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INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

TERMINATION REPORT

Aastrom Biosciences (ASTM)

**Aastrom Suspends All New Development
Except Cardiac – Terminating Coverage**

NEUTRAL

September 4, 2008

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Current Price) \$0.35 Target Price \$0.50

Investment Highlights:

- 1) **Aastrom Ends Osteonecrosis, Bone, Spinal Cord and Neural Programs:** Aastrom has discontinued further patient enrollment in the U.S. Phase III trial for osteonecrosis and does not anticipate initiating any clinical activity in the bone, spinal cord injury or neural areas without additional financial resources.
- 2) **Aastrom Changes Lead Indication for Third Time:** Aastrom's lead indication is now cardiac regeneration which is Aastrom's third change in lead indication. **We believe these multiple lead indication changes have significantly reduced investor confidence.**
- 3) **Aastrom Blocked from Reverse Split:** Aastrom has traded below the \$1 threshold since November 6, 2007 and had sought shareholder approval for a reverse split. Since less than 2/3 of the shareholders voted, Aastrom was blocked from affecting a reverse split and will be required to address continued listing requirements through other means.
- 4) **Terminating Coverage with Neutral Rating:** Aastrom's new lead indication for cardiac stem cell therapy is in an increasingly crowded space. While successful 24-month follow-up data from patients already enrolled in the U.S. Phase III for osteonecrosis may provide some encouragement, we believe investors will need to be patient for a long time. **However, we do not see any significant short- or medium-term positive catalysts for Aastrom and thus we are terminating research coverage at this time.** Our \$0.50 target is based on a 30x multiple on 2012 EPS and discounted 45% for risk.

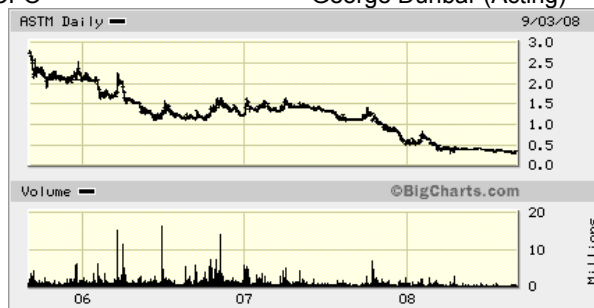
Stock Data

52-Week Range	\$0.27 - \$1.43
Shares Outstanding (Mill)	133
Market Capitalization (\$Mill)	\$46
Average Daily Volume	469,267
Book Value/Share	\$0.18
Price/Book	1.9X
Cash / Securities (\$Mill)	\$22.5
Cash/Share	\$0.17
Insider Ownership	5%
Institutional Ownership	20%
Debt/Capital	N/A
Dividend/Yield	\$0.00/0%
Short Interest (Mill) / %	0.5 / 0.4%

<u>Estimates (Jun FYE)</u>	<u>2007</u>	<u>2008</u>	<u>2009E</u>	<u>2010E</u>
Net Inc. (Loss) (\$Mill)	(\$17.6)	(\$20.1)	(\$19.1)	(\$19.3)
EPS	(\$0.15)	(\$0.16)	(\$0.13)	(\$0.12)

Management

CEO & President George Dunbar
CFO George Dunbar (Acting)



Price target and ratings changes over the past 3 years:
Initiated September 20, 2004 – BUY – Price Target \$2.00-\$2.50
Upgraded January 10, 2005 - BUY- Price Target \$3.75
Downgraded January 20, 2005 – NEUTRAL- \$4.25
Upgraded February 15, 2005 – BUY – Price Target \$3.75
Updated November 14, 2007 – BUY – Price Target \$2.50
Downgraded June 19, 2008 – NEUTRAL – Price Target \$0.50

See last page for important disclosures and analyst certification.

RISKS

Some of the operational and financial risks to Aastrom Biosciences are:

- **FDA and Regulatory risks:** As with all drug development efforts, serious unwanted and unexpected side effects, lack of efficacy or insufficient clinical data may delay or preclude regulatory approval of some or all of their drug candidates and there can be no guarantee of timely or definite FDA or EMEA approvals.
- **Need to Raise Additional Funds:** Aastrom does not have sufficient financial resources to fully complete their development programs and clinical trials as currently planned. We expect Aastrom to raise additional funds in 2008/2009 which would create dilution for existing shareholders.
- **Competition and Reliance on Marketing Partners:** Even if Aastrom's therapies receive approval, market competition and physician adoption rates may be slower than anticipated. We expect Aastrom will rely to a large degree on the marketing effectiveness of future partners, which Aastrom does not control.
- **Sector Rotation:** Aastrom is a small biotechnology drug development company often kept in a portfolio with similar companies, especially other stem cell development companies. In such cases, a significant event for one company may have a material impact on the valuation of all similar companies regardless of their unique qualities.

Aastron Biosciences, Inc.
Consolidated Statement of Operations
(in \$000s, except EPS)

FYE June 30th	2002	2003	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008E	2009E	2010E	2011E	2012E
	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>Sept</u>	<u>Dec</u>	<u>March</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>
Revenues:															
Total revenues	877	844	1,302	909	863	685	87	84	202	149	522	700	700	700	45,100
Costs and expenses															
Cost of product sales	0	145	27	148	11	29	0	1	30	25	56	175	175	70	2,255
Gross Margin	877	699	1,275	761	852	656	87	83	172	124	466	525	525	630	42,845
Research & Development	5,428	5,647	6,289	7,206	9,484	11,443	3,873	3,895	4,032	3,449	15,249	14,072	14,353	14,640	14,933
Selling, General & Admin.	3,528	4,017	5,390	5,972	9,101	8,682	1,614	1,725	1,429	1,668	6,436	6,805	6,942	7,080	7,222
Non-recurring charges	202	748	253	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	9,158	10,412	11,932	13,178	18,585	20,125	5,487	5,620	5,461	5,117	21,685	20,877	21,295	21,721	22,155
Operating Income	(8,281)	(9,713)	(10,657)	(12,417)	(17,733)	(19,469)	(5,400)	(5,537)	(5,289)	(4,993)	(21,219)	(20,352)	(20,770)	(21,091)	20,690
Other Income	342	134	169	606	1,238	1,875	330	365	241	130	1,086	1,300	1,500	1,500	2,000
Net Income (loss) before taxes	(7,939)	(9,579)	(10,488)	(11,811)	(16,495)	(17,594)	(5,070)	(5,172)	(5,048)	(4,863)	(20,133)	(19,052)	(19,270)	(19,591)	22,690
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	6,857	(7,941)
Net Income	(7,939)	(9,579)	(10,488)	(11,811)	(16,495)	(17,594)	(5,070)	(5,172)	(5,048)	(4,863)	(20,133)	(19,052)	(19,270)	(12,734)	14,748
Earnings (Loss) per share	(\$0.19)	(\$0.19)	(\$0.14)	(\$0.13)	(\$0.15)	(\$0.15)	(\$0.04)	(\$0.04)	(\$0.04)	(\$0.04)	(\$0.16)	(\$0.13)	(\$0.12)	(\$0.07)	\$0.08
Weighted Shares Outstanding	42,121	51,009	73,703	93,541	106,325	119,523	120,607	130,467	132,719	132,761	129,139	142,052	156,258	171,883	173,602

Balance Sheets
(\$000)

FYE June 30th

Assets:	6/30/05	6/30/06	6/30/08
Current Assets:			
Cash and equivalents	32,414	42,997	22,462
Receivables	0	139	18
Other current assets	730	529	1,583
Total current assets	33,144	43,665	24,063
Property & equipment, net	753	1,216	2,154
TOTAL ASSETS	33,897	44,881	26,217
Liabilities:			
Accounts payable and accrued expenses	869	2,539	1,654
Current Portion of LT Debt	0	0	446
Total current liabilities	869	2,539	2,100
LT Debt [2]	0	0	783
Total LT liabilities	0	0	783
Shareholders' equity	33,028	42,342	23,334
TOTAL LIAB & EQ	33,897	44,881	26,217

Notes

- [1] Federal NOL carryforward was \$98M as of 6/30/08 which expire between 2008 and 2028
[2] LT Debt for facilities and new equipment
[3] 10/16/07 11.8M shares Issued - Net Proceeds \$12.5M

DISCLOSURES



Initiated September 20, 2004 – BUY – Price Target \$2.00-\$2.50
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	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	7	29%	4	57%
Strong Buy	3	13%	1	33%
Buy	11	46%	0	0%
Neutral	2	8%	1	50%
Sell	1	4%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	24	100%	6	25%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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