



Letter from the CEO

Highlights

Tissue Genesis awarded \$4.48M Department of Defense Contract

TGI Series B Round offered at \$1.20/share

TGI expands technology into BOS Family product line

TGI's technology to be utilized by Bioheart, Inc.

TGI creates Regulatory Strategy for FDA approval

TGI presents at 2006 World Congress on Tissue Engineering and Regenerative Medicine conference

Financial Statements prepared by Deloitte & Touche, LLP

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We are experiencing exciting times at Tissue Genesis. As you will see in this newsletter, we are collaborating with a company, Bioheart Inc., which plans on using our patented cell technology and our developing hardware support system for the operating room. Their applications will take our systems and processes in the heart much quicker than our prior plans would have achieved. We expect to receive licensing payments in Bioheart stock and royalties.

You will also see in this letter an update on our clinical trials. With the plans for both heart and vessel entering clinical phases, Tissue Genesis will have arrived on the national scene.

I am pleased to report that we sold all authorized shares and closed out Series A round at the end of 2005. In December 2005 you, as a shareholder, approved a Series B round at \$1.20 per share. The offering includes a leveraged Hawaii state tax component (2:1) along with a

leveraged equity component for non-tax investors (30%). If you know of any interested parties, please contact me.

Our Annual Shareholder Meeting will be held on Wednesday, September 27, 2006, 9:00am at the Tissue Genesis Offices located at 677 Ala Moana Boulevard, Suite 1100. You are always welcome at this event or any other time to our facility.

TGI Awarded \$4.48M DoD Contract

In August of this year, Tissue Genesis received notification that the company was awarded a \$4.48 Million contract from the Department of Defense to continue its research and development in cell recovery and cell delivery systems.

This is Tissue Genesis' fourth award from the Department of Defense, with money received from such contracts now totaling approximately \$16.4 Million.

This contract focuses on utilizing regenerative cells collected from a patient's own fat and used to improve

wound repair, muscle and heart tissue repair, improved vascularization, and other acute and chronic medical needs. The regenerative cell population improves the flow of blood to damaged tissue, which is a critical part of the regenerative process. These fat-derived regenerative cells are becoming an important medical tool that has many of the desired repair qualities of stem cells, without the ethical difficulties and limited availability.

Tissue Genesis' cell recovery and cell delivery systems are key to making these fat-derived regenerative cells

available to the clinician at the point-of-care facility without extensive lab manipulation.

The use of cells is becoming the center piece for a variety of therapeutic applications and Tissue Genesis is linking their patented technology to a number of clinical applications being tested in the United States, Europe, and the Far East.

Such investments from the Department of Defense demonstrate that the impact of the technology Tissue Genesis is developing is recognized at a national level.

BOS® Family of Products

Since the development of the original BOS® System in 2001, our company has made substantial investments to improve our therapeutic cell technology, bringing the BOS product line to where it is today.



Original BOS system

The BOS product line is currently composed of the mini-BOS™ system, the TGI 100™ kit, the TGI 1000™ system, and the TGI 1001™ system. This versatile line specifically targets the manufacturing of cell and tissue-engineered products for human implantation, but its flexible design allows for additional applications

including basic research and development. The use of the BOS platform technologies in the integrated TGI 100 kit, TGI 1000 system and the TGI 1001 system will allow doctors to process adipose tissue liposuctioned from a patient, deriving the therapeutic cells for immediate implantation back into the patient within a period of hours.

The BOS product line will support clinically significant applications, including Tissue Genesis' wound care, tissue repair, and vascular applications currently in

development, in a hospital or approved production facility. The BOS has already maintained live coronary vessels, synthetic grafts, and bioartificial grafts.

Over the next several years, Tissue Genesis plans to introduce various therapeutic cell products to markets for wound healing, implant coating, and direct delivery of therapeutic cells, by a potential combination of sales, licensing and/or partnering.



New TGI 1001 system

Collaboration with Bioheart, Inc.

This month Tissue Genesis solidified its collaboration with Bioheart, Inc. to market our technology, leading with the **TGI 1200™ System**. This

system is our TGI 1000 adapted for



Designers sketch of TGI/Bioheart cell delivery system.

Bioheart's applications. "We are excited about this collaboration with Bioheart, a leader in developing cell therapies for cardiovascular disease. Heart attack patients will have a need for rapid, autologous, point-of-care treatment for acute MI, and

we are seeking to fill that need," said Anton C. Krucky, President and CEO of Tissue Genesis, Inc.

Tissue Genesis will benefit by

collaborating with Bioheart through licensing

fees and royalties. Bioheart's position in the industry will also help to move our products to the market faster, focusing on the heart failure and heart attack markets. Bioheart benefits by gaining worldwide exclusive rights to Tissue Genesis' cutting edge technologies for use in the

human heart.

The heart markets offer great potential for Tissue Genesis products, with direct annual costs for heart attack and heart failure treatments reaching \$28 Billion and \$25 Billion respectively.

The compatibility of Tissue Genesis' products and processes are highlighted in collaborations such as this. Bioheart is able to integrate the TGI 1200 with products already used by the company, namely their Bioheart Myocath needle injection catheter. Upon the approval an IND application, Bioheart anticipates initiating human clinical trials.

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