



TO MEDAFOR SHAREHOLDERS
UPDATE ON RECENT LEGAL ACTIONS

CryoLife’s Unsolicited Offers

In November 2008 and again in February 2009, CryoLife, Inc. made unsolicited offers to acquire Medafor. The first offer contained no price and the second offered \$25 million solely in the form of CryoLife stock, a significant undervaluation that does not come close to even CryoLife’s remaining minimum commitment on its contract with Medafor, which is valued at approximately \$40 million. Our Board of Directors politely refused on both occasions.

CryoLife’s Lawsuit

On April 29, 2009, CryoLife, Inc. filed a lawsuit against Medafor in the U.S. District Court for the Northern District of Georgia. The lawsuit was filed shortly after Medafor’s Board had rejected CryoLife’s second unsolicited attempt to buy Medafor. The suit charges Medafor with alleged breach of contract, fraud, negligent misrepresentation, and violations of Georgia Racketeer Influenced and Corrupt Organizations Act.

Medafor believes this lawsuit is entirely without merit and intends to vigorously defend its position in court. Medafor has already filed a motion to dismiss most of the fraud claim and the entire claim brought under the Georgia Racketeer Influenced and Corrupt Organizations Act. That motion has been fully briefed and is now awaiting decision by the court.

It is our contention that CryoLife filed this lawsuit shortly after Medafor rejected its second offer in an attempt to force the Board to sell Medafor. We believe CryoLife thought that Medafor would sell rather than undertake the cost and uncertainty of defending against prolonged and expensive litigation. We believe that the lawsuit and CryoLife’s actions in the marketplace are an attempt to weaken Medafor for its own enrichment.

Medafor is extremely troubled that CryoLife would choose to launch a baseless lawsuit against a smaller partner—one who, we believe, is responsible for a good portion of CryoLife’s profits. Clearly, it appears that CryoLife believes it is in its best interests to gain total control of Medafor.

Lawsuit against Richard “Dick” Zerban and Steven “Steve” Anderson
(Updated as of April 7, 2010)

This matter has been resolved. Please refer to the [Settlement of Medafor v. Richard R. Zerban and Steven G. Anderson, et al.](#) information for shareholders.

Medafor’s Notice of Termination of the Exclusive Distribution Agreement (“EDA”)

On September 18, 2009, Medafor sent CryoLife a notice of its intent to terminate its contract with CryoLife, after learning that CryoLife sought to distribute Hemostase MPH (CryoLife's private labeled brand name for Medafor's MPH powder) in Hong Kong. Hong Kong is part of the People's Republic of China, which is specifically excluded from CryoLife's Territory under the terms of the EDA.

CryoLife initially sought a preliminary injunction to enjoin Medafor from terminating the agreement, but also disclosed that it had taken active steps to cure the breach by ceasing all sales and marketing activities in Hong Kong and withdrawing all unsold product. Once Medafor was satisfied that CryoLife had cured the default, Medafor withdrew its notice of termination, and CryoLife withdrew its motion for a preliminary injunction.

On October 21, 2009, CryoLife filed its Notice of Withdrawal of the Motion for Preliminary Injunction. Medafor believes that the Notice contained certain misrepresentations about the facts surrounding the Notice of Termination and the subsequent actions of the parties. Therefore, Medafor's lawyers have filed a notice to correct the record with the court. Unfortunately, Medafor does not have the ability to correct any of CryoLife's public filings or statements.

In Medafor's filing, it noted that CryoLife conceded that it had engaged in sales and marketing activities in Hong Kong. Moreover, Medafor noted that, at no time did it conclude that CryoLife had demonstrated to Medafor that it had not breached the EDA or that its breach was not material. Further, Medafor disputes CryoLife's assertion that "CryoLife has received from Medafor the relief it sought." In accordance with the EDA, Medafor notified CryoLife that it would terminate the EDA if CryoLife failed to cure the breach. CryoLife cured its breach. Thus, it is Medafor's position that Medafor got the relief it sought, not the other way around.

Ongoing Investigations into Potential Breaches by CryoLife of the EDA

Medafor believes that CryoLife has engaged in actions that violate the EDA. Medafor will continue to evaluate all its options relating to such violations, including the possibility of terminations. Some of the actions that Medafor believes violate the EDA include:

- CryoLife has indicated that it believes it is authorized to sell Hemostase MPH in the People's Republic of China and Japan. This is untrue. Under the EDA, CryoLife is clearly not authorized to market, distribute, or sell product in China or Japan, and any violations of this nature that are discovered in the future may cause Medafor to terminate the Agreement. Medafor is investigating possible breaches of this nature in other countries as well.
- Medafor recently learned that at least one of CryoLife's European distributors has attempted to mislead hospitals into believing that Arista was no longer on the market, claiming that CryoLife had "made a deal" with Medafor to globally distribute Hemostase MPH in its place.
- We believe that CryoLife also attempted to confuse hospital customers by implying that it purchased Medafor to induce the hospitals to buy Hemostase MPH for uses outside of the field of use for which it is authorized.

CryoLife Needs Medafor... Not the Other Way Around!

CryoLife has publicly recognized the significant value of the Medafor technology. In Court filings and communications to the financial community, CryoLife has repeatedly spoken to the growth prospects generated by the “perfect marriage” of Hemostase MPH and BioGlue, and Hemostase MPH’s significant contribution to its operating profit.

However, it is one thing to undervalue a technology; it is something else entirely to attempt to financially bully a smaller company into submission. While we regret having to bear the cost to defend against baseless litigation, we believe we have no choice but to do everything we can to protect the inherent value of the Company on behalf of our Shareholders. Furthermore, our Shareholders can be assured that we are sufficiently profitable that we believe we can appropriately withstand this action through the course of events.

Looking Forward: the Future of the Medafor/CryoLife Relationship

Our perception of CryoLife prior to signing the EDA is obviously totally different from the present day reality. At the time we entered into our Agreement in 2008, we believed that the EDA was in the best interests of both companies. Medafor had hoped that a diligent effort on the part of a focused and specific cardiac sales force would maximize the market penetration and opportunity for the MPH powder. While CryoLife continues to purchase MPH powder and Medafor is fully committed to complying with the EDA, CryoLife’s actions have caused Medafor to question whether CryoLife ever had any intention of operating in good faith under the contract.

We recognize and appreciate that the Hemostase MPH product is critical to CryoLife’s business, both as an independent product and as a bundle with BioGlue; however, we believe that CryoLife’s actions have significantly damaged the relationship between the parties.

Going forward, we will continue to diligently evaluate the proper performance of the EDA and defend our interests in the CryoLife lawsuit.