,697	(6,901)
Prepaid expenses and other assets	(2,481)	(3,040)
Accounts payable, accrued expenses, and other liabilities	(12,473)	(855)
<b>Net cash flows (used in) provided by operating activities</b>	<b>(640)</b>	<b>4,826</b>
<b>Net cash flows from investing activities:</b>		
Proceeds from sale of business component	--	740
Capital expenditures	(4,275)	(5,384)
Other	(722)	(67)
<b>Net cash flows used in investing activities</b>	<b>(4,997)</b>	<b>(4,711)</b>
<b>Net cash flows from financing activities:</b>		
Repayment of term loan	(2,098)	(3,916)
Proceeds from exercise of stock options and issuance of common stock	3,793	2,599
Redemption and repurchase of stock to cover tax withholdings	(2,085)	(1,600)
Other	(888)	(3)
<b>Net cash flows used in financing activities</b>	<b>(1,278)</b>	<b>(2,920)</b>
Effect of exchange rate changes on cash, cash equivalents, and restricted securities	1,473	477



<b>Decrease in cash, cash equivalents, and restricted securities</b>	<b>(5,442)</b>	<b>(2,328)</b>
Cash, cash equivalents, and restricted securities beginning of period	40,753	57,341
<b>Cash, cash equivalents, and restricted securities end of period</b>	<b>\$ 35,311</b>	<b>\$ 55,013</b>

See accompanying Notes to Summary Consolidated Financial Statements.

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**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 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, 2017 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, 2018 and 2017 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017 filed with the SEC on March 9, 2018.

*New Accounting Standards*

*Recently Adopted*

As of January 1, 2018 we adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* and the additional related ASUs (ASC 606). These standards provide guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. ASC 606 provides that we recognize revenue to depict the transfer of control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. We used the modified retrospective method applied to those contracts that were not substantially completed as of January 1, 2018. As a result of the adoption, we recorded an immaterial adjustment to increase retained earnings to recognize the impact of contract assets under the new revenue recognition guidance. See Note 11 for further discussion of revenue recognition.

In August 2016 the Financial Accounting Standards Board (FASB) issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (