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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 8-K**

**CURRENT REPORT**  
**PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of report (date of earliest event reported): July 14, 2006**

**Aastrom Biosciences, Inc.**

(Exact name of registrant as specified in its charter)

**Michigan**  
(State or other jurisdiction of  
incorporation)

**0-22025**  
(Commission File No.)

**94-3096597**  
(I.R.S. Employer Identification  
No.)

**24 Frank Lloyd Wright Drive**  
**P.O. Box 376**  
**Ann Arbor, Michigan 48106**  
(Address of principal executive offices)

Registrant's telephone number, including area code:  
**(734) 930-5555**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Explanatory Note:** Concluding the management transition process initiated in December 2005, Aastrom Biosciences, Inc. has retained George W. Dunbar, Jr. as its new President and Chief Executive Officer and has added Mr. Dunbar to its Board of Directors. As part of this transition, Dr. R. Douglas Armstrong has stepped down as Chief Executive Officer (and has agreed to assist with the transition as a consultant) and will continue as Chairman of the Board of Directors for the remainder of his term. Mr. James Cour has resigned his position as President, and entered into a Separation Agreement. The changes in management are discussed more fully in Item 5.02 below, while the new agreements with Mr. Dunbar, Dr. Armstrong and Mr. Cour are discussed in Item 1.01 below.

**Item 1.01 Entry into a Material Definitive Agreement.**

**(a) Employment Agreement with George Dunbar.**

On July 17, 2006, Aastrom entered into an “at will” employment agreement with George W. Dunbar, Jr. for Mr. Dunbar to be employed as the President and Chief Executive Officer of Aastrom commencing on July 17, 2006. Mr. Dunbar will also serve on the Board of Directors of Aastrom, subject to his periodic election by the shareholders.

Mr. Dunbar will receive a salary of \$375,000 per year, subject to annual review and adjustment. Mr. Dunbar will be eligible to receive a discretionary cash bonus (as a participant in Aastrom’s existing cash performance bonus program) based upon his performance, as determined by the Board of Directors, for up to 40% of his base salary. He will also receive customary fringe benefits (such as vacation, health insurance coverage, death or disability insurance and 401(k) retirement contributions) and will be entitled to reimbursement of “Relocation Costs” (as defined in the agreement), which will not exceed \$75,000 without the prior approval of Aastrom.

Mr. Dunbar is entitled to incentive compensation as determined by Aastrom’s Board of Directors under the 2004 Equity Incentive Plan. He has been granted an initial stock option to purchase 2,500,000 shares (with an exercise price of \$1.38, the fair market value on July 17, 2006, which is the date of grant) of which (a) 2,000,000 shares are subject to time vesting (with 25% vesting on the first anniversary and the remaining 75% to vest monthly over the following three years), and (b) 500,000 shares are subject to vesting based upon performance objectives as well as time vesting over four years. Additionally, beginning in September 2007, Mr. Dunbar will receive annual stock option grants (targeted for 400,000 shares per year) subject to both the time vesting and performance vesting. In the event of his termination by the Company without “Cause” or by Mr. Dunbar for “Good Reason” within one year following a “Change of Control” (in each case, as those terms are defined in the Agreement), the vesting of all his stock options will accelerate, with all options becoming fully exercisable. Additionally, if his employment is terminated by the Company without “Cause” after July 17, 2007 or if he terminates his employment for “Good Reason,” one half of Mr. Dunbar’s unvested stock options will become exercisable.

If Mr. Dunbar’s employment is terminated without “Cause” or if he terminates his employment for “Good Reason” (in each case, other than in conjunction with a “Change of Control”), he will be entitled to a severance payment equal to his base salary at termination. If Mr. Dunbar’s employment is terminated within one year following a “Change in Control,” he will be entitled to: (a) if the termination is by the Company and is without “Cause”, a severance payment equal to two times his base salary at termination plus his targeted annual cash bonus, or (b) if he terminates his employment for “Good Reason”, a severance payment equal to his base salary at termination, plus one-half the targeted annual cash bonus.

The foregoing summary is qualified in its entirety by reference to the Employment Agreement, filed herewith as Exhibit 99.1.

**(b) Consulting Agreement with Dr. Armstrong.**

Effective as of July 17, 2006, Aastrom has entered into a consulting agreement with R. Douglas Armstrong, Ph.D., to cover transition services the Company may need above and beyond what Dr. Armstrong is already required to provide or that are expected of a non-employee director. For the period running through November 2, 2006, Dr. Armstrong will provide assistance with management transition matters and other services requested by Mr. Dunbar.

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Dr. Armstrong will receive (i) a retainer of \$5,000 per month for the four months ending with October 2006, (ii) \$2,000 for each day Dr. Armstrong provides services under the consulting agreement, and (iii) reimbursement of any reasonable expenses incurred in providing these services, consistent with the Company's customary expense reimbursement policies and practices.

The foregoing summary is qualified in its entirety by reference to the Consulting Agreement, filed herewith as Exhibit 99.2.

For his service as a member of the Board of Directors, Dr. Armstrong will receive compensation under Aastrom's existing nonemployee director compensation program, with the cash and equity incentive grants pro-rated for the remaining portion of his current term as a director. On July 17, 2006, the date Dr. Armstrong became a nonemployee director, options and restricted stock were granted under the Aastrom Biosciences, Inc. 2004 Equity Incentive Plan (the "2004 Plan"). The stock option was for 3,000 shares of common stock (reflecting the prorated period of time until Dr. Armstrong is expected to be presented for election at an Annual Meeting of Shareholders) at an exercise price of \$1.38 per share, which was equal to the fair market value of a share of the company's stock on July 17, 2006 (the date of grant). The vesting and service requirements for this option are similar in all material respects to the grant of stock options to other nonemployee directors under the 2004 Plan. In particular, the stock option vests and becomes exercisable in increments over the remaining period of Dr. Armstrong's term as a director, and terminates on the tenth anniversary of the date of grant, unless earlier terminated as a result of termination of service. The restricted stock grant was for 3,300 shares, with all shares vesting one year after the date of grant.

### **(c) Separation Agreement with Mr. Cour.**

On July 14, 2006, Aastrom entered into a Separation Agreement with James A. Cour, Aastrom's President and Chief Operating Officer, which provided for the termination of his employment with Aastrom. The Separation Agreement notes that the termination is without "cause", which results in the payment to him under his Employment Agreement of (i) his base salary through the date of termination, (ii) accrued and unused vacation time, and (iii) severance payments equal to nine months of his current salary. Additionally, Aastrom agreed to (i) reimburse Mr. Cour for nine months of continued medical, dental and vision insurance coverage under COBRA, (ii) accelerate by nine months the vesting of his existing stock options and restricted stock, and (iii) preserve Mr. Cour's eligibility for a discretionary bonus awarded under Aastrom's bonus plan for the fiscal year ended June 30, 2006.

The foregoing summary is qualified in its entirety by reference to the Separation Agreement, filed herewith as Exhibit 99.3.

## **Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officer.**

**(b)** Effective as of July 17, 2006, Aastrom's current Chief Executive Officer, R. Douglas Armstrong, Ph.D., stepped down as CEO and terminated his employment arrangement with the Company. Dr. Armstrong will continue as Chairman of the Board of Directors for the remainder of his term, subject to his reelection by the shareholders, with responsibilities and committee assignments determined by the Board from time-to-time. Dr. Armstrong will also continue to be available as a consultant to assist with management transition issues. The material terms of Dr. Armstrong's consulting agreement are discussed in Item 1.01 above.

On July 14, 2006, Mr. James Cour, Aastrom's President and Chief Operating Officer, resigned from his positions with Aastrom. The material terms of Mr. Cour's separation agreement are discussed in Item 1.01 above.

**(c)** As part of the management transition process described above, effective as of July 17, 2006, Aastrom has appointed Mr. George W. Dunbar, Jr. as its President and Chief Executive Officer. Mr. Dunbar, age 59, has more than twenty-five years of experience in the healthcare field, including the biotech, pharmaceutical, diagnostic and device sectors. During this period, he has spent more than fifteen years as a chief executive officer of established and early-stage healthcare companies. Mr. Dunbar currently serves on the board of directors of Competitive Technologies and Sonus Pharmaceuticals as well as on the MBA Advisory Board of the Auburn University College of Business. From 2004 through 2005, he was the Chief Executive Officer of Quantum Dot

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Corporation. From 2003 through 2004 he was Chief Executive Officer of Targesome, Inc. and also served on the Business Advisory Board of Ulteria Capital Ltd. From 2001 through 2002, Mr. Dunbar was Chief Executive Officer of Epic Therapeutics. Prior to 2001, he served at various times as Chief Executive Officer of Cytotherapeutics, Stem Cells, Inc. and Metra Biosystems, and in management positions with the Ares-Serona Group and Amersham International.

The material terms of Mr. Dunbar's employment agreement are discussed in Item 1.01 above.

(d) As part of the management transition process, the Board of Directors has elected George W. Dunbar, Jr. to the Board of Directors, effective as of July 17, 2006. Mr. Dunbar was added to the class of directors whose terms expire at the Annual Meeting of Shareholders in 2007. Since he is not considered "independent" under the Nasdaq rules, the Board does not anticipate adding Mr. Dunbar to any Board committees.

### **Item 9.01 Financial Statements and Exhibits.**

#### **(d) Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Employment Agreement, dated July 17, 2006, between Aastrom Biosciences, Inc. and George W. Dunbar
99.2	Consulting Agreement, commencing on July 17, 2006, between Aastrom Biosciences, Inc. and R. Douglas Armstrong, Ph.D.
99.3	Separation Agreement, dated July 14, 2006, between Aastrom Biosciences, Inc. and James A. Cour

**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 hereunto duly authorized.

Date: July 18, 2006

**AASTROM BIOSCIENCES, INC.**

By: /s/ Gerald D. Brennan, Jr.  
Gerald D. Brennan, Jr.  
Vice President Administrative and Financial  
Operations, Chief Financial Officer

**EMPLOYMENT AGREEMENT**

This Employment Agreement (this "Agreement") is entered into as of July 17, 2006, by and between **Aastrom Biosciences, Inc.**, a Michigan corporation ("Employer"), and George W. Dunbar ("Employee").

**AGREEMENTS**

1. **Definitions.** As used in this Agreement, the following terms shall have the following meanings:

"Acquiring Corporation" means the surviving, successor or purchasing corporation or parent corporation thereof, in a Change in Control, as the case may be.

"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 material breach of any of Employee's material duties or obligations to Employer, which breach is not cured to the reasonable satisfaction of Employer's Board within fifteen (15) days after Employee's receipt of a written notice describing the breach;

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

(iii) Employee's breach of Employer's Employee Proprietary Information and Invention Agreement or any other agreement with the Employer covering the use or disclosure of confidential or proprietary information of Employer, the ownership of intellectual property or restrictions on competition;

(iv) Employee's gross negligence or willful misconduct in the performance of Employee's assigned duties (but not mere unsatisfactory performance); or

(v) Employee's indictment of a crime 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" means the occurrence of any of the following:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of Employer under an employee benefit plan of Employer, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Employer representing 50% or more of (A) the outstanding shares of common stock of Employer or (B) the combined voting power of Employer's then-outstanding securities;

(ii) Employer is party to a merger or consolidation which results in the holders of voting securities of Employer outstanding immediately prior thereto failing to continue to

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represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of Employer or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the sale or disposition of all or substantially all of Employer's assets (or consummation of any transaction having similar effect).

"Commencement Date" means July 17, 2006.

"Current Residence" means Employee's residence in California as of May 2006.

"Disability" means that:

(i) Employee has been incapacitated by bodily injury, illness or disease so as to be prevented thereby from effectively performing Employee's duties;

(ii) Such incapacity shall have continued for a period of six (6) consecutive months; and

(iii) Such incapacity will, in the opinion of a qualified physician, be long-term, which shall mean a period exceeding twelve (12) months.

"Employer" means Aastrom Biosciences, Inc., a Michigan corporation, and, following a Change in Control, any Successor that agrees to assume all of the terms and provisions of this Agreement, or a Successor which otherwise becomes bound by operation of law to this Agreement.

"Good Reason" means the occurrence of any of the following conditions, without Employee's informed written consent, which condition(s) remain(s) in effect fifteen (15) days after written notice to Employer of Employee's disapproval of the condition(s) and Employee's written statement to treat the continuation of the condition(s) as a "Good Reason" condition:

(i) an adverse change of Employee's job title as Chief Executive Officer;

(ii) a change in Employee's position as Chief Executive Officer that materially reduces his level of responsibility;

(iii) a change in Employee's reporting relationship that results in Employee no longer reporting directly to the Board of Directors;

(iv) a material adverse change to Employee's Initial Base Salary, except for reductions that are comparable to reductions generally applicable to similarly-situated senior executive employees of Employer;

(v) Employee is asked to relocate, without his consent, to an area that is farther than a 50-mile radius from the current headquarters of Employer; or

(vi) any material breach of this Agreement by Employer.

“New Residence” means the Employee’s new principal place of residency (including purchase or rental of home) located in the greater Ann Arbor, Michigan area.

“Relocation Costs” means the following actual out-of-pocket costs incurred by the Employee:

(i) Coach class airfare for Employee’s family to move from Employee’s Current Residence to the New Residence, or, in the alternative, reimbursement of reasonable automobile operating costs (gas, tolls, etc.), not to exceed the current IRS permitted per mile allowances, for up to two automobiles required to move the Employee’s family.

(ii) Cost for packing, shipping, and unloading personal household furnishings and belongings from Employee’s Current Residence to the New Residence, including temporary storage as needed.

(iii) Shipment of up to two personal vehicle from California to Ann Arbor, Michigan, via common carrier.

(iv) Costs for temporary living accommodations for up to three months of apartment rental or hotel charges in Ann Arbor for Employee and his wife, until moving into New Residence.

(v) Costs for coach air fare for Employee and his wife to travel to Ann Arbor for up to four (4) round trips during transition from Current Residence to New Residence.

(vi) Costs for legal review of agreements, not to exceed \$10,000.

(vii) The aggregate of all of the above-described costs shall not exceed \$75,000 without prior written agreement of Employer, which consent shall not be withheld unreasonably.

“Successor” means Employer and any successor or assign to substantially all of its business and/or assets.

2. **Employment.** Employer hereby engages Employee, and Employee hereby accepts such engagement, upon the terms and conditions set forth herein.

### 3. **Duties.**

3.1 **Full-Time CEO.** Employee is engaged as President and Chief Executive Officer. Employee shall perform faithfully and diligently the duties customarily performed by persons in the position for which employee is engaged, together with such other reasonable and appropriate duties as Employer shall designate from time to time. Employee shall devote Employee’s full business time and efforts to the rendition of such services and to the performance of such duties.

3.2 **Board of Directors.** Employee shall also serve as a member of Employer’s Board of Directors, subject to periodic election by shareholders.

3.3 **Outside Activities.** As a full-time employee of Employer, Employee shall not provide consulting services, board of director services, or other business or scientific services to any other party, without the prior written consent of Employer. Attached hereto as Exhibit A is Employer's consent for certain outside activities.

#### 4. **Compensation and Fringe Benefits.**

4.1 **Base Salary.** During the term of this Agreement, as compensation for the proper and satisfactory performance of all duties to be performed by Employee hereunder, Employer shall pay to Employee a base salary of Three Hundred Seventy-Five Thousand Dollars (\$375,000) per year, payable in arrears in equal semi-monthly installments, less required deductions for state and federal withholding tax, Social Security and all other employee taxes and payroll deductions. The base salary shall be subject to review and adjustment on an annual basis, as of September, commencing in 2007. The base salary shall not be reduced, except for reductions generally applicable to similarly-situated senior executive employees of Employer.

4.2 **Inventive Bonus Compensation.** Employee shall be eligible to receive the incentive bonus compensation as described in Exhibit B attached hereto.

4.3 **Customary Fringe Benefits.** Employee shall be entitled to such fringe benefits as Employer customarily makes available to Employer's top executives ("Fringe Benefits"). Such Fringe Benefits shall include vacation leave, sick leave, health insurance coverage, and 401k plan participation. Employer reserves the right to change the Fringe Benefits on a prospective basis, at any time, effective upon delivery of written notice to Employee.

4.4 **Vacation.** Employee is entitled to twenty (20) days of vacation in each calendar year.

4.5 **Accumulation.** Employee shall earn and accumulate unused vacation and sick leave in accordance with the Company's policy in effect from time to time. Further, Employee shall not be entitled to receive payments in lieu of Fringe Benefits, other than for unused vacation leave earned and accumulated at the time the employment relationship terminates.

#### 4.6 **Relocation.**

4.6.1 **Ann Arbor.** Employee agrees to relocate his principal place of residency (including purchase or rental of home) to the greater Ann Arbor, Michigan area within four (4) months after the Commencement Date.

4.6.2 **Relocation Costs.** Employer shall pay for the Relocation Costs either directly or by reimbursement to Employee, upon presentation of appropriate invoices and/or receipts for the expenditures and expenses for the Relocation Costs.

#### 5. **Term.**

5.1 **Commencement Date.** The employment relationship pursuant to this Agreement shall commence on the Commencement Date.

5.2 **Termination at Will.** Employer and Employee acknowledge and agree that Employer's employment currently is "at will" and that their employment relationship may be terminated by either party at any time, with or without Cause.

## 6. Payments Upon Termination.

6.1 **Payment of Compensation Upon Termination.** Upon termination of Employee's employment with the Company, Employee shall be entitled to be paid his base salary through the effective date of such termination, as full compensation for any and all claims of Employee under this Agreement or otherwise, except as set forth in Section 6.2.

### 6.2 Payment of Severance Upon Termination.

6.2.1 **Severance.** In the event Employee's employment is terminated by Employer without Cause, or in the event of Employee's termination of his employment for Good Reason, then Employer shall pay to Employee the severance payments as specified in Exhibit C attached hereto.

6.2.2 **Continued Medical Coverage.** In the event Employee's employment is terminated, then Employee shall be entitled to elect continued medical insurance coverage in accordance with applicable provisions of the Consolidated Budget Reconciliation Act of 1985 ("COBRA").

6.2.3 **Right to Terminate.** Employer retains and reserves the right to terminate the employment of Employee at any time, with or without Cause. For avoidance of doubt, said severance payment shall not be owed if Employee's termination is for Cause, if Employee voluntarily terminates employment without Good Reason, or if Employee's employment terminates as a result of Employee's death or disability.

6.2.4 **No Liability.** No director, officer or shareholder of Employer shall have any personal liability for the payment of any severance to Employee.

6.3 **Exclusive Remedy.** The parties acknowledge and agree that the payments specified herein constitute Employee's sole and exclusive remedy for any alleged injury or other damages arising out of a termination of Employee's employment under circumstances described herein. Accordingly, as a condition to receipt of said payments, Employee shall sign a customary and reasonable release form, in the form attached hereto as Exhibit D, pursuant to which Employee acknowledges and agrees that Employee has no claims against Employer or any director, officer, shareholder or agent of Employer, or any successor in interest to 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 Employer, all in the ordinary course of business, or any incentive sale bonus to which Employee may be entitled, if any).

## 7. General Provisions.

7.1 **Attorneys' Fees.** In the event of any dispute or breach arising with respect to this Agreement, the party prevailing in any negotiations or proceedings for the resolution or

enforcement thereof shall be entitled to recover from the losing party reasonable expenses, attorneys' fees and costs incurred therein.

**7.2 Amendments.** No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by both parties hereto. There shall be no implied-in-fact contracts modifying the terms of this Agreement. However, the noncumulation of benefits provision of Section 7.6 shall apply to any subsequent agreement, unless (i) such provision is explicitly disclaimed in the subsequent agreement, and (ii) the subsequent agreement has been authorized by the Board of Directors of the Employer or a committee thereof.

**7.3 Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the employment of Employee, other than (i) the agreements relating to the Employer's stock option grants to Employee, and (ii) policies and agreements referenced in Section 9 below. This Agreement, together with the items referenced above, supersedes all prior agreements, understandings, negotiations and representation with respect to the employment relationship.

**7.4 Successors and Assigns.** This Agreement shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

**7.5 No Limitation of Regular Benefit Plans.** This Agreement is not intended to and shall not affect, limit or terminate any plans, programs, or arrangements of Employer that are regularly made available to a significant number of employees or officers of the Employer, including without limitation Employer's stock option plans.

**7.6 Noncumulation of Benefits.** Employee may not cumulate cash severance payments under both this Agreement and another agreement. If Employee has any other binding written agreement with Employer which provides that, upon a Change in Control or termination of employment, Employee shall receive one or more of the benefits described in Sections 6 of this Agreement (i.e., the payment of cash compensation), then with respect to those benefits the aggregate amounts payable under this Agreement shall be reduced by the amounts paid or payable under such other agreements.

**7.7 No Assignment of Benefits.** The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditors process, and any action in violation of this Section 7.7 shall be void.

**7.8 Notices.** Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered, when mailed, if mailed by U.S. registered or certified mail, return receipt requested and postage prepaid, or when shipped, if shipped by nationally known reputable overnight delivery service and shipping charges prepaid. In the case of Employee, notices shall be addressed to Employee at the home address which he most recently communicated to the Employer, in writing. In the

case of the Employer, notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

7.9 **No Duty to Mitigate.** Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking employment with a new employer or in any other manner), nor shall any such payment be reduced by any earnings that Employee may receive from any other source except as otherwise provided herein.

7.10 **No Representations.** Employee acknowledges that in entering into this Agreement Employee is not relying and has not relied on any promise, representation or statement made by or on behalf of the Employer which is not set forth in this Agreement.

7.11 **Choice of Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Michigan, without regard to its choice of law rules.

7.12 **Waiver.** Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

7.13 **Severable Provisions.** The provisions of this Agreement are severable, and if any one or more provisions may be determined to be judicially unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

7.14 **Tax Withholding.** The payments to be made pursuant to this Agreement will be subject to customary withholding of applicable income and employment taxes.

7.15 **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.

7.16 **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.

7.17 **Excess Parachute Payment.** In the event that any payment or benefit received or to be received by Employee pursuant to this Agreement or otherwise would subject Employee to any excise tax pursuant to Section 4999 of the Code due to the characterization of such payment or benefit as an excess parachute payment under Section 280G of the Code, Employee may elect in his sole discretion to reduce the amounts of any payments or benefits otherwise called for under this Agreement in order to avoid such characterization.

7.18 **Arbitration.** Either party to this Agreement may submit any dispute under this Agreement for binding arbitration of the dispute before an arbitrator mutually acceptable to both parties, the arbitration to be held in Ann Arbor, Michigan, in accordance with the arbitration rules of the American Arbitration Association, as then in effect. If the parties are unable to

mutually agree upon an arbitrator, then the arbitration proceedings shall be held before three arbitrators, one of which shall be designated by Employer, one of which shall be designated by Employee, and the third of which shall be designated mutually by the first two arbitrators in accordance with the arbitration rules referenced above. The arbitrator(s) sole authority shall be to interpret and apply the provisions of this Agreement; the arbitrator(s) shall not change, add to, or subtract from, any of the Agreement's provisions. The arbitrator(s) shall have the power to compel attendance of witnesses at the hearing. Any court having jurisdiction may enter a judgment based upon such arbitration. The decision of the arbitrator(s) shall be final and binding on the parties to this Agreement and without appeal to any court. Upon execution of this Agreement, Employee shall be deemed to have waived any right to commence litigation proceedings regarding this Agreement outside of arbitration without the express written consent of the Employer.

7.19 **ERISA.** The severance compensation provided by Section 6.2 of this Agreement constitutes an unfunded compensation arrangement for a member of a select group of the Employer's management and any exemptions under ERISA, as applicable to such an arrangement, shall be applicable to this Agreement.

7.20 **Reporting and Disclosure.** Employer, from time to time, shall provide government agencies with such reports concerning this Agreement as may be required by law, and Employer shall provide the Employee with such disclosure concerning this Agreement as may be required by law or as the Employer may deem appropriate.

8. **Employee's Representations.** Employee represents and warrants that Employee (i) is free to enter into this Agreement and to perform each of the terms and covenants contained herein, (ii) is not restricted or prohibited, contractually or otherwise, from entering into and performing this Agreement, and (iii) will not be in violation or breach of any other agreement by reason of Employee's execution and performance of this Agreement.

9. **Company Policies.** Employee agrees to comply with Employer's (i) Proprietary Information and Invention Agreement, (ii) Employee Handbook, (iii) Code of Business Conduct and Ethics, and (iv) Board and Company policies.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

**EMPLOYER:**

Aastrom Biosciences, Inc.

By: /s/ R. Douglas Armstrong

**EMPLOYEE:**

/s/ George W. Dunbar

George W. Dunbar

**EXHIBIT A**  
**OUTSIDE ACTIVITIES**  
**(SECTION 3.3)**

Subject to the following, Company approves Employee continuing his existing Board positions with Competitive Technologies, Sonus Pharmaceuticals, and Auburn University MBA Advisory Board:

(1) Estimated time commitments aggregating to approximately 6 to 14 days per year are hereby approved by Company.

(2) To the extent that actual workday time missed from Company due to these outside Board duties exceeds five (5) workdays per year, then such excess missed time will be treated as part of Employee's 20 days per year vacation leave time.

(3) Actual time devoted to these outside activities must not impair Employee's full and complete performance of his responsibilities to Company.

(4) Areas of business and technology for the two companies must not be competitive with Company.



**EXHIBIT B**  
**INCENTIVE BONUS COMPENSATION**  
**(SECTION 4.2)**

1. Target Cash Bonus. Participation in Employer's cash performance bonus program, as determined by Employer's Board of Directors, for up to 40% of Employee's Base Salary (i.e., up to \$150,000 for first year).

2. Stock Options:

2.1 Initial stock options to purchase 2,500,000 shares, having an exercise price equal to public stock price at date of grant.

2.1.1 80% of these shares (2,000,000 shares) are subject to time vesting, of which 25% will vest on first anniversary, and remaining 75% will vest monthly over years two, three and four, during Employee's continued full-time employment.

2.1.2 20% of these shares (500,000 shares) are subject to performance vesting, as described in item 2.3 below, as well as to time vesting over four years.

2.1.3 Said initial stock options will be evidenced by two separate option agreements, as follows:

(a) option to purchase 750,000 shares, issued pursuant to Company's 2004 Equity Incentive Plan, having vesting on the 80% and 20% basis as stated in 2.1.1 and 2.1.2 above (i.e., 600,000 time only; and 150,000 performance and time), which option will be an "ISO" to the extent permitted by applicable tax rules; and

(b) option to purchase 1,750,000 shares, issued outside of the 2004 Equity Incentive Plan, as an "inducement option" (and not an "ISO"), having vesting on the 80% and 20% basis as stated in 2.1.1 and 2.1.2 above (i.e., 1,400,000 time only; and 350,000 performance and time).

2.2 Annual "refresher" new stock option grant targeted for 400,000 each September (starting 2007), subject to both (i) 25% annual time vesting on first anniversary, and remaining 75% vesting monthly, over following three years; and also (ii) subject to performance vesting.

2.3 The performance vesting criteria will be based upon measurable objectives from Company's Business Plan, for Company and Employee, as mutually set by Company's Board and Employee; with the achievement determination to be made in good faith by the Board.

3. Accelerated Vesting for Stock Options:

3.1 Change of Control of Company, plus double trigger of termination of employment by Company without Cause, or by employee for Good Reason, within one year after Change of Control: Accelerated vesting for all stock options.

3.2 Termination of employment by Company without Cause after first anniversary, or by employee for Good Reason, and without Change of Control: Accelerated vesting for 50% of unvested stock options.

**EXHIBIT C**  
**SEVERANCE PAYMENTS**  
**(SECTION 6.2)**

1. Change of Control, plus the double trigger of termination of employment by Company without Cause, or by Employee for Good Reason: Company to make severance payment equal to:
  - (a) If termination is by Company - two times annual base salary and one times targeted annual cash bonus.
  - (b) If termination is by Employee for Good Reason – one times annual base salary and 50% of targeted annual cash bonus.
2. Termination of employment by Company without Cause or by Employee for Good Reason, and without Change of Control: Company to make severance payment equal to one times annual base salary.
3. Company shall delay payment of severance payments to minimize impact of IRC Sections 409A (deferred compensation). Parties to use “carve out” approach, at Employee’s election, to minimize impact of 280G (golden parachute payments). No Company payment for any taxes imposed on employee.
4. In consideration of the severance payments and accelerated vesting of stock options as specified in Exhibit B(3), upon any employment termination, release of all possible claims by Employee as set forth in Exhibit D.
5. No duty of Employee to “mitigate” compensation loss, and no offset for any new employment/compensation received by Employee.
6. All severance payments are subject to such deductions as may be required for withholding taxes, Social Security, and other employee taxes and deductions.

**EXHIBIT D**  
**(SECTION 6.3)**

**TO AASTROM BIOSCIENCES, INC.**  
**EMPLOYMENT AGREEMENT**

**RELEASE AGREEMENT**

THIS AGREEMENT (“Agreement”) is made by and between George W. Dunbar (“Executive”) and Aastrom Biosciences, Inc. (the “Company”).

**RECITALS**

A. Executive has terminated employment as an executive officer of Company, effective \_\_\_\_\_, \_\_\_\_.

B. Executive has been given the opportunity to review this Agreement, to consult with legal counsel, and to ascertain his rights and remedies.

C. Executive and Company, without any admission of liability, desire to settle with finality, compromise, dispose of, and release any and all claims and demands asserted or which could be asserted arising out of Executive’s employment at and separation from Company.

In consideration of the foregoing and of the promises and mutual covenants contained herein, it is hereby agreed between Executive and Company as follows:

**AGREEMENT**

1. In exchange for the good and valuable consideration set forth in that certain Employment Agreement, made as of July \_\_\_\_\_, 2006, between the Company and Executive (the “Employment Agreement”), Executive hereby releases, waives and discharges any and all manner of action, causes of action, claims, rights, charges, suits, damages, debts, demands, obligations, attorneys fees, and any and all other liabilities or claims of whatsoever nature, whether in law or in equity, known or unknown, including, but not limited to, age discrimination under The Age Discrimination In Employment Act of 1967 (as amended), employment discrimination prohibited by other federal, state or local laws, and any other claims, which Executive has claimed or may claim or could claim in any local, state or federal or other forum, against Company, its directors, officers, employees, agents, attorneys, successors and assigns as a result of or relating to Executive’s employment at and separation from Company and as an officer of Company as a result of any acts or omissions by Company or any of its directors, officers, employees, agents, attorneys, successors or assigns (“Covered Acts or Omissions”) which occurred prior to the date of this Agreement; excluding only (i) those to compel the payment of amounts due to Executive as provided in the Employment Agreement, (ii) enforcement of any rights of Executive under any stock option agreements with the Company or (iii) those for indemnification under the Company’s articles of incorporation, bylaws or applicable law by reason of his service as an officer or director of the Company.

2. Executive agrees to immediately return to Company all property, assets, manuals, materials, information, notes, reports, agreements, memoranda, customer lists, formulae, data, know-how, inventions, trade secrets, processes, techniques, and all other assets, materials and information of any kind or nature, belonging or pertaining to Company ("Company Information and Property"), including, but not limited to, computer programs and diskettes or other media for electronic storage of information containing Company Information and Property, in Executive's possession, and Executive shall not retain copies of any such Company Information and Property. Executive further agrees that from and after the date hereof he will not remove from Company's offices any Company Information and Property, nor retain possession or copies of any Company Information and Property.

3. Executive agrees that he shall never make any statement that negatively affects the goodwill or good reputation of the Company, or any officer or director of Company, except as required by law, and except that such statements may be made to members of the Board of Directors of the Company.

4. Executive covenants and agrees that he shall never commence or prosecute, or knowingly encourage, promote, assist or participate in any way, except as required by law, in the commencement or prosecution, of any claim, demand, action, cause of action or suit of any nature whatsoever against Company or any officer, director, employee or agent of Company ("Covered Litigation") that is based upon any claim, demand, action, cause of action or suit released pursuant to this Agreement or involving or based upon the Covered Acts and Omissions.

5. Executive further agrees that he has read this Agreement carefully and understands all of its terms.

6. Executive understands and agrees that he was advised to consult with an attorney and did so prior to executing this Agreement.

7. Executive understands and agrees that he has been given twenty-one (21) days within which to consider this Agreement.

8. Executive understands and agrees that he may revoke this Agreement for a period of seven (7) calendar days following the execution of this Agreement (the "Revocation Period"). This Agreement is not effective until this revocation period has expired. Executive understands that any revocation, to be effective, must be in writing and either (a) postmarked within seven (7) days of execution of this Agreement and addressed to Aastrom Biosciences, Inc., 24 Frank Lloyd Drive, Ann Arbor, Michigan 48105 or (b) hand delivered within seven (7) days of execution of this Agreement to Aastrom Biosciences, Inc., 24 Frank Lloyd Drive, Ann Arbor, Michigan 48105. Executive understands that if revocation is made by mail, mailing by certified mail, return receipt requested, is recommended to show proof of mailing.

9. In agreeing to sign this Agreement and separate from Company, Executive is doing so completely voluntarily and of his own free-will and without any encouragement or pressure from Company and agrees that in doing so he has not relied on any oral statements or explanations made by Company or its representatives.

10. Both parties agree not to disclose the terms of this Agreement to any third party, except as is required by law, or as is necessary for purposes of securing counsel from either parties' attorneys or accountants.

11. This Agreement shall not be construed as an admission of wrongdoing by Company.

12. This Agreement contains the entire agreement between Executive and Company regarding the matters set forth herein. Any modification of this Agreement must be made in writing and signed by Executive and each of the entities constituting the Company.

13. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Michigan, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Michigan or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Michigan.

14. In the event any provision of this Agreement or portion thereof is found to be wholly or partially invalid, illegal or unenforceable in any judicial proceeding, then such provision shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Agreement, as the case may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be.

15. If there is a breach or threatened breach of the provisions of this Agreement, Company may, in addition to other available rights and remedies, apply to any court of competent jurisdiction for specific performance and/or injunctive relief in order to enforce, or prevent any violation of, any of the provisions of this Agreement.

16. In the event that Executive violates the terms of this Agreement, in addition to other available rights and remedies, the Company shall be released of all of its remaining obligations under the Severance Agreement.

The parties hereto have entered into this Agreement as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**AASTROM BIOSCIENCES, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXECUTIVE**

\_\_\_\_\_  
George W. Dunbar

**CONSULTING AGREEMENT**

This Agreement is entered into by and between Aastrom Biosciences, Inc., a Michigan corporation (“Company”) and R. Douglas Armstrong, Ph.D., (“Armstrong”).

Armstrong currently serves as a Director and Chairman of the Board of Directors of Company. Prior to July 17, 2006, Armstrong was employed as Chief Executive Officer of Company, which employment was pursuant to that certain Revised Employment Agreement, dated December 27, 2005 (the “Employment Agreement”). Pursuant to Section 9.4 of the Employment Agreement, Armstrong is to cooperate generally to provide relevant historical information known to Armstrong concerning Company’s past business activities, without involving significant amounts of time (the “General Cooperation Duties”). As a Director and Chairman of the Board, Armstrong will perform normal services as a Director (the “Director Services”). This Agreement is being entered into for the purpose of Armstrong rendering additional services (the “Services”) which are in addition to the General Cooperation Services and the Director Services.

NOW, THEREFORE the parties agree as follows:

1. Engagement. Company hereby engages Armstrong, and Armstrong hereby accepts such engagement, upon the terms and conditions set forth herein.
2. Services. Armstrong is engaged as a consultant to perform the Services as may be requested by Mr. George Dunbar, as Company’s Chief Executive Officer (the “CEO”), and acceptable to Armstrong. The Services shall be rendered initially for and during the ten business days from July 17 through July 28, 2006, for which Company shall pay to Armstrong the per diem fee specified on Exhibit A; and thereafter, the Services shall be rendered pursuant to such time schedules and parameters as are mutually approved by both Armstrong and the CEO. Armstrong agrees to be available to provide the Services for said initial ten business days; and thereafter, Armstrong will make good faith efforts to be reasonably available to provide the Services, subject to reasonable advanced notice, but Company acknowledges and understands that Armstrong will have other business and personal time commitments, so that the timing for the Services after July 28, 2006, will need to be coordinated to be compatible with Armstrong’s other time commitments.
3. Reporting. Armstrong shall report regularly to the CEO as to the plans, activities, progress and status for Armstrong’s performance of the Services.
4. Compensation. Company shall compensate Armstrong as specified on Exhibit A attached hereto.
5. Term. The term of this Agreement shall commence on July 17, 2006, and shall continue until November 2, 2006, or until either party elects to terminate this Agreement in accordance with the provisions hereof. The term of this Agreement may be extended and renewed by mutual agreement in writing.

## 6. Termination.

a. Termination for Death or Disability. The death of Armstrong shall automatically terminate this Agreement. If Armstrong becomes disabled such that he can not reasonably perform the Services for a period of more than three weeks, Company may terminate this Agreement.

b. Termination for Cause. The non-defaulting party shall have the right to terminate this Agreement upon the occurrence of any of the following events, and the expiration of any applicable period of cure: (a) the failure of Company to make any required payment within five (5) days after the date when payment is due; (b) the failure of Armstrong to perform the Services to the reasonable satisfaction of Company; and (c) the failure of a party to comply with any other term or condition of this Agreement, and the expiration of ten (10) days after written notice thereof, specifying the nature of such default, without cure.

c. Survival Upon Termination. Armstrong's obligations under Sections 7, 8, 9 and 10 hereof shall survive for a period of five years following the termination of this Agreement.

7. Independent Contractor. The parties expressly intend and agree that Armstrong is acting as an independent contractor and not as an employee of Company. Armstrong retains sole and absolute discretion, control, and judgment in the manner and means of performing the Services, except as to the policies and procedures set forth herein. Armstrong understands and agrees that Armstrong shall not be entitled to any of the rights and privileges established for Company's employees (if any), including but not limited to the following: retirement benefits (other than as is specified in the Employment Agreement), medical insurance coverage (other than as is specified in the Employment Agreement), life insurance coverage, disability insurance coverage, severance pay benefits (other than as is specified in the Employment Agreement), paid vacation and sick pay, overtime pay, or any of them. Armstrong understands and agrees that Company will not pay or withhold from the compensation paid to Armstrong pursuant to this Agreement any sums customarily paid or withheld for or on behalf of employees for income tax, unemployment insurance, social security, worker's compensation or any other withholding tax, insurance, or payment pursuant to any law or governmental requirement, and all such payments as may be required by law are the sole responsibility of Armstrong. Armstrong agrees to hold Company harmless against and indemnify Company for any of such payments of liabilities for which Company may become liable with respect to such matters. Armstrong shall not have authority to make any commitments to third parties which are binding on Company. Company shall have no responsibility for any of Armstrong's debts, liabilities or other obligations, or for any wrongful, reckless or negligent acts or omissions of Armstrong.

## 8. Confidentiality.

a. Acknowledgment of Proprietary Interest. Armstrong recognizes the proprietary interest of Company in any Trade Secrets of Company. As used herein, the term "Trade Secrets" includes all of Company's confidential or proprietary information, including without limitation any confidential information of Company encompassed in any software specifications, software designs, business plans, reports, investigations, experiments, research or



developmental work, experimental work, work in progress, drawings, designs, plans, proposals, codes, marketing and sales programs, financial projections, cost summaries, pricing formula, and all concepts or ideas, materials or information related to the business, products or sales of the Company or the Company's customers which has not previously been released to the public at large by duly authorized representatives of the Company, whether or not such information would be enforceable as a trade secret or the copying of which would be enjoined or restrained by a court as constituting unfair competition. Armstrong acknowledges and agrees that any and all Trade Secrets of Company, learned by Armstrong during the course of the engagement by Company or otherwise, whether developed by Armstrong alone or in conjunction with others or otherwise, shall be and is the property of Company.

b. Exclusions. Notwithstanding anything to the contrary set forth herein, "Trade Secrets" shall not include, and nothing in this Agreement shall in any way restrict the right of Armstrong to use, disclose or otherwise deal with, any information which (i) shall be generally available to the public on the effective date of this Agreement or thereafter and shall become so available through no wrongful act of Armstrong; or (ii) shall have been acquired by Armstrong from any person entitled to make disclosure to Armstrong other than the Company.

c. Covenant Not to Divulge Trade Secrets. Armstrong acknowledges and agrees that Company is entitled to prevent the disclosure of Trade Secrets of Company. As a portion of the consideration for the appointment of Armstrong and for the compensation being paid to Armstrong by Company, Armstrong agrees at all times during the term of the engagement with Company and thereafter to hold in strictest confidence, and not to disclose or allow to be disclosed to any person, firm, or corporation, other than to persons engaged by Company to further the business of Company, and not to use except in the pursuit of the business of Company, Trade Secrets of Company, without the prior written consent of Company, including Trade Secrets developed by Armstrong.

d. Return of Materials at Termination. In the event of any termination of Armstrong's appointment, with or without cause, Armstrong will promptly deliver to Company all materials, property, documents, data, and other information belonging to Company or pertaining to Trade Secrets. Armstrong shall not take any materials, property, documents or other information, or any reproduction or excerpt thereof, belonging to Company or containing or pertaining to any Trade Secrets.

e. Remedies Upon Breach. In the event of any breach of this Agreement by Armstrong, Company shall be entitled, if it so elects, to institute and prosecute proceedings in any court of competent jurisdiction, either in law or in equity, to enjoin Armstrong from violating any of the terms of this Agreement, to enforce the specific performance by Armstrong of any of the terms of this Agreement, and to obtain damages, or any of them, but nothing herein contained shall be construed to prevent such remedy or combination of remedies as Company may elect to invoke. The failure of Company to promptly institute legal action upon any breach of this Agreement shall not constitute a waiver of that or any other breach hereof.

9. Ownership of Work Product. Inventions, patents, discoveries, copyrights, software, source codes, reports and ideas first made, conceived or reduced to practice by Armstrong, alone or with others, which result from, or are first conceived or reduced to practice

in the course of, the Services provided by Armstrong to the Company hereunder, or which are funded by the Company or result from the use of Company's Trade Secrets or resources are the sole property of the Company and shall be treated as "the Company Inventions." Any copyrightable work so resulting from Armstrong's work hereunder shall be treated as a "work for hire" and as part of the Company Inventions. Armstrong agrees to assign and hereby assigns to the Company, its successors or assigns, all of Armstrong's right, title and interest in and to the Company Inventions and any copyrights, patent application or letters patent thereon. Armstrong agrees to reasonably cooperate with the Company, at the Company's expense, to effect such ownership rights. Armstrong hereby irrevocable appoints the Company and its officers as his agent and attorney-in-fact to execute and file any copyrights, patent applications and related documents pertaining to the Company Inventions if he is deemed to be an "inventor" or "author" of an invention or copyrightable work.

10. General Provisions.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the State of Michigan.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by both parties.

c. Successors and Assigns. The rights and obligations of Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Company. Armstrong shall not be entitled to assign any of Armstrong's rights or obligations under this Agreement.

d. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the appointment of Armstrong as a consultant. Nothing in this Agreement changes the terms of the Employment Agreement, or any other existing agreements between Company and Armstrong.

IN WITNESS WHEREOF, the parties have executed this Agreement as of July 17, 2006.

COMPANY:

Aastrom Biosciences, Inc.

By: /s/ Gerald D. Brennan, Jr.

CONSULTANT:

/s/ R. Douglas Armstrong

R. Douglas Armstrong, Ph.D.

EXHIBIT A  
COMPENSATION

1. Retainer Fee: \$5,000 payable by July 20, August 15, September 15, and October 17, 2006, for an aggregate retainer of \$20,000.
2. Per Diem Fee: \$2,000 per day when Armstrong is rendering the Services. Armstrong shall submit an invoice to Company, approximately every two weeks, listing in general the Services rendered and the days devoted for rendering the Services, and the aggregate of the per diem fee payable for the Services. Subject to Company's review and approval, Company shall pay such invoiced fees within two weeks after receipt of the invoice.
3. Reimbursement of Business Expenses: Company shall reimburse reasonable business expenses of Armstrong incurred to perform the Services (such as, by way of example, travel expenses) in accordance with Company's customary policies and practices for reimbursing business expenses, subject to any limits or parameters as may be specified by the CEO.

SEPARATION AGREEMENT

This Agreement is entered into as of July 14, 2006, by and between Aastrom Biosciences, Inc., a Michigan corporation (“Employer”) and James A. Cour (“Employee”), with respect to the following facts:

- A. Employee is currently employed by Employer pursuant to that certain Amended and Restated Employment Agreement, dated as of January 12, 2006 (the “Employment Agreement”). Terms which are defined in the Employment Agreement shall have the same defined meaning when used in this Separation Agreement.
- B. Attached as Exhibit A to the Employment Agreement, and to this Separation Agreement, is a form of “Release Agreement.”

WHEREFORE, the parties hereby mutually agree as follows:

1. Termination of Employment. Employee and Employer hereby mutually agree to a termination of Employee’s employment with Employer, effective as of 7:00 p.m. on Friday, July 14, 2006, which termination is by Employer without “Cause.”

2. Termination Payments.

2.1 Pursuant to Section 6.1 of the Employment Agreement, Employer will pay to Employee his base salary through July 14, 2006.

2.2 In accordance with Employer’s customary practices and policies, Employer will pay to Employee for any accrued and unused vacation leave time, which the parties mutually acknowledge and agree aggregates to \$24,454.26.

2.3 Pursuant to Section 6.2.1 of the Employment Agreement, Employer will pay to Employee severance payments equal to nine months of Employee’s now current salary rate (i.e., \$11,354.17 per month), less customary payroll deductions. This severance payment will be paid in equal installments over the nine months after July 14, 2006, in accordance with Employer’s normal payroll periods.

2.4 As an additional benefit, which is not specified in the Employment Agreement, Employer will reimburse Employee for continued medical, dental and vision insurance coverage under COBRA for the period July 14, 2006 through April 14, 2007.

2.5 As an additional benefit, which is not specified in the Employment Agreement, Employer will accelerate the vesting of Employee’s currently existing stock options and restricted stock for the nine months period from July 14, 2006 through April 14, 2007.

2.6 As an additional benefit, which is not specified in the Employment Agreement, Employer will give consideration for some discretionary bonus compensation for Employee applicable to the fiscal year ended June 30, 2006, when the Company considers employee bonus

matters for all employees in September 2006. It is understood that such possible bonus remains solely in the discretion of the Company and its Board of Directors, with there being no promise or assurance for any such extra bonus compensation.

3. Release. Pursuant to Section 6.4 of the Employment Agreement, Employer's obligation to pay, and Employee's entitlement to receive, the payments and benefits as specified above (other than Sections 2.1 and 2.2) is conditioned upon Employee signing the release attached hereto as Exhibit A. Employee hereby approves and agrees to all of the terms and provisions of said Release Agreement, and Employee hereby signs and delivers said Release Agreement to Employer. As set forth in Section 8 of the Release Agreement, and as is contemplated by applicable federal law, Employee may revoke this Agreement and the Release Agreement during the seven day Revocation Period as defined in the Release Agreement, so this Agreement does not become effective until the Revocation Period has expired without a revocation. Accordingly, the extra payments and benefits will not become payable and will be delayed until the expiration of the Revocation Period, and will become obligations of Employer and entitlements of Employee only if Employee does not elect to terminate this Agreement and the Release Agreement.

4. Survival. In addition to the terms set forth in this Separation Agreement and in the Release Agreement, Employee acknowledges and agrees that his obligations under the Employee Proprietary Information and Invention Agreement which he has previously signed remain applicable, and that he will continue to honor the terms of such agreement. Notwithstanding the termination of employment and the Employment Agreement, the parties mutually acknowledge and agree that the following provisions of the Employment Agreement shall survive the termination of the Employment Agreement, and shall remain applicable to the extent reasonably appropriate:

Section 6: Payments Upon Termination.

Section 7: General Provisions.

IN WITNESS WHEREOF, the parties have executed this Separation Agreement as of the date set forth above.

Employer:

Aastrom Biosciences, Inc.

By: /s/ R. Douglas Armstrong

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

Employee:

/s/ James A. Cour

James A. Cour

**EXHIBIT A**  
**RELEASE AGREEMENT**

THIS AGREEMENT ("Agreement") is made by and between James A. Cour ("Executive") and Aastrom Biosciences, Inc. (the "Company").

**RECITALS**

A. Executive's employment with Company terminates effective July 14, 2006, as of 7:00 p.m.

B. Executive has been given the opportunity to review this Agreement, to consult with legal counsel, and to ascertain his rights and remedies.

C. Executive and Company, without any admission of liability, desire to settle with finality, compromise, dispose of, and release any and all claims and demands asserted or which could be asserted arising out of Executive's employment at and separation from Company.

In consideration of the foregoing and of the promises and mutual covenants contained herein, it is hereby agreed between Executive and Company as follows:

**AGREEMENT**

1. In exchange for the good and valuable consideration set forth in that certain (i) Employment Agreement, made as of January 12, 2006, between the Company and Executive (the "Employment Agreement"), and (ii) Separation Agreement, dated as of July \_\_, 2006, between the Company and Executive, Executive hereby releases, waives and discharges any and all manner of action, causes of action, claims, rights, charges, suits, damages, debts, demands, obligations, attorneys fees, and any and all other liabilities or claims of whatsoever nature, whether in law or in equity, known or unknown, including, but not limited to, age discrimination under The Age Discrimination In Employment Act of 1967 (as amended), employment discrimination prohibited by other federal, state or local laws, and any other claims, which Executive has claimed or may claim or could claim in any local, state or federal or other forum, against Company, its directors, officers, employees, agents, attorneys, successors and assigns as a result of or relating to Executive's employment at and separation from Company and as an officer of Company as a result of any acts or omissions by Company or any of its directors, officers, employees, agents, attorneys, successors or assigns ("Covered Acts or Omissions") which occurred prior to the date of this Agreement; excluding only (i) those to compel the payment of amounts due to Executive as provided in the Employment Agreement, (ii) enforcement of any rights of Executive under any stock option agreements with the Company or (iii) those for indemnification under the Company's articles of incorporation, bylaws or applicable law by reason of his service as an officer or director of the Company.

2. Executive agrees to immediately return to Company all property, assets, manuals, materials, information, notes, reports, agreements, memoranda, customer lists, formulae, data, know-how, inventions, trade secrets, processes, techniques, and all other assets, materials and information of any kind or nature, belonging or pertaining to Company ("Company Information and Property"), including, but not limited to, computer programs and diskettes or other media for

electronic storage of information containing Company Information and Property, in Executive's possession, and Executive shall not retain copies of any such Company Information and Property. Executive further agrees that from and after the date hereof he will not remove from Company's offices any Company Information and Property, nor retain possession or copies of any Company Information and Property.

Notwithstanding the foregoing, Executive may retain (and the Company hereby assigns and transfers to Executive) the existing lap top computer bearing asset tag A001197, together with attached peripheral equipment and licenses to the installed operating system and software which Executive has been using; and Executive hereby agrees to maintain the confidentiality of and to not use any of the Company's information which is on or in the computer, all in accordance with the Employee Proprietary Information and Invention Agreement which was signed previously by Executive. Further, Company hereby assigns and transfers to Executive his cell phone, and Company agrees to use reasonable efforts to transfer the currently assigned telephone number to Executive's personal account at the start of the next billing cycle.

3. Executive agrees that he shall never make any statement that negatively affects the goodwill or good reputation of the Company, or any officer or director of Company, except as required by law, and except that such statements may be made to members of the Board of Directors of the Company.

4. Executive covenants and agrees that he shall never commence or prosecute, or knowingly encourage, promote, assist or participate in any way, except as required by law, in the commencement or prosecution, of any claim, demand, action, cause of action or suit of any nature whatsoever against Company or any officer, director, employee or agent of Company ("Covered Litigation") that is based upon any claim, demand, action, cause of action or suit released pursuant to this Agreement or involving or based upon the Covered Acts and Omissions.

5. Executive further agrees that he has read this Agreement carefully and understands all of its terms.

6. Executive understands and agrees that he was advised to consult with an attorney and did so prior to executing this Agreement.

7. Executive understands and agrees that he has been given twenty-one (21) days within which to consider this Agreement.

8. Executive understands and agrees that he may revoke this Agreement for a period of seven (7) calendar days following the execution of this Agreement (the "Revocation Period"). This Agreement is not effective until this revocation period has expired. Executive understands that any revocation, to be effective, must be in writing and either (a) postmarked within seven (7) days of execution of this Agreement and addressed to Aastrom Biosciences, Inc., 24 Frank Lloyd Drive, Ann Arbor, Michigan 48105 or (b) hand delivered within seven (7) days of execution of this Agreement to Aastrom Biosciences, Inc., 24 Frank Lloyd Drive, Ann Arbor, Michigan 48105. Executive understands that if revocation is made by mail, mailing by certified mail, return receipt requested, is recommended to show proof of mailing.



9. In agreeing to sign this Agreement and the Separation Agreement, Executive is doing so completely voluntarily and of his own free-will and without any encouragement or pressure from Company; and Executive agrees that in doing so he has not relied on any oral statements or explanations made by Company or its representatives.

10. Both parties agree not to disclose the terms of this Agreement to any third party, except as is required by law, or as is necessary for purposes of securing counsel from either parties' attorneys or accountants.

11. This Agreement shall not be construed as an admission of wrongdoing by either party.

12. This Agreement (together with the Separation Agreement) contains the entire agreement between Executive and Company regarding the matters set forth herein. Any modification of this Agreement must be made in writing and signed by Executive and each of the entities constituting the Company.

13. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Michigan, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Michigan or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Michigan.

14. In the event any provision of this Agreement or portion thereof is found to be wholly or partially invalid, illegal or unenforceable in any judicial proceeding, then such provision shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Agreement, as the case may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be.

15. If there is a breach or threatened breach of the provisions of this Agreement, Company may, in addition to other available rights and remedies, apply to any court of competent jurisdiction for specific performance and/or injunctive relief in order to enforce, or prevent any violation of, any of the provisions of this Agreement.

16. In the event that Executive violates the terms of this Agreement, in addition to other available rights and remedies, the Company shall be released of all of its remaining obligations under the Severance Agreement.

The parties hereto have entered into this Agreement as of July \_\_, 2006.

**AASTROM BIOSCIENCES, INC.**

By: \_\_\_\_\_

R. Douglas Armstrong, Ph.D.  
Chairman and Chief Executive Officer

**EXECUTIVE**

\_\_\_\_\_  
James A. Cour