

FOR IMMEDIATE RELEASE

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**MUSCULOSKELETAL TRANSPLANT FOUNDATION
ANNOUNCES REJECTION OF PROPOSAL TO ACQUIRE OSTEOTECH**

Edison, NJ – August 29, 2005 – Musculoskeletal Transplant Foundation (MTF) today announced that it had sent a letter to the Board of Directors of Osteotech, Inc. (NasdaqNM: OSTE) on July 12, 2005 proposing to acquire all of the outstanding common stock of Osteotech for \$6.25 per share in cash. The offer exceeds Osteotech's current 52-week high stock price and represents a premium of 40% over the closing sale price on Friday, August 26, 2005 and a premium of 66% over the average price since January 1, 2005.

On August 19, 2005, Osteotech informed MTF that the Osteotech Board had met on August 18 and rejected MTF's proposal.

MTF stated that it remained interested in an acquisition of Osteotech and encouraged the Board of Directors of Osteotech to negotiate in good faith toward a mutually acceptable proposal. MTF reiterated that a definitive acquisition agreement would not be subject to a financing contingency. In addition, MTF confirmed it is prepared to finalize its arrangements for committed financing upon Osteotech's agreement to enter into good faith negotiations with MTF. MTF stated that it did not believe any regulatory requirements, including anti-trust review, would significantly delay or threaten the proposed transaction.

MTF noted, however, that because much of the value of the transaction to MTF is a result of the current contractual arrangements between the two companies and because such contracts have finite terms, any further delay in the negotiation and consummation of a transaction likely would result in a reduction in the per share amount that MTF would be able to offer to Osteotech's shareholders.

“At the core of our charitable mission is an obligation to donor families and tissue recipients to make the best use we possibly can of these precious donated tissues and to do so in the most cost effective manner,” said Bruce Stroeve, president and chief executive officer of MTF. “However, our ability to accomplish this is severely compromised by our current relationship with Osteotech. Therefore, we believe we can better fulfill our mission by merging the Osteotech and MTF operations.”

“At the same time, as Osteotech’s largest processing client, we believe we are in a unique position to realize the greatest value for Osteotech’s shareholders. As a result, we are extremely disappointed that the Osteotech Board has rejected our offer. We strongly urge the shareholders of Osteotech to contact the members of Osteotech’s Board to make clear their interest in the proposed transaction. We hope that the Board members, after hearing from Osteotech’s shareholders, will reconsider their position and quickly enter into good faith negotiations with us.”

Attached below are the texts of the June 30 and July 12 letters from Mr. Stroeve to the members of the Board of Directors of Osteotech.

Piper Jaffray & Co. is serving as financial advisor to MTF and Hogan & Hartson L.L.P. is serving as legal counsel.

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About MTF

The Musculoskeletal Transplant Foundation is the world’s largest tissue organization dedicated to providing quality tissue through a commitment to excellence in education, research, recovery and care for recipients, donors and their families. A not-for-profit organization, MTF is a consortium of academic medical institutions and organ and tissue recovery organizations across the country. In 2004, more than 340,000 tissue grafts were distributed by MTF, helping over 225,000 patients. The Musculoskeletal Transplant Foundation is a service organization dedicated to the advancement of bone, ligament and cartilage transplantation. For more information, please visit MTF’s website at <http://www.mtf.org/>.

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IMPORTANT INFORMATION

Certain of the information concerning Osteotech contained in this news release has been taken from, or is based upon, publicly available information. Although MTF does not have any information that would indicate that any information contained in this news release that has been taken from such documents is inaccurate or incomplete, MTF does not take any responsibility for the accuracy or completeness of such information. To date, MTF has not had access to the books and records of Osteotech.

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The following are the texts of the June 30 and July 12 letters from Bruce Stroever, president and chief executive officer of MTF, to the members of the Board of Directors of Osteotech:

June 30, 2005

BY ELECTRONIC MAIL AND FEDERAL EXPRESS

Board of Directors
Osteotech, Inc.
51 James Way
Eatontown, New Jersey 07724

Gentlemen:

As you may already be aware, on June 13, 2005, I met with Dick Bauer to propose a combination of Musculoskeletal Transplant Foundation and Osteotech in which MTF would acquire all outstanding shares of Osteotech for cash at a substantial premium to the current trading price. I confirmed to Dick that MTF has sufficient financial resources to fund this transaction, had already engaged a financial advisor to assist in negotiations and was in a position to begin negotiations immediately.

On June 20, 2005, Dick informed me that Osteotech had decided to conduct a review of its strategic alternatives and could not reasonably begin discussions with MTF until it had completed this analysis. We were surprised and somewhat disappointed that Osteotech decided to postpone even an initial meeting with us in light of the significant value we are prepared to offer your shareholders.

I am writing to reiterate our serious interest in a strategic transaction between MTF and Osteotech and to provide further strategic perspective as to why it makes sense to bring our two companies together.

After a review with our financial and legal advisors of the publicly available information concerning Osteotech and considering our more than 18 years working closely with Osteotech, the MTF Board has identified numerous strategic and financial benefits of a business combination. These benefits – both to Osteotech’s shareholders in the form of a premium purchase price and to MTF in furthering its charitable mission of promoting allograft tissue transplantation – are simply too compelling to ignore.

Compelling Benefits of a Strategic Combination

MTF is convinced that a combination of our two organizations as a fully integrated, non-profit allograft tissue company will best serve the patient, donor, tissue recovery and medical communities who depend on our services and products. We believe these benefits include:

- Combining our complementary product portfolios to offer customers a comprehensive, industry-leading catalogue;
- Realizing efficiencies and quality improvements through integration of our manufacturing facilities;
- Integrating our respective research and development programs to accelerate innovation and product improvements;
- Achieving synergies from combining our respective general and administrative platforms (including the elimination of considerable compliance costs of running a public company); and
- Integrating the best and the brightest from Osteotech's work force with the MTF team.

We have a proven track record of successfully integrating large-scale transactions, as evidenced by our recent acquisition of the tissue services operations of the American Red Cross. I am confident that we will be able to join our two companies together to build the industry leader in transplant tissue and to better serve the donor, patient and medical communities.

MTF's Unique Position to Recognize Osteotech's Value

We believe that MTF represents a unique partner for Osteotech in realizing the greatest value for your shareholders. A critical element of the value we see in a transaction with Osteotech comes from the significant financial and operating benefits MTF would expect to realize from eliminating our current processing agreements with Osteotech – our 2002 agreement that runs through December 31, 2008, and our 2004 agreement (relating to the tissue services operations we bought from the American Red Cross) which runs through December 31, 2006 (with the potential under certain circumstances for renewal through December 31, 2008).

MTF believes that (a) the tissue processing fees we pay Osteotech under our two agreements are considerably higher than our internal costs would be if MTF were to undertake such processing directly; and (b) that Osteotech generates processing yields substantially below MTF's in house performance with comparable donors.

Eliminating the two processing agreements thus has considerable value for MTF which we would expect to reflect in the purchase price MTF is willing to offer for Osteotech.

Given the finite terms remaining on our two processing agreements, the financial and operating benefits that MTF would expect to realize from a transaction *decline with each passing week*. Quite simply, purchasing Osteotech several months from now does not have the same value for

MTF as an acquisition today. Our ability to offer the Osteotech shareholders a higher price now is dependent upon an agreement being reached between MTF and Osteotech within the near term.

Challenges in Our Current Relationship

As you consider your strategic alternatives, we believe it is essential for the Osteotech Board to fully appreciate the economic and operational challenges of our current relationship. These challenges provide further impetus for the proposed transaction to occur as soon as possible.

In our estimation, donor tissues provided by MTF will account for more than [*]% of the donors that will be processed by Osteotech in 2005. We estimate that MTF-sourced tissue will be processed into tissue products that account for a similar percentage of Osteotech's 2005 revenues. MTF is by far your largest and most important customer, yet the services we receive from OTI hardly reflect that fact.

As your largest customer, we expect ongoing value enhancements, performance improvements, technological innovation, and the highest level of service from Osteotech. While we have achieved progress in these areas in our own internal operations, we have seen no such improvement in what Osteotech delivers to us. Over the last year, our relationship with Osteotech has brought:

- Steady decline in Grafton sales
- Stagnation in per donor tissue yields
- Absence of new products, product improvements, and technical innovations
- Substantial turnover in Osteotech management and staff with whom we work

The financial cost to MTF of sending a tissue donor to Osteotech rather than processing it internally at MTF has risen dramatically over the past year. Our internal cost to process a donor is *well below* the processing fee we pay to Osteotech and our average yield for base tissue products is *substantially higher* than Osteotech's average yield. The Grafton sales revenue that historically helped to offset that imbalance has declined substantially. Our bottom line is that the average per donor financial result to MTF on donors we ship to Osteotech for processing falls far below the results we realize on donors we process in house.

I believe you can see from these results that if MTF did not have its current contractual commitments, we would be unlikely to send even a single donor to Osteotech for processing. In fact, during the first five months of 2005, we shipped approximately [*] donors to Osteotech for processing and as a result MTF incurred substantial additional costs and generated substantially less revenue than we would have experienced if MTF had processed those donors in house.

The current situation between our two companies is obviously unsustainable. As a charitable non-profit organization, we cannot afford to go on indefinitely incurring greater costs and realizing lower revenues on every donor we ship to Osteotech.

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We are confident that our all-cash proposal will be well received by Osteotech's shareholders and it is our hope that the Osteotech Board recognizes the significant benefits to Osteotech, its shareholders and the general public. It remains our strong preference to work together with the Osteotech Board to consummate a transaction quickly. As we stated above, time is of the essence in reaching an agreement. Any further delay diminishes Osteotech's value to MTF and will only result in a reduction in the price we are able to offer to your shareholders. We hope you will agree to meet within the next few days with MTF and our advisors to discuss our proposal. We are prepared to meet with you immediately.

As I previously stated, we have more than sufficient financial resources to consummate the transaction and financing will not be an issue.

I am confident that if we work together we can quickly close a transaction that is in the best interests of your company's shareholders and other interested constituencies.

I look forward to hearing from you.

Sincerely,

/s/

Bruce W. Stroever
President and CEO

[*] Information redacted by MTF.

July 12, 2005

BY FACSIMILE AND FEDERAL EXPRESS

Board of Directors
Osteotech, Inc.
51 James Way
Eatontown, New Jersey 07724

Gentlemen:

As you should be aware, by letter dated June 30, 2005, Musculoskeletal Transplant Foundation proposed an acquisition of Osteotech in a business combination in which MTF would acquire all outstanding shares of Osteotech for cash at a substantial premium to the current trading price. In that same letter, MTF confirmed that it has sufficient financial resources to fund this transaction, has already engaged a financial advisor to assist in negotiations and is in a position to begin negotiations immediately.

On July 6, 2005, Dick Bauer informed me that the Osteotech Board was not looking to sell the company at this time but would consider an offer from MTF. Consequently, the MTF Board of Directors has authorized me to offer to you, the Osteotech Board, a business combination between MTF and Osteotech in which Osteotech's shareholders would receive \$6.25 per share in cash for each outstanding share of Osteotech common stock. Notwithstanding the significant uncertainties facing Osteotech and its business today, our offer permits Osteotech's shareholders to realize a premium of 53% over Osteotech's closing stock price on July 11, 2005. It also represents a premium of 76% over Osteotech's average closing stock price for the last 30 trading days and a premium of 74% over Osteotech's average closing stock price since January 1, 2005. As we explained in our June 30, 2005 letter, we believe our offer reflects the unique position MTF holds in realizing the greatest value for Osteotech shareholders.

Our price is based upon our review of publicly available information regarding Osteotech as well as information that has been made available to us by Osteotech as a result of our existing commercial relationship. If you are willing to work with us to negotiate and effect a transaction quickly, we are prepared to analyze further whether a higher value is warranted.

If you are unwilling to meet with us to negotiate with respect to our offer, we feel the benefits of the proposed transaction would be viewed by your shareholders as so compelling that we must consider taking our offer directly to them. However, as we discussed in our letter dated June 30,

2005, any delay in the negotiation of a transaction diminishes Osteotech's value to MTF and likely reduces our ability to offer the premium we are presenting today. As a result, if we are forced to take our offer directly to your shareholders, the price we will be able to offer then may be lower than the \$6.25 price per share we are able to offer today – and likely will be lower than the amount we would be able to offer if negotiations were commenced. Clearly, this potential loss in shareholder value would not be beneficial to your shareholders.

We also want to reiterate that, as we explained in detail in our June 30 letter, the current commercial relationship between our two companies is not sustainable. As a charitable non-profit organization, we cannot afford to go on indefinitely incurring greater costs and realizing lower revenues on every donor we ship to Osteotech. If we are not able to effect a business combination of our two companies in the very near future, we will be forced to re-evaluate our existing commercial relationship with Osteotech.

It remains our strong preference to work together with the Osteotech Board to consummate a transaction quickly. We are prepared to meet with you immediately. However, because any further delay diminishes Osteotech's value to MTF and will only result in a reduction in the price we are able to offer to your shareholders, if we are not notified by 5:00 pm (Eastern), Monday, July 18, 2005 of your willingness to commence negotiations immediately we will consider our offer rejected. We hope you will agree to meet within the next few days with MTF and our advisors to discuss our offer. We are confident that our all-cash offer will be well received by Osteotech's shareholders.

Sincerely,

/s/

Bruce W. Stroeve
President and CEO