



Letter from the CEO

Highlights

TGI begins commercialization activities

TGI Series B Round closing brings in over \$4 million

TGI presents three tier strategy to "Get-to-Market"

Dr. Gary Gentzkow joins TGI as Chief Medical Officer and Dr. Stuart Williams as Chief Science Officer

TGI expands exclusive distribution and license network with Vet-Stem, Inc.

TGI takes launch with NASA

Tissue Engineering journal chooses TGI article as featured "Hot Topic"

Financial Statements prepared by new Director of Finance, Kerry S. Nagai

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Things continue to be very exciting at Tissue Genesis. as we move towards commercialization. We see ourselves now as a research, development, and commercialization company, with a dedicated focus on commercialization activities. What does that mean? You will see in this newsletter a three tier set of objectives for TGI and a report on how we are doing in executing these strategies.

We are pleased to inform you that along with the Bioheart, Inc. exclusive distribution and license agreement signed last year, an agreement with Vet-Stem, Inc. was finalized in April 2007.

Both of these agreements include some initial money or stock, then upon meeting certain milestones, a significant equity position in both companies via stocks or warrants, and royalty payments. They receive the rights to use our intellectual property and the rights to use and sell our platform products in a defined "field of use."

I am pleased to report that we had a significant closing to our Series B round in December 2006 of over \$4 million. We are planning another closing in September 2007. There has been a strong demand for shares for this closing, so you will see that the Company and Board will be asking your approval to authorize an additional 3,000,000 shares bringing the total for

the Series B Preferred to 9,000,000. After we sunset the Series B offering in 2007, we will be investigating a large mezzanine round, most likely from institutional investors, to help fund our planned clinical trials.

If you are interested in adding more TGI stock to your portfolio, please contact us.

Our Annual Shareholders Meeting will be held on Wednesday, September 26, 2007 at 9:00 a.m. at our Kaka'ako facilities. You are always welcome at this event or any other time to visit TGI.

Three Tier Strategy

At Tissue Genesis we would describe our "Get-to-Market" Strategy in three tiers:

- Tier One: TGI Medical Applications – Taking our own research to recognized value.
- Tier Two: Platform Products – Internal leverage and drivers in the industry.
- Tier Three: License and Distribution – Reaching target market segments.

So how are we doing visa vi business strategies and their milestone achievements?

- Tier One:
 - Pre-clinical activity: Peripheral Vascular, Wound
 - Application submitted to FDA for our peripheral vascular solution using the TGI 100™ and introducing the TGI 1000™
- Tier Two:
 - Began shipping TGI 100
 - Begin shipments of TGI 1000 first quarter 2008
 - Creating TGI 1000 510(k) application to FDA
- Tier Three:
 - Bioheart, Inc.
 - Vet-Stem, Inc.
 - *More to come*

Personnel Update



Tissue Genesis recently appointed Dr. Gary Gentzkow as Chief Medical Officer. Gentzkow will head the Company's efforts to move its research

programs on fat derived cells into clinical studies. Dr. Gentzkow has 30 years experience developing new medical therapies - pharmaceutical, medical devices, biological, and cellular and has been a consultant to companies developing these new technologies.

Dr. Stuart Williams, previously the Vice President of Vascular Development at TGI, has accepted a new position as Chief Science Officer. He is



known internationally as an expert in vascular biology and vascular tissue engineering. He developed and patented the technique of isolating human endothelial cells and pluripotent stem cells from fat tissue obtained through liposuctions, currently licensed by TGI through Thomas Jefferson University.

Dr. Rex Chang has joined the team as the Director of Business Development. He has an MBA from the University of Southern California, a JD from the University of California at Berkeley, an MD from New York University, and a BA in Biology from Johns Hopkins University. For the last seven years, he has been doing business development and strategic planning for various businesses in the medical and electronic device industries.

"...Dr. Gary Gentzkow...30

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Stuart Williams...known

internationally as an

expert...Mr. Rex Chang

...strategic planning..."

Collaboration with Vet-Stem, Inc.

In June, Tissue Genesis signed an Exclusive Distribution and License Agreement with Vet-Stem, Inc. This agreement allows TGI to continue with its business strategy of reaching different market segments through distribution and licensing.

"Vet-Stem is the world leader in veterinary cell-based therapy and has treated over 3,000 horses and dogs with orthopedic injuries. This automation of our current successful methods will enable us to expand our markets globally," said Dr. Robert Harman, President and CEO of Vet-Stem.

TGI expects its proprietary cell isolation system to more rapidly process a small quantity of a patient's own fat tissue to produce large quantities of cells, including adult stem cells and microvascular cells. In the future, Vet-Stem's clients could have access to these powerful regenerative cells right in the clinic without a need

to ship the samples to a central laboratory for processing.

"Marrying Tissue Genesis' technology with the clinical experience of Vet-Stem will rapidly make this the dominant regenerative medical technique in veterinary medicine globally," predicts Dr. Harman.

These strategic alliances leverage TGI's cell isolation expertise and open up new markets for the TGI 1000™ platform. Under the Vet-Stem agreement, TGI receives a combination of equity and royalties. The Company also expects to generate future revenue from sales to Vet-Stem of TGI 1000 cell isolation systems and disposables.



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President and Chief
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"...the flight and experiment were a tremendous success and future flights of the CCM are planned..."

"...selected as a feature article in the internationally-renowned journal, Tissue Engineering..."

Featured Internet Links

<http://www.tissuegenesis.com>

<http://www.vet-stem.com>

<http://wrair-www.army.mil/News&Events/News/STS-118%20Summary.htm>

<http://www.liebertonline.com/doi/pdfplus/10.1089/ten.2006.0203>

NASA Contract

Tissue Genesis is rapidly establishing itself as the world leader in regenerative medicine and recently reinforced our ability to lead on the international stage by providing key payload, science, and bioengineering management for the flight of the Cell Culture Module (CCM) on NASA's space shuttle *Endeavor*. This collaborative experiment, sponsored by the Department of Defense Space Test Program and the Walter Reed Army Institute of Research, was the eighteenth flight of the CCM hardware and featured advanced regenerative cell biology being developed at Tissue Genesis and Dr. Stuart Williams' laboratory. The focus of the experiment was to study the effect of microgravity on the body's ability to mobilize regenerative cells important for wound repair. The experiment was designed to expand our knowledge and understanding of wound repair mechanisms by exposing the adipose-derived regenerative cells to a uniquely stressful environment not found on earth and studying the cell signaling mechanisms and proteins produced by the cells. These cells, used by the body to regenerate new tissue, are the principal focus of Tissue Genesis' activities and products.

The very successful CCM experiment series has been a key contributor to our core knowledge of cell and perfusion systems such as the Bio-Optimization System and the TGI 1000™, which have further evolved as an integral element of



TGI employees Cris Kosnik and Jenny Cannon loading experiments for the Endeavor flight.

advanced Tissue Genesis technology and products.

Additionally, the CCM space experiment series has increased visibility and recognition of adipose-derived adult stem cells as the best readily available therapeutic cells population, important to the field of regenerative medicine. This recognition was recently validated by the establishment of the Armed Forces Institute of Regenerative Medicine to help drive the clinical application of regenerative cells for important medical repair interventions.

We are happy to report that the flight and experiment were a tremendous success and that future flights of the CCM are planned. Tissue Genesis has been asked to manage future payload flights as a key experiments asset of the newly formed National Laboratory beginning operation in the U.S. section of the International Space Station.

Article Featured in International Journal



A paper authored by Tissue Genesis' employees has been selected as a feature article in the internationally-renowned journal, *Tissue Engineering*. An image from the paper of a ligament

engineered by the TGI team was also selected by the editors for the cover of April's periodical.

Further, the article titled, "Development of Self-Assembled, Tissue Engineered Ligament from Bone Marrow Stromal Cells," was chosen by *Tissue Engineering* to be featured as a "Hot Topic" and promoted on their Website and in their electronic newsletter.

The manuscript describes TGI's cutting-edge technique to develop ligaments from a patient's own bone marrow stromal cells. The underlying research was funded under a contract from the U.S. Army.