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July 27, 2010

Dear Medafor Shareholders,

I am pleased to write to you today to share with you our financial highlights for the second quarter and first half of 2010. As the numbers below show, we finished the quarter with significantly increased revenues and operating profits, steady cash flow generation, and an overall improved financial position.

For the first six months of 2010, we increased overall revenues by 60%, recording over \$10 million in sales. These results are a tribute to the steady progress we have made over the past several years and our ongoing momentum in terms of increasing market share. In brief, our company is in a stronger position – both financially and operationally – than we have ever been.

With that, I am pleased to share the following highlights, based upon our preliminary financial results to June 30, 2010:

- Revenues grew by 95% exceeding \$5.8 million for the second quarter of 2010
  - Revenues for the first six months of 2010 were over \$10 million, representing 60% growth as compared to the first six months of 2009
- Second quarter cash based operating profit grew by 148% to over \$900,000, even after factoring in the more than \$600,000 we have spent on expenses associated with the lawsuit initiated by CryoLife.
  - Excluding the litigation costs, operating profit growth for the second quarter would have been over 300%
- Net income in the second quarter grew by 251% to \$590,000
- Contribution margin grew by 81% to \$3.6 million for the quarter
- Operating expenses grew by 27%
- For the 6 months ending June 30, 2010 there was a positive operating cash flow (before working capital items) of \$1.2 million
- Accounts receivable increased by 74% due to growth in sales
- Current assets grew by 26%
- Stockholders' equity has tripled to approximately \$7 million.

In addition to our strong financial performance, these last months have been very active in major events for the future of our Company and the value of your shares. The most important development has been the significant growth into the US general surgery market where revenues have been growing by over 100% annually. As you know, we reached a definitive agreement in March 2010 with Magle Life Sciences, concluding a long-standing effort to acquire full ownership of the unique manufacturing process for our MPH® surgical product and ensuring a stable long-term supply of our core product. In addition, we recently were awarded a Navy contract to prototype and test a battlefield dressing with the Arista product which could present a unique opportunity to accelerate our growth in the markets serving the armed-forces.

As Medafor enters the second half of 2010, we remain focused on penetrating key specialty markets that we have identified as vital growth opportunities for our product. Additionally, now that our MPH product is generating strong operating cash flow, and, with the partnership with Magle in place, we are better equipped to turn our focus to expanding the range and scope of possible new surgical and medical applications.

#### Results of the Annual Meeting

On June 10, 2010, we held our Annual Meeting in Minneapolis, during which our shareholders voted overwhelmingly to re-elect the current Board of Directors. Holders of approximately 70% of the outstanding shares cast their votes, with approximately 95% of those votes in favor of re-electing the Company's nominees to the Board. This outcome signifies a tremendous show of support for Medafor's directors, management, and the current strategic direction of the Company.

#### Update on CryoLife Litigation / Status of the EDA

We are currently awaiting a decision from the Court regarding CryoLife's motion for a preliminary injunction that would prohibit us from terminating the EDA. As reported earlier, we believe CryoLife repudiated the Exclusive Distribution Agreement which provides Medafor the right to terminate it and end the supply relationship.

If the Court denies CryoLife's injunction, it is our intent to seek other means of supplying customers in the markets served by CryoLife. If the Court grants CryoLife's injunction, we will continue to operate in good faith under the EDA and we hope that CryoLife will as well (though we will not hesitate to take action if they do not). Whatever the outcome, Medafor will in the long term continue to benefit from strong revenues from product sales.

Independent of these proceedings, we recently made the decision to resume filling CryoLife's purchase orders until the Court had a chance to rule on CryoLife's motion for preliminary injunction. We made this decision unilaterally in order to prevent any type of disruption in the marketplace and ensure that the cardiac and vascular surgeries markets had the necessary products to provide patient benefit and in some cases perform life-saving surgeries.

It is important to know that, contrary to some misleading statements made by CryoLife, this decision was not in any way compelled by anything having to do with the legal proceedings. We continue to believe that we are justified in terminating the exclusive distribution agreement, and hope that the Court will rule in our favor. But, until the Court rules, we intend to fulfill our orders and continue providing the market with Hemostase.

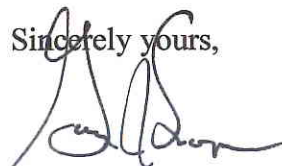
### Conclusion

There is no doubt that the past six months have been challenging and that the ongoing litigation and unsolicited takeover attempts by CryoLife have been a drain on our resources. The good news is that we are not only financially secure enough to withstand these tactics, but we are also strong enough operationally to continue posting strong performance and industry-leading results. We look forward to putting these distractions behind us, so that we can focus exclusively on growing our business for the benefit of all of our shareholders.

On behalf of the Board and management, I would like to thank you once again for your continued support. Despite the challenges we have faced, we are fortunate to have shareholders who clearly understand and support our long-term vision for Medafor.

As always, we remain focused and committed to maximizing value for all our shareholders.

Sincerely yours,



Gary J. Shope  
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