SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999, OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 0-22025

AASTROM BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Michigan	94-3096597
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
24 Frank Lloyd Wright Dr. P.O. Box 376 Ann Arbor, Michigan	48106
(Address of principal executive offices)	(Zip code)

(734) 930-5555

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] - Yes [_] - No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

COMMON STOCK, NO PAR VALUE	16,994,125
(Class)	Outstanding at November 8, 1999

AASTROM BIOSCIENCES, INC.
Quarterly Report on Form 10-Q
September 30, 1999

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 1999	September 30, 1999
Assets		(Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,528,000	$ 5,015,000
Receivables	113,000	193,000
Inventory	1,144,000	70,000
Prepaid expenses and other	253,000	528,000
Total current assets	9,038,000	5,806,000
PROPERTY, NET	502,000	448,000
Total assets	$ 9,540,000	$ 6,254,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 836,000	$ 1,057,000
Accrued employee expenses	193,000	197,000
Total current liabilities	1,029,000	1,254,000
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; shares authorized - 5,000,000; shares issued and outstanding - 7,000	6,588,000	6,684,000
Common stock, no par value; shares authorized - 40,000,000; shares issued and outstanding - 16,980,161 and 16,994,125, respectively	72,257,000	72,281,000
Deficit accumulated during the development stage	(70,334,000)	(73,965,000)
Total shareholders' equity	8,511,000	5,000,000
Total liabilities and shareholders' equity	$ 9,540,000	$ 6,254,000

The accompanying notes are an integral part of these financial statements.

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,		March 24, 1989 (Inception) to September 30,
	1998	1999	1999
REVENUES:			
Product sales and rentals	$ -	$ 114,000	$ 148,000
Grants	163,000	271,000	3,507,000
Research and development agreements	-	-	2,020,000
Total revenues	163,000	385,000	5,675,000
COSTS AND EXPENSES:			
Cost of product sales and rentals	-	1,230,000	1,236,000
Research and development	3,093,000	1,610,000	66,411,000
Selling, general and administrative	651,000	1,161,000	15,897,000
Total costs and expenses	3,744,000	4,001,000	83,544,000
LOSS FROM OPERATIONS	(3,581,000)	(3,616,000)	(77,869,000)
OTHER INCOME (EXPENSE):			
Interest income	221,000	81,000	3,790,000
Interest expense	(2,000)	-	(267,000)
Other income	-	-	1,237,000
Total other income	219,000	81,000	4,760,000
NET LOSS	$ (3,362,000)	$(3,535,000)	$(73,109,000)
COMPUTATION OF NET LOSS APPLICABLE TO COMMON SHARES:			
Net loss	$ (3,362,000)	$(3,535,000)	
Dividends and yields on Preferred Stock	(220,000)	(96,000)	
Net loss applicable to Common Shares	$ (3,582,000)	$(3,631,000)	
NET LOSS PER COMMON SHARE (Basic and Diluted)	$ (.27)	$ (.21)	
Weighted average number of common shares outstanding	13,384,000	16,985,000	

The accompanying notes are an integral part of these financial statements.

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended September 30,		March 24, 1989 (Inception) to September 30,
	1998	1999	1999
OPERATING ACTIVITIES:			
Net loss	$(3,362,000)	$(3,535,000)	$ (73,109,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	87,000	181,000	2,865,000
Loss on property held for resale	-	-	110,000
Amortization of discounts and premiums on investments	(47,000)	-	(453,000)
Stock compensation expense	4,000	5,000	544,000
Stock issue pursuant to license agreement	-	-	2,200,000
Changes in assets and liabilities:			
Receivables	(16,000)	(80,000)	(217,000)
Inventory	-	1,074,000	(70,000)
Prepaid expenses	78,000	(275,000)	(528,000)
Accounts payable and accrued expenses	37,000	221,000	1,057,000
Accrued employee expenses	-	4,000	197,000
Net cash used for operating activities	(3,219,000)	(2,405,000)	(67,404,000)
INVESTING ACTIVITIES:			
Organizational costs	-	-	(73,000)
Purchase of short-term investments	(1,000,000)	-	(44,464,000)
Maturities of short-term investments	3,600,000	-	44,917,000
Capital purchases	(44,000)	(127,000)	(2,576,000)
Proceeds from sale of property held for resale	-	-	400,000
Net cash provided by (used for) investing activities	2,556,000	(127,000)	(1,796,000)
FINANCING ACTIVITIES:			
Issuance of preferred stock	4,689,000	-	51,647,000
Issuance of Common Stock	34,000	19,000	20,260,000
Repurchase of Common Stock	-	-	(49,000)
Payments received for stock purchase rights	-	-	3,500,000
Payments received under shareholder notes	-	-	31,000
Principal payments under capital lease obligations	(17,000)	-	(1,174,000)
Net cash provided by financing activities	4,706,000	19,000	74,215,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,043,000	(2,513,000)	5,015,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,078,000	7,528,000	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,121,000	$ 5,015,000	$ 5,015,000
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 2,000	-	$ 267,000
Additions to capital lease obligations	-	-	1,174,000

The accompanying notes are an integral part of these financial statements.

AASTROM BIOSCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

Aastrom Biosciences, Inc. (Aastrom) was incorporated in March 1989 (Inception) and is in the development stage. The Company operates its business in one reportable segment - research and product development, conducted both on its own behalf and in connection with various collaborative research and development agreements with others, involving the development and sale of processes and products for the ex vivo production of human cells for use in cell and ex vivo gene therapy.

Successful future operations are subject to several technical and business risks, including satisfactory product development, obtaining regulatory approval and market acceptance for its products and the Company's ability to obtain future funding.

2. Basis of Presentation

The condensed financial statements included herein have been prepared by the Company without audit according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the three months ended September 30, 1999, are not necessarily indicative of the results to be expected for the full year or for any other period.

The consolidated financial statements include the accounts of Aastrom and its wholly-owned subsidiary, Zellera AG (Zellera) which is located in Berlin, Germany, (collectively, the Company). All significant inter-company transactions and accounts have been eliminated in consolidation.

These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

3. Net Loss Per Common Share

Net loss per common share is computed using the weighted-average number of common shares outstanding during the period. Common equivalent shares are not included in the per share calculation where the effect of their inclusion would be anti-dilutive.

The computation of net loss per common share reflects dividends and yields on the Company's outstanding preferred stock which affect only the computation of net loss per common share and are not included in the computation of net loss for the period.

4. Operational Changes

In September and October 1999, the Company began implementation of reductions in its operations designed to decrease operating expenses and to align the Company's resources with its focus on pursuing corporate strategic alternatives, including a possible merger or acquisition. The Company has retained Salomon Smith Barney to assist with this process. As part of these operational changes, expansion of European marketing activities for the AastromReplicell(TM) System were suspended and U.S. clinical trial programs have been reduced while strategic partnering is pursued. Accordingly, costs and expenses for the quarter ended September 30, 1999 include cost of product sales of $1,230,000, consisting principally of AastromReplicell(TM) System inventory that was written down.

The operational changes are expected to reduce recurring operating expenses by an estimated 30%. Staff and operations that are required for product support, technology transfer and key management to support the merger and acquisition process have been retained. Grant-funded research activities will also continue, as well as preparatory activities for clinical trials in adult cord blood transplantation and in the treatment of severe osteoporosis. The Company expects to report severance and other costs related to these operational changes in its results for the quarter ending December 31, 1999.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Since its inception, the Company has been in the development stage and engaged in research and product development, conducted principally on its own behalf, but also in connection with various collaborative research and development agreements with others. Due to funding limitations, the Company has suspended the expansion of the initial product launch in Europe of the AastromReplicell(TM) Cell Production System (System). Accordingly, the Company does not expect to generate positive cash flows from operations for at least the next several years, and even then, only if funding is obtained and marketing activities can be resumed. Unless more significant product sales commence, the Company expects that its revenue sources will continue to be limited to grant revenue and research funding, milestone payments and licensing fees from potential future corporate collaborators. The timing and amount of such future cash payments and revenues, if any, will be subject to significant fluctuations, based in part on the success of the Company's research activities, the receipt of necessary regulatory approvals, the timing of the achievement of certain other milestones and the extent to which associated costs are reimbursed under grants or other arrangements. Additionally, with the initiation of planned reductions in the Company's operations, the potential for revenues from these sources will be reduced. A portion of the Company's revenues from product sales will be subject to the Company's obligation to make aggregate royalty payments of up to 2% to certain licensors of its technology. Research and development expenses may fluctuate due to the timing of expenditures for the varying stages of the Company's research, product development and clinical development programs. Generally, product development expenses for the AastromReplicell(TM) System have decreased as the product has progressed into general production and market launch. Following receipt of sufficient funding, clinical development activities, although currently reduced, and related costs are expected to increase to complete U.S. pivotal clinical trials. Similarly, if the Company resumes marketing activities, marketing and other general and administrative expenses are expected to increase in support of European marketing activities. Under the Company's license agreement with Immunex, the $1,000,000 annual renewal fees due in March 1998 and 1999 were each paid through the issuance of $1,100,000 of the Company's common stock. An additional $1,000,000 renewal fee is due in March 2000 and the Company has negotiated for the payment of this fee through the issuance of common stock. As a result of these and other factors, the Company's results of operations have fluctuated and are expected to continue to fluctuate significantly from year to year and from quarter to quarter and therefore may not be comparable to or indicative of the result of operations for any future periods.

In May 1999, the Company formed Zellera AG (Zellera) as a wholly-owned subsidiary based in Berlin, Germany. The formation of Zellera is intended to provide access to additional funding and collaboration opportunities in new product areas. Initial funding for Zellera is being pursued, which is planned to consist of a combination of investment capital and loans and subsidies from the German government. With this potential funding, Zellera would have access to Aastrom's intellectual property base for human cell therapies and would develop new product

areas. This funding, if obtained, will be used to support Zellera's own operations, but is not expected to directly support Aastrom.

Over the past several years, the Company's net loss has primarily increased, consistent with the growth in the Company's scope and size of operations. Given the current financing alternatives available to the Company in the U.S. and European capital markets, the Company believes that a business combination can best achieve the objective of leveraging its product line into broader market opportunities. Accordingly, operational changes were implemented in September and October 1999 which are intended to align the Company's existing resources to best support the corporate partnering direction. The operational changes are expected to reduce recurring operating expenses by an estimated 30%. Staff and operations that are required for product support, technology transfer and key management to support the merger and acquisition process have been retained. Grant-funded research activities will also continue, as well as preparatory activities for clinical trials in adult cord blood transplantation and in the treatment of severe osteoporosis. The Company has suspended further European marketing of the AastromReplicell(TM) System and has reduced its U.S. clinical trial programs while strategic partnering is pursued. The Company expects to report severance and other costs related to these operational changes in its results for the quarter ending December 31, 1999.

If the Company resumes expanded operations, a future growth in employee headcount will be necessary to address requirements in the areas of product and customer support, research, clinical and regulatory affairs, quality systems, sales and marketing and administration. Assuming capital is available to finance such growth, the Company's operating expenses will increase as a result. At least until such time as the Company enters into arrangements providing research and development funding or achieves greater product sales, the Company will continue to incur net operating losses. The Company has never been profitable and does not anticipate having net income unless and until significant product sales commence, which is unlikely to occur until the Company obtains significant additional funding. Through September 30, 1999, the Company has accumulated losses of $73,109,000. There can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all, obtain the required funding or complete a corporate partnering or acquisition transaction.

Results of Operations

Revenues for the quarter ended September 30, 1999 were $385,000 compared to $163,000 in 1998. The revenues for the first quarter of fiscal year 2000 include product sales of $114,000 for AastromReplicell(TM) System therapy kits and equipment rentals. There were no product sales or rental revenues in the quarter ended September 30, 1998. Grant revenues increased from $163,000 in 1998 to $271,000 in 1999, reflecting increased activities under grant funded programs.

Costs and expenses for the quarter ended September 30, 1999 were $4,001,000, compared to $3,744,000 in 1998. Costs and expenses for the quarter ended September 30, 1999 include cost of product sales of $1,230,000, consisting principally of AastromReplicell(TM) System inventory that was written down with the suspension of marketing activities discussed above. Otherwise,

1999 expenses reflect a decline in research and development expense for the AastromReplicell(TM) System from $3,093,000 in 1998 to $1,610,000 in 1999 as the product line reached the European marketplace. Selling, general and administrative expense increased from $651,000 in 1998 to $1,161,000 in 1999, relating to increased European marketing costs for the AastromReplicell(TM) System and other European activities.

Interest income was $81,000 for the quarter ended September 30, 1999 compared to $221,000 in 1998. This decrease corresponds to a decrease in the level of cash, cash equivalents and short-term investments during the 1999.

The Company's net loss was $3,535,000, or $.21 per common share for the quarter ended September 30, 1999 compared to $3,362,000, or $.27 per common share in 1998. This increase is primarily the result of increased costs and expenses and decreased interest income in 1999, partially offset by product sales and rentals. The computations of net loss per common share include adjustments for dividends and yields on outstanding preferred stock. These adjustments affect only the computation of net loss per common share and are not included in the net loss for the periods

Liquidity and Capital Resources

The Company has financed its operations since inception primarily through public and private sales of its equity securities, which, from inception through June 30, 1999, have totaled approximately $78,965,000 and, to a lesser degree, through grant funding, payments received under research agreements and collaborations, interest earned on cash, cash equivalents, and short-term investments, and funding under equipment leasing agreements.

The Company's combined cash, cash equivalents and short-term investments totaled $5,015,000 at September 30, 1999, a decrease of $2,513,000 from June 30, 1999. The primary uses of cash, cash equivalents and short-term investments during the quarter ended September 30, 1999 included $2,405,000 to finance the Company's operations and working capital requirements and $127,000 in capital equipment additions.

The Company's future cash requirements will depend on many factors, including the outcome of strategic partnering and corporate alliance discussions, continued scientific progress in its research and development programs, the scope and results of clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patents, competing technological and market developments and the cost of product commercialization. The Company does not expect to generate a positive cash flow from operations for at least the next several years due to the expected spending for research and development programs and the cost of commercializing its product candidates, as well as the suspension of marketing activities as a result of limited resources. The Company intends to seek additional funding through research and development, or distribution and marketing, agreements with suitable corporate collaborators, grants and through public or private financing transactions. The Company is attempting to obtain such additional funding. If such additional funding cannot be obtained, the Company will be forced to further substantially reduce the scope and size of its

operations and has only a very limited amount of capital to sustain its operations, even at a reduced scale. This is a forward-looking statement which could be negatively impacted by funding limitations and other factors discussed under this heading and under the caption "Business Risks" in the Company's Annual Report on Form 10-K. The Company expects that its primary sources of capital for the foreseeable future will be through potential collaborative arrangements and through the public or private sale of its debt or equity securities. There can be no assurance that such collaborative arrangements, or any public or private financing, will be available on acceptable terms, if at all, or can be sustained. Several factors will affect the Company's ability to raise additional funding, including, but not limited to, market volatility of the Company's Common Stock and economic conditions affecting the public markets generally or some portion or all of the technology sector, including the biotechnology sector. If adequate funds are not available, the Company will be required to further delay, reduce the scope of, or eliminate one or more of its research and development programs, curtail capital expenditures and further reduce or terminate other operating activities, which may have a material adverse effect on the Company's business. See "Business Risks--Future Capital Needs; Uncertainty of Additional Funding" in the Company's 1999 Annual Report on Form 10-K and Notes to Financial Statements included herein.

Certain Business Considerations

History of Operating Losses/Need for Additional Capital

The Company is a development stage company and there can be no assurance that its product candidates for cell therapy will be successful. The Company has not yet completed the development and clinical trials of any of its product candidates and, accordingly, has not yet begun to generate significant revenues from the commercialization of any of its product candidates in planned principal markets. The Company expects to incur significant operating losses until commercialization of its product candidates, primarily owing to its research and development programs, including pre-clinical studies and clinical trials. The development of the Company's products will require the Company to raise substantial additional funds or to seek collaborative partners, or both, to finance related research and development activities. The Company has an immediate need for additional funding, and there can be no assurance that any such additional funding will be available to the Company on reasonable terms, or at all. Several factors will affect the Company's ability to raise necessary additional funding, including market volatility of the Company's stock and economic conditions affecting the public markets generally or some portion or all of the technology sector, including biotechnology. If adequate funds are not available, the Company will be required to further delay or terminate research and development programs, curtail capital expenditures, and reduce or terminate business development and other operating activities any of which would have a material adverse effect on the Company's business. The Company has the authority, without shareholder approval, to issue additional shares of preferred stock and to fix the rights, preferences, privileges and restrictions of these shares without any further vote or action by our shareholders. This authority, together with certain provisions of the Company's charter documents, may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of our company. This effect could occur even if our shareholders consider the change in control to be in their best interest. The Company may be required to issue shares of preferred stock to raise additional capital. These shares may have rights that provide for preferential payment to the holder of the preferred shares before payments are made to holders of the common stock. Thus, in the event of a business combination, the holders of the preferred stock may receive a disproportionate percentage of the total consideration received.

Potential Strategic Partnerships

The AastromReplicell(TM) System consists of an automated clinical system designed to enable hospitals to produce patient-specific cells for use in the treatment of a broad range of diseases. The Company believes that with diverse fields of use, the overall market development and customer interface plans for distribution and support will benefit from the consolidation of the product line under disease-specific programs, and the Company is seeking such strategic partners. There can be no assurance that the Company will be able to enter into a new marketing and distribution relationship on acceptable terms with a partner, if at all, or that if such a marketing and distribution partnership is achieved, it will result in the successful commercialization and distribution of the Company's technologies and product candidates.

Failure to enter into such a new relationship, and further delays in the planning or implementation of distribution or marketing activities while a new partnership is sought, will have a material adverse effect on the Company's business, financial condition and results of operations.

Product Development Uncertainties

Commercialization of the Company's technology and product candidates, including its lead product candidate, the AastromReplicell(TM) System, will require additional research and development by the Company as well as substantial clinical trials. There can be no assurance that the Company will successfully complete development of the AastromReplicell(TM) System or its other product candidates for its planned principal markets, or successfully market its technologies or product candidates, which lack of success would have a material adverse effect on the Company's business, financial condition and results of operations. The Company or its potential collaborators may encounter problems or delays relating to research and development, market development, clinical trials, regulatory approval and intellectual property rights of the Company's technologies and product candidates. The Company's initial product development efforts are primarily directed toward obtaining regulatory approval to market the AastromReplicell(TM) System as an alternative, or improvement, to currently used stem cell collection methods. These existing stem cell collection methods have been widely practiced for a number of years, and there can be no assurance that any of the Company's technologies or product candidates will be accepted by the marketplace as readily as these or other competing processes and methodologies, or at all. The Company also plans to pursue through strategic relationships, clinical applications of the AastromReplicell(TM) System into emerging cell therapies being developed by others. There can be no assurance that such strategic relationships, if established, will successfully lead to commercial applications of the AastromReplicell(TM) System.

Uncertainties of Clinical Trials

The approval of the U.S. Food and Drug Administration (the "FDA") will be required before commercial sales of the Company's product candidates may commence in the U.S. As a result of funding limitations, the Company has reduced or suspended its clinical trial activities which were designed to demonstrate the safety and biological activity of cells produced in the AastromReplicell(TM) System in a limited number of patients. If these trials are resumed and the results are successful, the Company intends to use these results to seek approval from the FDA to commence commercial sales in the U.S. for approved indications. Additionally, the results from completed clinical studies and ongoing and future clinical studies, if positive, are intended to support future marketing activities of the AastromReplicell(TM) System in Europe. The patients enrolled in these trials will have undergone extensive chemotherapy or radiation therapy treatments prior to infusion of cells produced in the AastromReplicell(TM) System. Such treatments will have substantially weakened these patients and may have irreparably damaged their blood and immune systems. Due to these and other factors, it is possible that these patients may die or suffer severe complications during the course of the current trials or future trials. For example, in the trials to date, some of the patients who have been in the transplant recovery process have died from complications related to the patient's clinical condition that, according to the

physicians involved, were unrelated to the AastromReplicell(TM) System procedure. The Company may experience delays in patient accruals in its current clinical trials or in future clinical trials, which could result in increased costs associated with the clinical trials or delays in receiving regulatory approvals and commercialization, if any. The results of pre-clinical studies and early clinical trials of the Company's product candidates may not necessarily be indicative of results that will be obtained from subsequent or more extensive clinical trials. Further, there can be no assurance that pre-pivotal or pivotal clinical trials of any of the Company's product candidates will demonstrate the safety, reliability and efficacy of such products, or of the cells produced in such products, to the extent necessary to obtain required regulatory approvals or market acceptance. There can be no assurance that, even after the expenditures of substantial time and financial resources, regulatory approval will be obtained for any products developed by the Company.

European Regulatory Matters

The AastromReplicell(TM) System components, are currently being regulated in Europe as Class I Sterile, Class IIb, or Class III Medical Devices, under the authority of the new Medical Device Directives ("MDD") being implemented by European Union ("EU") member countries. In order for the Company to market its products in Europe, permission to affix the CE Mark from a Notified Body is required which certifies that the Company and its operations comply with certain minimum quality standards and compliance procedures, or, alternatively, that its manufactured products meet a more limited set of requirements. The Company may also be required to comply with certain country-specific regulations in order to market its products. The Company has received approval to affix the CE Mark to the AastromReplicell(TM) System instrumentation platform and the various components of the SC-I Therapy Kit for the production of bone marrow derived cells and the CB-I Therapy Kit used for expansion of umbilical cord blood cells. While initial approvals have been obtained, there can be no assurance that the Company and its suppliers will be able to meet the ongoing minimum requirements necessary to maintain such compliance. The inability to maintain production-level manufacturing of the AastromReplicell(TM) System or non-compliance with the ongoing regulatory requirements to permit commercialization would have a material adverse effect on the Company's business, strategic partnering activities, financial condition and results of operations. Further, there can be no assurance that the AastromReplicell(TM) System will continue to be regulated in Europe under its current status. If the AastromReplicell(TM) System is not so regulated, the Company could be forced to obtain additional regulatory approvals and could be subject to additional regulatory requirements and uncertainty, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Recent Equity Financings

In July 1998 and May 1999 the Company sold shares of its newly created 1998 Series I Convertible Preferred Stock (the "Series I Preferred") and shares of its newly created 1999 Series III Convertible Preferred Stock (the "Series III Preferred"), respectively, to one investor. The Series I Preferred and Series III Preferred shares are each convertible into a number of shares of common stock that increases as the current market price of the common stock decreases. If the

selling shareholder was able to and did convert all of the outstanding Series I and Series III shares as of November 1, 1999, the selling shareholder would have received approximately 15.5 million shares of common stock. This number of shares could become significantly greater in the event of a decrease in the trading price of the common stock. Existing holders of common stock could therefore experience substantial dilution of their investment upon conversion of the Series I Preferred and Series III Preferred shares. The holders of Series I Preferred and Series III Preferred shares may require the Company to redeem some or all of those shares. These redemption rights would be triggered if the Company fails to issue shares of common stock on conversion of the Series I Preferred or Series III Preferred, if the Company fails to maintain the effectiveness of a registration statement for the resale of those shares of common stock, if the Company is subject to bankruptcy or insolvency proceedings, if the Company fails to maintain its listing on the Nasdaq stock market, or if the Company fails to obtain shareholder approval of the issuance of the Series III shares and the conversion of those Series III shares would result in the issuance of more than 3,084,340 shares of common stock. Any redemption would reduce our available cash resources, which are already very limited and would cause the Company to be insolvent. A proposal to approve the issuance of common shares upon the conversion of the Series III Preferred shares will be voted upon at the Annual Shareholders Meeting to be held on November 17, 1999. Finally, an acquisition of the Company or the sale of substantially all of its assets may require the Company to allocate the first proceeds to payment of the liquidation preference of the Series I Preferred and Series III Preferred shares. As a result, it is possible that holders of the common stock would get little, if any, return from such sale.

Dependence on Third Parties for Materials

The Company currently arranges for the manufacture of its product candidates and their components, including certain cytokines, serum and media, with third parties, and expects to continue to do so for the foreseeable future. There can be no assurance that the Company's supply of such key cytokines, components, product candidates and other materials will not become limited, be interrupted or become restricted to certain geographic regions. There can also be no assurance that the Company will be able to obtain alternative components and materials from other manufacturers of acceptable quality, or on terms or in quantities acceptable to the Company, if at all. Additionally, there can be no assurance that the Company will not require additional cytokines, components and other materials to manufacture, use or market its product candidates, or that necessary key components will be available for use by the Company in the markets where it intends to sell its products. In the event that any of the Company's key manufacturers or suppliers fail to perform their respective obligations or the Company's supply of such cytokines, components or other materials becomes limited or interrupted, the Company would not be able to market its product candidates on a timely and cost-competitive basis, if at all, which would have a material adverse effect on the Company's business, financial condition and results of operations. Certain of the compounds used by the Company in its current stem cell expansion process involve the use of animal-derived products. The availability of these compounds for clinical and commercial use may become limited by suppliers or restricted by regulatory authorities, which may impose a potential competitive disadvantage for the Company's products compared to competing products and procedures. There can be no assurance that the Company will not experience delays or disadvantages related to the future

availability of such materials which would have a material adverse effect on the Company's business, financial condition and results of operations.

Year 2000 Issues

Many currently installed computer systems and software products cannot distinguish 20th century dates from 21st century dates. As a result, some computer systems and/or software will experience operating difficulties unless they are modified or upgraded to adequately process information involving, related to, or dependent upon the century change. In light of the potentially broad effects of the year 2000 on a wide range of business systems, the Company may be affected. The Company utilizes, and is dependent upon, data processing computer hardware and software to conduct our business. The Company has completed an assessment of its own computer systems and based upon this assessment, believes its computer systems are "Year 2000 compliant;" that is, its computer systems are capable of adequately distinguishing 21st century dates from 20th century dates. However, the Company may not have identified all significant Year 2000 problems in our computer systems, and therefore may be subject to unknown risk and expense. Based on its internal assessment, the Company believes that the most likely worst case scenario would involve our suppliers and manufacturers. The Company has not completely determined the extent, or completed activities to minimize the risk of the computer systems of our suppliers and manufacturers not being Year 2000 compliant, or not becoming compliant on a timely basis. The Company expects to make inquiries with these suppliers through the end of 1999. Year 2000 problems could prevent any of our suppliers from timely delivery of products or services that the Company needs. The Company currently believes that its costs to address the Year 2000 issue relating to its suppliers will not be material, and that these costs will be funded from its existing resources. To the extent practical, the Company intends to identify alternative suppliers and manufacturers in the event our preferred suppliers cannot deliver products or services that we need on a timely basis. The Company's expectations of Year 2000 affects and the costs relating to its suppliers and manufacturers are only estimates, which were derived from numerous assumptions of future events, including the continued availability of resources and third-party remediation plans with regard to year 2000 issues. These estimates may not be correct and actual results could differ materially from these estimates.

These business considerations, and others, are discussed in more detail and should be read in conjunction with the Business Risks discussed in the Company's Annual Report of Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index.

(b) Reports on Form 8-K

The Company filed a Form 8-K on October 27, 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AASTROM BIOSCIENCES, INC.

Date: November 12, 1999

/s/ R. Douglas Armstrong

R. Douglas Armstrong, Ph.D.
President, Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 1999

/s/ Todd E. Simpson

Todd E. Simpson
Vice President, Finance and Administration,
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1*	Restated Articles of Incorporation of the Company.
3.2**	Bylaws of the Company.
10.49	Supplemental Agreement by and between Aastrom Biosciences, Inc. and Bruce W. Husel dated October 5, 1999.
10.50	Supplemental Agreement by and between Aastrom Biosciences, Inc. and William L. Odell dated October 1, 1999.
10.51	Supplemental Agreement by and between Aastrom Biosciences, Inc. and Todd E, Simpson dated September 24, 1999.
10.52	Supplemental Agreement by and between Aastrom Biosciences, Inc. and Alan K. Smith dated September 30, 1999.
10.53	Exclusive financial advisor agreement between Aastrom Biosciences, Inc. and Salomon Smith Barney Inc., dated September 10, 1999.
27.1	Financial Data Schedule.

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* Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996, as filed on March 7, 1997.

** Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-15415), declared effective on February 3, 1997.

EXHIBIT 10.49

SUPPLEMENTAL AGREEMENT TO EMPLOYMENT AGREEMENT

This Supplemental Agreement is made by and between Aastrom Biosciences, Inc., a Michigan Corporation ("Employer") and Bruce W. Husel ("Employee"), with respect to the existing Employment Agreement pursuant to which Employer has employed Employee.

RECITALS

A. Employer currently employs Employee as a corporate officer.

B. Employer has previously agreed to provide severance compensation to Employee under certain circumstances; and a purpose of this Agreement is to clarify and memorialize the parties' rights and obligations with respect to severance compensation.

C. This Agreement is also being entered into to provide Employee with enhanced financial security and to provide sufficient incentives and encouragement to Employee to remain with Employer, notwithstanding the possibility of the occurrence in the future of a Change in Control (as defined below) event for Employer.

D. As used in this Agreement, the following terms shall have the following meanings:

"Cause" means the occurrence of any of the following events, as determined by the Board of Directors of Employer, in good faith:

(i) Employee's theft, material act of dishonesty or fraud, or intentional falsification of any records of Employer;

(ii) Employee's improper use or disclosure of confidential or proprietary information of Employer;

(iii) Employee's gross negligence or willful misconduct in the performance of Employee's assigned duties;

(iv) Employee's conviction (including any plea of guilty or nolo contendre) of a crime of moral turpitude causing material harm to the reputation or standing of Employer or which materially impairs Employee's ability to perform his duties for Employer.

"Change in Control" shall mean the occurrence of any of the following events:

(i) All or substantially all of the assets of Employer are sold (and the pending proposed transactions involving Zellera AG shall not be deemed to constitute such an event);

(ii) Employer is acquired by another company, by merger or by acquisition of the stock of the Company, after which the previous shareholders of Employer own less than 50% of all of the voting stock of the surviving entity.

WHEREFORE, the parties mutually agree as follow:

1. Severance Pay. In the event of a Change in Control for Employer, if Employee's employment by Employer (or the successor-in-interest to Employer) is terminated for reasons other than Cause within one month before the Change in Control or within one year after the Change in Control, or if within said one month or one year period Employee's salary is reduced, or if the Employee's employment status with respect to general responsibilities is significantly reduced, (a change in title does not represent a change in responsibilities, provided the new title is representative of the responsibilities) then Employer (or the successor-in-interest to Employer) shall pay to Employee a lump sum severance payment equal to six months of the salary rate which Employer was paying to Employee immediately prior to the Change in Control. For avoidance of doubt, said severance payment shall not be owed if Employee's termination is for Cause, or if Employee voluntarily terminates his employment for reasons other than a reduction in Employee's status.

2. Exclusive Remedy. The parties acknowledge and agree that the severance payment specified in Section 1 hereof constitutes Employee's sole and exclusive remedy for any alleged injury or other damages arising out of a termination of his employment under circumstances described in Section 1 hereof. Accordingly, as a condition to receipt of said severance payment, Employee shall sign a customary and reasonable release form, pursuant to which Employee acknowledges and agrees that he has no claims against Employer (or the successor-in-interest to the Employer) or any director, officer, shareholder or agent of Employer, with respect to any employment matters or termination of employment (excepting only for accrued salary, accrued vacation leave and reimbursement of customary business expenses incurred on behalf of the Company, all in the ordinary course of business).

3. General.

(a) Prior Understandings. This Agreement supersedes and replaces all prior agreements and understandings with respect to severance payments upon termination of Employee's employment with Employer.

(b) Successors. This Agreement shall bind and inure to the benefit of the parties' successors, assigns, heirs and legal representatives.

(c) Amendments. This Agreement may be modified, amended or superseded only by a written document signed by both parties.

(d) Tax Withholding. The severance payment to be made pursuant to this Agreement will be subject to customary withholding of applicable income and employment taxes.

(e) Consultation. Employee acknowledges that this Agreement confers significant legal rights on Employee, and also involves Employee waiving other potential rights he might have under other agreements and laws. Employee acknowledges that Employer has encouraged Employee to consult with Employee's own legal, tax, and financial advisers before signing the Agreement; and that Employee has had adequate time to do so before signing this Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, and each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of October 5, 1999.

EMPLOYER

AASTROM BIOSCIENCES, INC., a Michigan Corporation

By: \s\ R. Douglas Armstrong, Ph.D.
Its: President and CEO

EMPLOYEE

By: \s\Bruce W. Husel

EXHIBIT 10.50

SUPPLEMENTAL AGREEMENT TO EMPLOYMENT AGREEMENT

This Supplemental Agreement is made by and between Aastrom Biosciences, Inc., a Michigan Corporation ("Employer") and William L. Odell ("Employee"), with respect to the existing Employment Agreement pursuant to which Employer has employed Employee.

RECITALS

A. Employer currently employs Employee as a corporate officer.

B. Employer has previously agreed to provide severance compensation to Employee under certain circumstances; and a purpose of this Agreement is to clarify and memorialize the parties' rights and obligations with respect to severance compensation.

C. This Agreement is also being entered into to provide Employee with enhanced financial security and to provide sufficient incentives and encouragement to Employee to remain with Employer, notwithstanding the possibility of the occurrence in the future of a Change in Control (as defined below) event for Employer.

D. As used in this Agreement, the following terms shall have the following meanings:

"Cause" means the occurrence of any of the following events, as determined by the Board of Directors of Employer, in good faith:

(i) Employee's theft, material act of dishonesty or fraud, or intentional falsification of any records of Employer;

(ii) Employee's improper use or disclosure of confidential or proprietary information of Employer;

(iii) Employee's gross negligence or willful misconduct in the performance of Employee's assigned duties;

(iv) Employee's conviction (including any plea of guilty or nolo contendre) of a crime of moral turpitude causing material harm to the reputation or standing of Employer or which materially impairs Employee's ability to perform his duties for Employer.

"Change in Control" shall mean the occurrence of any of the following events:

(i) All or substantially all of the assets of Employer are sold (and the pending proposed transactions involving Zellera AG shall not be deemed to constitute such an event);

(ii) Employer is acquired by another company, by merger or by acquisition of the stock of the Company, after which the previous shareholders of Employer own less than 50% of all of the voting stock of the surviving entity.

WHEREFORE, the parties mutually agree as follow:

1. Severance Pay. In the event of a Change in Control for Employer, if Employee's employment by Employer (or the successor-in-interest to Employer) is terminated for reasons other than Cause within one month before the Change in Control or within one year after the Change in Control, or if within said one month or one year period Employee's salary is reduced, or if the Employee's employment status with respect to general responsibilities is significantly reduced, (a change in title does not represent a change in responsibilities, provided the new title is representative of the responsibilities) then Employer (or the successor-in-interest to Employer) shall pay to Employee a lump sum severance payment equal to six months of the salary rate which Employer was paying to Employee immediately prior to the Change in Control. For avoidance of doubt, said severance payment shall not be owed if Employee's termination is for Cause, or if Employee voluntarily terminates his employment for reasons other than a reduction in Employee's status.

2. Exclusive Remedy. The parties acknowledge and agree that the severance payment specified in Section 1 hereof constitutes Employee's sole and exclusive remedy for any alleged injury or other damages arising out of a termination of his employment under circumstances described in Section 1 hereof. Accordingly, as a condition to receipt of said severance payment, Employee shall sign a customary and reasonable release form, pursuant to which Employee acknowledges and agrees that he has no claims against Employer (or the successor-in-interest to the Employer) or any director, officer, shareholder or agent of Employer, with respect to any employment matters or termination of employment (excepting only for accrued salary, accrued vacation leave and reimbursement of customary business expenses incurred on behalf of the Company, all in the ordinary course of business).

3. General.

(a) Prior Understandings. This Agreement supersedes and replaces all prior agreements and understandings with respect to severance payments upon termination of Employee's employment with Employer.

(b) Successors. This Agreement shall bind and inure to the benefit of the parties' successors, assigns, heirs and legal representatives.

(c) Amendments. This Agreement may be modified, amended or superseded only by a written document signed by both parties.

(d) Tax Withholding. The severance payment to be made pursuant to this Agreement will be subject to customary withholding of applicable income and employment taxes.

(e) Consultation. Employee acknowledges that this Agreement confers significant legal rights on Employee, and also involves Employee waiving other potential rights he might have under other agreements and laws. Employee acknowledges that Employer has encouraged Employee to consult with Employee's own legal, tax, and financial advisers before signing the Agreement; and that Employee has had adequate time to do so before signing this Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, and each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of October 1, 1999.

EMPLOYER

AASTROM BIOSCIENCES, INC., a Michigan Corporation

By: \s\ R. Douglas Armstrong, Ph.D.
Its: President and CEO

EMPLOYEE

By: \s\ William L. Odell

EXHIBIT 10.51

SUPPLEMENTAL AGREEMENT TO EMPLOYMENT AGREEMENT

This Supplemental Agreement is made by and between Aastrom Biosciences, Inc., a Michigan Corporation ("Employer") and Todd E. Simpson ("Employee"), with respect to the existing Employment Agreement pursuant to which Employer has employed Employee.

RECITALS

A. Employer currently employs Employee as a corporate officer.

B. Employer has previously agreed to provide severance compensation to Employee under certain circumstances; and a purpose of this Agreement is to clarify and memorialize the parties' rights and obligations with respect to severance compensation.

C. This Agreement is also being entered into to provide Employee with enhanced financial security and to provide sufficient incentives and encouragement to Employee to remain with Employer, notwithstanding the possibility of the occurrence in the future of a Change in Control (as defined below) event for Employer.

D. As used in this Agreement, the following terms shall have the following meanings:

"Cause" means the occurrence of any of the following events, as determined by the Board of Directors of Employer, in good faith:

(i) Employee's theft, material act of dishonesty or fraud, or intentional falsification of any records of Employer;

(ii) Employee's improper use or disclosure of confidential or proprietary information of Employer;

(iii) Employee's gross negligence or willful misconduct in the performance of Employee's assigned duties ;

(iv) Employee's conviction (including any plea of guilty or nolo contendre) of a crime of moral turpitude causing material harm to the reputation or standing of Employer or which materially impairs Employee's ability to perform his duties for Employer.

"Change in Control" shall mean the occurrence of any of the following events:

(i) All or substantially all of the assets of Employer are sold (and the pending proposed transactions involving Zellera AG shall not be deemed to constitute such an event);

(ii) Employer is acquired by another company, by merger or by acquisition of the stock of the Company, after which the previous shareholders of Employer own less than 50% of all of the voting stock of the surviving entity.

WHEREFORE, the parties mutually agree as follow:

1. Severance Pay. In the event of a Change in Control for Employer, if Employee's employment by Employer (or the successor-in-interest to Employer) is terminated for reasons other than Cause within one month before the Change in Control or within one year after the Change in Control, or if within said one month or one year period Employee's salary is reduced, or if the Employee's employment status with respect to general responsibilities is significantly reduced, (a change in title does not represent a change in responsibilities, provided the new title is representative of the responsibilities) then Employer (or the successor-in-interest to Employer) shall pay to Employee a lump sum severance payment equal to six months of the salary rate which Employer was paying to Employee immediately prior to the Change in Control. For avoidance of doubt, said severance payment shall not be owed if Employee's termination is for Cause, or if Employee voluntarily terminates his employment for reasons other than a reduction in Employee's status.

2. Exclusive Remedy. The parties acknowledge and agree that the severance specified in Section 1 hereof constitutes Employee's sole and exclusive remedy for any alleged injury or other damages arising out of a termination of his employment under circumstances described in Section 1 hereof. Accordingly, as a condition to receipt of said severance payment, Employee shall sign a customary and reasonable release form, pursuant to which Employee acknowledges and agrees that he has no claims against Employer (or the successor in-interest to the Employer) or any director, officer, shareholder or agent of Employer, with respect to any employment matters or termination of employment (excepting only for accrued salary, accrued vacation leave and reimbursement of customary business expenses incurred on behalf of the Company, all in the ordinary course of business).

3. General.

(a) Prior Understandings. This Agreement supersedes and replaces all prior agreements and understandings with respect to severance payments upon termination of Employee's employment with Employer.

(b) Successors. This Agreement shall bind and inure to the benefit of the parties' successors, assigns, heirs and legal representatives.

(c) Amendments. This Agreement may be modified, amended or superseded only by a written document signed by both parties.

(d) Tax Withholding. The severance payment to be made pursuant to this Agreement will be subject to customary withholding of applicable income and employment taxes.

(e) Consultation. Employee acknowledges that this Agreement confers significant legal rights on Employee, and also involves Employee waiving other potential rights he might have under other agreements and laws. Employee acknowledges that Employer has encouraged Employee to consult with Employee's own legal, tax, and financial advisers before signing the Agreement; and that Employee has had adequate time to do so before signing this Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, and each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of September 24, 1999.

EMPLOYER

AASTROM BIOSCIENCES, INC., a Michigan Corporation

By: \s\ R. Douglas Armstrong, Ph.D.
Its: President and CEO

EMPLOYEE

By: \s\ Todd E. Simpson

EXHIBIT 10.52

SUPPLEMENTAL AGREEMENT TO EMPLOYMENT AGREEMENT

This Supplemental Agreement is made by and between Aastrom Biosciences, Inc., a Michigan Corporation ("Employer") and Alan K. Smith ("Employee"), with respect to the existing Employment Agreement pursuant to which Employer has employed Employee.

RECITALS

A. Employer currently employs Employee as a corporate officer.

B. Employer has previously agreed to provide severance compensation to Employee under certain circumstances; and a purpose of this Agreement is to clarify and memorialize the parties' rights and obligations with respect to severance compensation.

C. This Agreement is also being entered into to provide Employee with enhanced financial security and to provide sufficient incentives and encouragement to Employee to remain with Employer, notwithstanding the possibility of the occurrence in the future of a Change in Control (as defined below) event for Employer.

D. As used in this Agreement, the following terms shall have the following meanings:

"Cause" means the occurrence of any of the following events, as determined by the Board of Directors of Employer, in good faith:

(i) Employee's theft, material act of dishonesty or fraud, or intentional falsification of any records of Employer;

(ii) Employee's improper use or disclosure of confidential or proprietary information of Employer;

(iii) Employee's gross negligence or willful misconduct in the performance of Employee's assigned duties;

(iv) Employee's conviction (including any plea of guilty or nolo contendre) of a crime of moral turpitude causing material harm to the reputation or standing of Employer or which materially impairs Employee's ability to perform his duties for Employer.

"Change in Control" shall mean the occurrence of any of the following events:

(i) All or substantially all of the assets of Employer are sold (and the pending proposed transactions involving Zellera AG shall not be deemed to constitute such an event);

(ii) Employer is acquired by another company, by merger or by acquisition of the stock of the Company, after which the previous shareholders of Employer own less than 50% of all of the voting stock of the surviving entity.

WHEREFORE, the parties mutually agree as follow:

1. Severance Pay. In the event of a Change in Control for Employer, if Employee's employment by Employer (or the successor-in-interest to Employer) is terminated for reasons other than Cause within one month before the Change in Control or within one year after the Change in Control, or if within said one month or one year period Employee's salary is reduced, or if the Employee's employment status with respect to general responsibilities is significantly reduced, (a change in title does not represent a change in responsibilities, provided the new title is representative of the responsibilities) then Employer (or the successor-in-interest to Employer) shall pay to Employee a lump sum severance payment equal to six months of the salary rate which Employer was paying to Employee immediately prior to the Change in Control. For avoidance of doubt, said severance payment shall not be owed if Employee's termination is for Cause, or if Employee voluntarily terminates his employment for reasons other than a reduction in Employee's status.

2. Exclusive Remedy. The parties acknowledge and agree that the severance payment specified in Section 1 hereof constitutes Employee's sole and exclusive remedy for any alleged injury or other damages arising out of a termination of his employment under circumstances described in Section 1 hereof. Accordingly, as a condition to receipt of said severance payment, Employee shall sign a customary and reasonable release form, pursuant to which Employee acknowledges and agrees that he has no claims against Employer (or the successor-in-interest to the Employer) or any director, officer, shareholder or agent of Employer, with respect to any employment matters or termination of employment (excepting only for accrued salary, accrued vacation leave and reimbursement of customary business expenses incurred on behalf of the Company, all in the ordinary course of business).

3. General.

(a) Prior Understandings. This Agreement supersedes and replaces all prior agreements and understandings with respect to severance payments upon termination of Employee's employment with Employer.

(b) Successors. This Agreement shall bind and inure to the benefit of the parties' successors, assigns, heirs and legal representatives.

(c) Amendments. This Agreement may be modified, amended or superseded only by a written document signed by both parties.

(d) Tax Withholding. The severance payment to be made pursuant to this Agreement will be subject to customary withholding of applicable income and employment taxes.

(e) Consultation. Employee acknowledges that this Agreement confers significant legal rights on Employee, and also involves Employee waiving other potential rights he might have under other agreements and laws. Employee acknowledges that Employer has encouraged Employee to consult with Employee's own legal, tax, and financial advisers before signing the Agreement; and that Employee has had adequate time to do so before signing this Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, and each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of September 30, 1999.

EMPLOYER

AASTROM BIOSCIENCES, INC., a Michigan Corporation

By: \s\ R. Douglas Armstrong, Ph.D.
Its: President and CEO

EMPLOYEE

By: \s\ Alan K. Smith

EXHIBIT 10.53

September 10, 1999

Aastrom Biosciences, Inc.
24 Frank Lloyd Wright Drive
Lobby L
Ann Arbor, MI 48105

Attention: R. Douglas Armstrong, Ph.D.
President and CEO

Ladies and Gentlemen:

We are pleased that Aastrom Biosciences, Inc. (the "Company") has chosen to engage Salomon Smith Barney Inc. ("SSB") as its exclusive financial adviser in connection with a possible Transaction involving the Company. We look forward to working with you on this engagement, and have set forth below the agreed upon terms of our engagement.

Scope of Engagement. As we have discussed, in the course of our engagement as your exclusive financial adviser, we will perform such financial advisory and investment banking services for the Company in connection with the proposed Transaction as are customary and appropriate in transactions of this type and as you reasonably request. For purposes of this agreement, "Transaction" means, whether in one or a series of transactions, the sale, transfer or other disposition, directly or indirectly, of all or a significant portion of the business, assets or securities of the Company, whether by way of a merger or consolidation, reorganization, recapitalization or restructuring, tender or exchange offer, negotiated purchase, leveraged buyout, minority investment or partnership, collaborative venture or otherwise, or any other extraordinary corporate transaction involving the sale or disposition of all or a significant portion of the Company. It is the intention of the Company to sell all or a majority of its business, assets or securities.

Excluded from the definition of Transaction are (i) the Company's pending activities with its subsidiary, Zeller AG, (ii) the issuance of the Company's stock to Immunex in satisfaction of a $1,000,000 annual fee owed by the Company, (iii) small corporate licensing transactions, and (iv) the Company's sale of stock for raising working capital financing.

Notwithstanding anything herein to the contrary, if SSB does in fact assist the Company with a Transaction for less than a majority of the business, assets or securities of the Company, then the Company and SSB will set a mutually agreeable fair fee for the services rendered by SSB, in lieu of the Schedule A Transaction Fee.

If SSB and the Company believe it to be advisable, we will assist you in preparing a memorandum, for distribution to potential buyers selected by SSB and the Company, describing the Company and its business, operations, properties, financial condition and prospects.

If so requested by the Company, SSB will render, in accordance with our customary practices, an opinion (the "Opinion") as to the fairness, from a financial point of view, to the Company or to the holders of common stock of the Company, as the case may be, of the consideration to be received in the Transaction (or in the case of a Transaction that involves an exchange of securities of the Company or its subsidiaries, the exchange ratio), it being understood that the form and substance of such Opinion will be in our sole judgment, and that we may qualify the Opinion in any manner that we believe appropriate. The fee set forth in Schedule A covers this Opinion.

The Company authorizes SSB to negotiate and execute on the Company's behalf confidentiality agreements with potential parties to a Transaction and to deliver confidential memoranda or other data furnished to SSB by the Company for distribution to such parties. The form of the confidentiality agreement, the parties to whom the Company's confidential memoranda and other data are given, and the extent of the Company's confidential materials to be given, shall all be subject to the Company's prior approval.

Fees and Expenses. For our services hereunder, the Company will pay to SSB the following cash fees:

(a) a fee determined in accordance with Schedule A hereto, payable promptly upon consummation of a Transaction; plus

(b) if in connection with the termination or abandonment of a proposed Transaction during the term of this agreement or within one year thereafter, the Company receives any so-called "termination," "break-up," "topping" or similar fee or payment (including any characterized as expense reimbursement and any judgment for damages or amount in settlement of any dispute as a result of any termination or other failure to consummate the Transaction) or any profit arising from any shares (or option to acquire shares or assets) of any prospective purchaser or any of its affiliates acquired in connection with the Transaction, a termination fee equal to 15% of all such fees or profits, payable in cash promptly upon receipt of any such compensation by the Company.

In addition to any fees that may be payable to SSB hereunder and regardless of whether any Transaction is proposed or consummated, the Company will promptly reimburse SSB, from time to time upon request, for all reasonable travel and other out-of-pocket expenses incurred in performing our services hereunder, including reasonable fees and expenses of outside legal counsel in connection with rendering the Opinion and as otherwise expressly agreed by the Company.

Use of Information. The Company recognizes and confirms that SSB in acting pursuant to this engagement will be using publicly available information and information in reports and other materials provided by others, including, without limitation, information provided by or on behalf of the Company and any prospective purchaser, and that SSB does not assume responsibility for and may rely, without independent verification, on the accuracy and completeness of any such information. The Company agrees to furnish or cause to be furnished to SSB all necessary or appropriate information for use in its engagement and hereby warrants that any information relating to the Company or the Transaction that is furnished to SSB by or on behalf of the Company will be true and correct in all material respects and not misleading. The Company agrees that any information or advice (including, without limitation, the Opinion) rendered by SSB or any of our representatives in connection with this engagement is for the confidential use of the Company only in its evaluation of a Transaction and the Company will not, and will not permit any third party to, use it for any other purpose or disclose or otherwise refer to such Opinion, advice or information, or to SSB, in any manner without our prior written consent, except that, in the case of the Opinion, the Company may reproduce the Opinion in full, and may also include references to the Opinion and to SSB and its relationship with the Company (in each case in form and substance as SSB shall approve), in any statement on Schedule 14D-9 or proxy statement relating to such Transaction that the Company is required to file under the Securities Exchange Act of 1934 and distribute to its shareholders. The Company shall notify SSB of any contacts with the Company made by prospective buyers.

Certain Acknowledgments. The Company acknowledges that SSB has been retained solely as an advisor to the Company, and not as an advisor to or agent of any other person, and that the Company's engagement of SSB is as an independent contractor and not in any other capacity including as a fiduciary. SSB may, to the extent it deems appropriate, render the services hereunder through one or more of its affiliates. Neither this engagement, nor the delivery of any advice in connection with this engagement, is intended to confer rights upon any persons not a party hereto (including security holders, employees or creditors of the Company) as against SSB or our affiliates or their respective directors, officers, agents and employees. SSB may, at our own expense, place announcements or advertisements in financial newspapers and journals describing our services hereunder.

Indemnity. SSB and the Company have entered into a separate letter agreement, dated the date hereof, providing for the indemnification of SSB by the Company in connection with SSB's engagement hereunder, the terms of which are incorporated into this agreement in their entirety.

Termination of Engagement. SSB's engagement will commence on the date hereof and will continue until the earlier of the consummation of a Transaction and 24 months after the date hereof, unless extended by mutual written consent or earlier terminated as provided below. Either the Company or SSB may terminate this agreement at any time, with or without cause, by giving written notice to the other party; provided, however, that that no such termination will affect the matters set out in this section or under the captions

"Use of Information," "Certain Acknowledgments" and "Miscellaneous" or in the separate letter agreement relating to indemnification. It is expressly agreed that following the expiration or termination of this agreement, SSB will continue to be entitled to receive fees as described above that have accrued prior to such expiration or termination but are unpaid, as well as reimbursement for expenses as contemplated above. It is also expressly agreed that, if a Transaction is consummated within 12 months after the date of termination of this agreement or if a definitive agreement that results in a Transaction is entered into during such period, and said transaction is between the Company and a party which was presented by SSB to the Company or a party with whom SSB conducted negotiations prior to the expiration or termination of SSB's engagement, then SSB shall be entitled to its full fees as described above.

Miscellaneous. This agreement is governed by the laws of the State of New York, without regard to conflicts of law principles, will be binding upon and inure to the benefit of the Company and SSB and their respective successors and assigns. The Company and SSB agree to waive trial by jury in any action, proceeding or counterclaim brought by or on behalf of either party with respect to any matter whatsoever relating to or arising out of any actual or proposed transaction or the engagement of or performance by SSB hereunder. The Company also hereby submits to the jurisdiction of the courts of the State of New York in any proceeding arising out of or relating to this agreement, including federal district courts located in such state, agrees not to commence any suit, action or proceeding relating thereto except in such courts, and waives, to the fullest extent permitted by law, the right to move to dismiss or transfer any action brought in such court on the basis of any objection to personal jurisdiction, venue or inconvenient forum. This agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

We are delighted to accept this engagement and look forward to working with you on this matter. Please confirm that the foregoing is in accordance with your understanding of our agreement by signing and returning to us a copy of this letter.

Very truly yours,

SALOMON SMITH BARNEY INC.

By /s/ Margery B. Fischbein

Margery B. Fischbein
Managing Director

Accepted and agreed to as of
the date set forth above:

AASTROM BIOSCIENCES, INC.

By /s/ R. Douglas Armstrong

R. Douglas Armstrong, Ph.D.
President and CEO

Schedule A

The Transaction Fee shall be calculated by multiplying the applicable Fee Percentage and the Transaction Value per share multiplied by the number of fully diluted shares outstanding (i.e., assuming conversion of outstanding preferred shares and convertible debt, and exercise of options and warrants which are "in the money"), provided that in the event of a Transaction Value not specified on a per share basis, the Transaction Fee will be equivalent in amount to a Transaction Fee calculated on a Transaction Value per share basis. For Transaction Values of $3 per share or less, the Fee Percentage shall be 1.50% or $750,000 whichever is greater; for all other Transaction Values, the Fee Percentage shall be calculated in accordance with the following table where the Fee Percentage is interpolated between the intervals of the Transaction Values per share:

Transaction Value Per Share	Fee Percentage
$3 per share or less	1.50% or $750,000, whichever is greater
Greater than $3 per share - $4 per share	1.75%
Greater than $4 per share - $5 per share	2.00%
Greater than $5 per share	2.50%

For the purpose of calculating a Transaction Fee, "Transaction Value" shall equal the total proceeds and other consideration received (which shall be deemed to include amounts paid into escrow), and, in the case of a partnership, joint venture or recapitalization or similar Transaction, contributed or to be contributed by the Company or its shareholders, in connection with a Transaction, including, without limitation: (i) cash; (ii) notes, securities and other property valued at the fair market value thereof; (iii) liabilities, including all debt, pension liabilities and guarantees owed by the Company and assumed by the buyer; (iv) the present value of non-contingent payments to be made in installments; and (v) in the case of any contingent payments (whether or not related to future earnings or operations), the Company and SSB shall mutually determine in good faith a value for said contingent payments to reflect the risks, uncertainties and timing of said contingent payments.

For purposes of computing any fees payable to SSB hereunder, non-cash consideration shall be valued as follows: (i) publicly traded securities shall be valued at the average of their closing prices (as reported in the Wall Street Journal) for the five trading days prior to the closing of the Transaction and (ii) any other non-cash consideration shall be valued at the fair market value thereof as determined in good faith by the Company and SSB.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
JUN-30-2000
JUL-01-1999
SEP-30-1999
5,015,000
0
0
0
70,000
5,806,000
3,109,000
2,661,000
6,254,000
1,254,000
0
0
6,684,000
72,281,000
(73,965,000)
6,254,000
0
385,000
0
4,001,000
0
0
0
(3,535,000)
0
(3,535,000)
0
0
0
(3,535,000)
(.21)
(.21)