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 DECEMBER 31, 1997, 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	13,278,983
(Class)	Outstanding at February 1, 1998

AASTROM BIOSCIENCES, INC.

Quarterly Report on Form 10-Q
December 31, 1997

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PART I - FINANCIAL INFORMATION

* No information is provided due to inapplicability of the item.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONDENSED BALANCE SHEETS

	June 30, 1997	December 31, 1997
ASSETS		(Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,943,000	$ 1,270,000
Short-term investments	15,064,000	18,511,000
Receivables	229,000	244,000
Prepaid expenses	126,000	53,000
Total current assets	17,362,000	20,078,000
PROPERTY, NET	1,048,000	834,000
Total assets	$18,410,000	$20,912,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$1,508,000	$1,899,000
Accrued employee expenses	130,000	98,000
Current portion of capital lease obligations	124,000	71,000
Total current liabilities	1,762,000	2,068,000
CAPITAL LEASE OBLIGATIONS	65,000	30,000
SHAREHOLDERS' EQUITY:		
Preferred Stock, no par value; shares authorized - 5,000,000; 2,200,000 issued and outstanding at December 31, 1997	-	9,930,000
Common Stock, no par value; shares authorized - 40,000,000; shares issued and outstanding - 13,275,208 and 13,278,983, respectively	58,073,000	57,992,000
Deficit accumulated during the development stage	(41,313,000)	(49,394,000)
Stock purchase warrants	-	284,000
Shareholder notes receivable	(167,000)	-
Unrealized gains (losses) on investments	(10,000)	2,000
Total shareholders' equity	16,583,000	18,814,000
Total liabilities and shareholders' equity	$18,410,000	$20,912,000

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

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended December 31,		Six months ended December 31,		March 24, 1989 (Inception) to December 31,
	1996	1997	1996	1997	1997
REVENUES:					
Research and development agreements	$ -	$ -	$ 195,000	$ 3,000	$ 2,020,000
Grants	29,000	49,000	58,000	62,000	2,205,000
Total revenues	29,000	49,000	253,000	65,000	4,225,000
COSTS AND EXPENSES:					
Research and development	2,550,000	3,788,000	5,710,000	7,031,000	45,463,000
General and administrative	439,000	883,000	891,000	1,496,000	10,538,000
Total costs and expenses	2,989,000	4,671,000	6,601,000	8,527,000	56,001,000
LOSS FROM OPERATIONS	(2,960,000)	(4,622,000)	(6,348,000)	(8,462,000)	(51,776,000)
OTHER INCOME (EXPENSE):					
Interest income	79,000	216,000	205,000	436,000	2,688,000
Interest expense	(8,000)	(2,000)	(19,000)	(7,000)	(258,000)
Other income	71,000	214,000	186,000	429,000	2,430,000
NET LOSS	$(2,889,000)	$(4,408,000)	$(6,162,000)	$(8,033,000)	$(49,346,000)
COMPUTATION OF NET LOSS APPLICABLE TO COMMON SHARES:					
Net loss	$(2,889,000)	$(4,408,000)	$(6,162,000)	$ (8,033,000)	
Dividends on Preferred Stock	-	(47,000)	-	(47,000)	
Charge related to issuance of Preferred Stock	-	(3,439,000)	-	(3,439,000)	
Net loss applicable to Common Shares	$(2,889,000)	$(7,894,000)	$(6,162,000)	$(11,519,000)	
NET LOSS PER COMMON SHARE (Basic and Diluted)	$ (.29)	$ (.59)	$ (.61)	$ (.87)	
Weighted average number of common and common equivalent shares outstanding	10,109,000	13,268,000	10,108,000	13,273,000	

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

AASTROM BIOSCIENCES, INC.
(a development stage company)

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended December 31,		March 24, 1989 (Inception) to December 31,
	1996	1997	1997
OPERATING ACTIVITIES:			
Net loss	$(6,162,000)	$(8,033,000)	$(49,346,000)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	274,000	303,000	2,134,000
Loss on property held for resale	-	-	110,000
Amortization of discounts and premiums on investments	-	(82,000)	(285,000)
Stock compensation expense	66,000	320,000	450,000
Changes in assets and liabilities:			
Receivables	7,000	(39,000)	(268,000)
Prepaid expenses	(300,000)	73,000	(53,000)
Accounts payable and accrued expenses	(214,000)	391,000	1,899,000
Accrued employee expenses	(8,000)	(32,000)	98,000
Deferred revenue	(122,000)	-	-
Net cash used for operating activities	(6,459,000)	(7,099,000)	(45,261,000)
INVESTING ACTIVITIES:			
Organizational costs	-	-	(73,000)
Purchase of short-term investments	-	(10,353,000)	(41,491,000)
Maturities of short-term investments	-	7,000,000	23,267,000
Capital purchases	(284,000)	(89,000)	(2,231,000)
Proceeds from sale of property held for resale	-	-	400,000
Net cash used for investing activities	(284,000)	(3,442,000)	(20,128,000)
FINANCING ACTIVITIES:			
Issuance of Preferred Stock	-	9,930,000	44,148,000
Issuance of Common Stock	6,000	26,000	20,053,000
Payments received for stock purchase rights	-	-	3,500,000
Payments received under shareholder notes	-	-	31,000
Principal payments under capital lease obligations	(141,000)	(88,000)	(1,073,000)
Net cash provided by (used for) financing activities	(135,000)	9,868,000	66,659,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,878,000)	(673,000)	1,270,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,967,000	1,943,000	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$4,089,000	$1,270,000	$1,270,000
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 19,000	$ 7,000	$ 258,000
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 CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION

Aastrom Biosciences, Inc. (the "Company") was incorporated in March 1989 ("Inception") under the name Ann Arbor Stromal, Inc. The Company changed its name in 1991 concurrent with the commencement of employee-based operations. The Company is in the development stage with its principal business activities being research and product development, conducted principally on its own behalf, but also in connection with various collaborative research and development agreements with other companies, involving the development of processes and instrumentation for the ex vivo production of human stem cells and their progeny, and hematopoietic and other tissues. Successful future operations are subject to several technical and business risks, including satisfactory product development and obtaining regulatory approval and market acceptance of its products.

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 (which consist solely of normal recurring 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 and six months ended December 31, 1997, are not necessarily indicative of the results to be expected for the full year or for any other period.

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 amended and filed with the Securities and Exchange Commission.

3. SALE OF PREFERRED STOCK

On December 2, 1997, the Company completed a directed placement of 2,200,000 shares of its 5.5% Convertible Preferred Stock ("Preferred Stock") at a price of $5.00 per share. Proceeds from the offering, net of placement agent commissions and expenses, were approximately $9,930,000. Each share of Preferred Stock is convertible into one share of Common Stock, subject to certain anti-dilution adjustments, and is convertible at the option of the holder at any time. The Preferred Stock will automatically convert into Common Stock if at any time after December 2, 1999, the price of the Company's Common Stock is greater than $10 per share for 20 consecutive trading days, or upon the occurrence of certain other events. The Preferred

Stock accrues a dividend at an annual rate of 5.5%, which is declared and paid by the Company on a quarterly basis, and has a liquidation preference of $5 per share, plus accrued but unpaid dividends. The Company has the option to pay dividends on the Preferred Stock in the form of a cash payment or by the issuance of shares of Common Stock. If the Company elects to pay the dividend in Common Stock, such shares are valued at an average daily trading price of the Common Stock prior to the quarterly record date. In December 1997, the Company elected to issue 7,103 shares of Common Stock valued at approximately $47,000 in payment of this dividend. Such shares are reflected as outstanding as of December 31, 1997 in the accompanying financial statements.

4. NET LOSS PER COMMON SHARE

Net loss per share is computed using the weighted average number of common and common equivalent 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. However, common and common equivalent shares issued during the twelve-month period preceding the filing of the registration statement for the Company's initial public offering, which was completed in February 1997 (the "IPO"), at a price below the expected offering price are considered to be cheap stock and are included in the calculation for periods prior to the IPO, as if they were outstanding for all periods using the treasury stock method, as applicable, even though their inclusion is anti-dilutive. Due to the automatic conversion of all previously outstanding preferred stock into Common Stock upon the completion of the IPO, such preferred stock is assumed to have been converted into Common Stock at the time of issuance, except for those shares considered to be cheap stock which are treated as outstanding for all periods presented.

The computations of net loss per common share for the three and six-month periods ended December 31, 1997 include an adjustment for dividends paid on the Preferred Stock and reflect a one-time charge of $3,439,000 related to the sale of the Preferred Stock in December 1997. The one-time charge and dividends affect only the computation of net loss per common share and are not included in the computation of net loss for the periods.

During March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), which amended the standards for computing earnings per share previously set forth in Accounting Principles Board Opinion No. 15, "Earnings per Share" ("APB 15"). SFAS 128, which was adopted by the Company for the periods ending December 31, 1997, did not have a material effect on the computation of the Company's historical net loss per common share amounts.

5. RECENT PRONOUNCEMENT

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which sets forth additional requirements for companies to report in the financial statements Comprehensive Income in addition to Net Income. Upon adoption of SFAS 130, the Company

will present comprehensive income in its financial statements for earlier periods. The Company currently expects that adopting SFAS 130 for its previously issued financial statements will primarily affect the treatment of dividends and the one-time charge associated with the sale of the Preferred Stock. The Company will adopt SFAS 130 during its fiscal year ending June 30, 1999 and has not yet determined the manner in which comprehensive income will be presented.

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 other entities. The Company does not expect to generate positive cash flows from operations for at least the next several years and, until product sales commence, the Company expects that its revenue sources will continue to be limited to grant revenue, research funding and 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 grant or other arrangements. Substantially all of the Company's revenues from product sales, if any, will be subject to the Company's obligation to make aggregate royalty payments of up to 5% to certain licensors of its technology. Further, under the Company's Distribution Agreement with Cobe BCT, Inc. (collectively with Cobe Laboratories, Inc., "Cobe"), Cobe will perform marketing and distribution activities and in exchange will receive approximately 38% to 42% of the Company's product sales in the area of stem cell therapy, subject to negotiated discounts and volume-based adjustments. Research and development expenses may fluctuate due to the timing of expenditures for the varying stages of the Company's research and clinical development programs. Research and development expenses will increase as product development programs and applications of the Company's products progress through research and development stages and the Company expects these expenses to continue to increase until these programs are completed. Under the Company's License Agreement with Immunex, annual renewal fees of $1,000,000 are payable in March of each of the next three years. Under the Company's Distribution Agreement with Cobe, regulatory approval activities for the Company's products for stem cell therapies outside of the United States will be conducted, and paid for, by Cobe. 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 results of operations for any future periods.

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. In the near term, the Company plans additional moderate growth in employee headcount necessary to address increasing requirements in the areas of product development, research, clinical and regulatory affairs, quality systems and administration. Assuming capital is available to finance such growth, the Company's operating expenses will continue to increase as a result. At least until such time as the Company enters into arrangements providing research and development funding or initiates product sales, the net loss will continue to increase as well. The Company has never been profitable and does not anticipate having net income for at least the next several years. Through December 31, 1997, the Company had an

accumulated deficit of $49,394,000. There can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed under this caption, as well as those discussed under the caption "Certain Business Considerations" and in the Company's Annual Report on Form 10-K, as amended.

RESULTS OF OPERATIONS

Three and six months ended December 31, 1997 and 1996

Revenues for the quarter ended December 31, 1997, consisting primarily of grant funding, increased to $49,000 from $29,000 for the same period in 1996. Revenues for the six months ended December 31, 1997 decreased to $65,000 compared to $253,000 for the same period in 1996, reflecting the completion of a research collaboration in September 1996. Grant revenues increased in 1997, reflecting the timing of grant awards and related research activities, to the extent that such associated costs are reimbursed under the grants.

Costs and expenses increased to $4,671,000 for the quarter ended December 31, 1997 from $2,989,000 for the same period in 1996, and increased to $8,527,000 for the six months ended December 31, 1997 compared to $6,601,000 for the same period in 1996. The increases in costs and expenses in 1997 were principally the result of an increase in research and development expense to $3,788,000 and $7,031,000 for the quarter and six months ended December 31, 1997, respectively, from $2,550,000 and $5,710,000 for the same periods in 1996. These increases relate primarily to increased development activities for the Aastrom Cell Production System (CPS) during 1997. General and administrative expenses increased to $883,000 and $1,496,000 for the quarter and six months ended December 31, 1997, respectively, from $439,000 and $891,000 for the same periods in 1996, reflecting increased activities associated with the Company's efforts to develop additional business opportunities for the Aastrom CPS in other emerging cell therapies.

Interest income was $216,000 for the quarter ended December 31, 1997, compared to $79,000 for the same period in 1996, and was $436,000 for the six months ended December 31, 1997, compared to $205,000 for the same period in 1996. These changes primarily reflect a fluctuation in the levels of cash, cash equivalents and short-term investments during the periods.

The net loss for the quarter ended December 31, 1997 was $4,408,000, or $.59 per common share, compared to a net loss of $2,889,000, or $.29 per common share, for the same period in 1996. The net loss for the six months ended December 31, 1997 was $8,033,000, or $.87 per common share compared, to $6,162,000, or $.61 per common share, for the same period in 1996. The computations of net loss per common share in 1997 include an adjustment for dividends paid on the Preferred Stock and reflect a one-time charge of $3,439,000 related to the sale of the Preferred Stock. The one-time charge and dividends 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 December 31, 1997, have totaled approximately $67,922,000 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. These financing sources have historically allowed the Company to maintain adequate levels of cash and other liquid investments.

The Company's combined cash, cash equivalents and short-term investments totaled $19,781,000 at December 31, 1997, an increase of $2,774,000 from June 30, 1997. In December 1997, the Company completed the sale of 2,200,000 shares of 5.5% Convertible Preferred Stock that generated net proceeds to the Company of approximately $9,930,000. The primary uses of cash, cash equivalents and short-term investments during the six months ended December 31, 1997, included $7,017,000 to finance the Company's operations and working capital requirements, $89,000 in capital equipment additions and $88,000 in scheduled debt payments. The Company plans to continue its policy of investing excess funds in short-term, investment-grade, interest-bearing instruments.

The Company's future cash requirements will depend on many factors, including 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 increase in spending for research and development programs and the expected cost of commercializing its product candidates. The Company intends to seek additional funding through research and development agreements with suitable corporate collaborators, grants and through public or private financing transactions. The Company expects that its primary sources of capital for the foreseeable future will be through 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 stock and economic conditions affecting the public markets generally or some portion, or all, of the technology sector. If adequate funds are not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its research and development programs, which may have a material adverse effect on the Company's business, financial condition and results of operations.

CERTAIN BUSINESS CONSIDERATIONS

Commercialization of the Company's technology and product candidates, including its lead product candidate, the Aastrom/tm/ CPS, will require substantial 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 Aastrom/tm/ CPS or its other product candidates, 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 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 product development efforts are primarily directed toward obtaining regulatory approval to market the Aastrom/tm/ CPS as an alternative 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 approval of the United States Food and Drug Administration ("FDA") will be required before any commercial sales of the Company's product candidates for stem cell therapy may commence in the United States, and approvals from foreign regulatory authorities will be required before international sales may commence. The Company is currently conducting pre-pivotal clinical trials to demonstrate the safety and biological activity of patient-derived cells or umbilical cord blood cells produced in the Aastrom/tm/ CPS in a limited number of patients. If the results from these pre-pivotal trials are successful, the Company intends to seek clearance from the FDA to commence one or more pivotal clinical trials. The patients enrolled in these pre-pivotal trials and future trials will have undergone extensive chemotherapy or radiation therapy treatments prior to infusion of cells produced in the Aastrom/tm/ CPS. Such treatments will have substantially weakened these patients and may have irreparably damaged their hematopoietic 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 pre-pivotal trials or future trials. For example, in the trials to date, 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 Aastrom/TM/ CPS procedure. The Company may experience delays in patient accruals in its current pre-pivotal 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 preclinical 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.

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 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. In order for the Company to market its products in Europe, it must obtain a CE Mark from a Notified Body to certify 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. There can be no assurance that the Company and its suppliers will be able to meet these minimum requirements, or, if met, that the Company and its suppliers will be able to maintain such compliance, which would have a material adverse effect on the Company's business, financial condition and results of operations.

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 revenues from the commercialization of any of its product candidates. The Company expects to incur significant and increasing operating losses for at least the next several years, primarily owing to the expansion of its research and development programs, including preclinical 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. Because of the Company's potential long-term funding requirements, it may attempt to access the public or private equity markets if and whenever conditions are favorable, even if it does not have an immediate need for additional capital at that time. 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. If adequate funds are not available, the Company may be required to delay or terminate research and development programs, curtail capital expenditures, and reduce business development and other operating activities.

The Company has established a strategic alliance with Cobe for the worldwide distribution of the Aastrom/tm/ CPS for stem cell therapy. Cobe has the right to terminate its Distribution Agreement with the Company upon twelve months' notice if Cobe determines that commercialization of the Aastrom/tm/ CPS for stem cell therapy on or prior to December 31, 1998 is unlikely, or upon a change of control of the Company, other than to Cobe. There can be no assurance that Cobe will pursue the marketing and distribution of the Company's products, continue to perform its obligations under its agreements with the Company or that the Company's strategic alliance with Cobe will result in the successful commercialization and distribution of the Company's technologies and product candidates. There can also be no assurance that Cobe will be successful in its efforts to market and distribute the Company's products for stem cell therapy.

These business considerations, and others, are discussed in more detail and should be read in conjunction with the Business Risks and Risk Factors discussed in the Company's Annual Report on Form 10-K, as amended, and the Company's Registration Statement on Form S-1 (File No. 333-37439) declared effective in November 1997.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(b) On December 2, 1997, the Company issued 2,200,000 shares of its 5.5% Convertible Preferred Stock ("Preferred Stock") in a registered direct placement at a price of $5.00 per share.

Dividends on the Preferred Stock are cumulative, accrue on a quarterly basis (on the last day of March, June, September and December of each year) at an annual rate of $.275 per share and are payable within 30 days of each accrual date. The payment of such dividends shall be senior in priority to dividends on the Common Stock and shall be on at least a pari passu basis with any other series of preferred stock of the Company. At the Company's option, the Company may pay dividends in either cash or shares of Common Stock, valued on the basis of the then current market price of such shares. In December 1997, the Company elected to issue 7,103 shares of Common Stock valued at approximately $47,000 in payment of this dividend. Such shares have not been issued pursuant to a registration statement.

The Preferred Stock is convertible into Common Stock at the option of the holder, and each share of Preferred Stock will automatically convert into Common Stock if, at any time after December 2, 1999, the closing bid price of the Common Stock exceeds $10.00 per share for twenty consecutive trading days. The Preferred Stock will also automatically convert into Common Stock in the event that less than 500,000 shares of Preferred Stock remain outstanding or upon a merger in which the Company or its shareholders receive consideration of at least $10.00 per share and either the Company is not the surviving entity or the holders of the Company's voting securities before the transaction own less than 50% of the voting securities of the combined entity. Each share of Preferred Stock is convertible into one share of Common Stock, subject to adjustment for stock splits, dividends, reclassifications and similar events. In addition, with certain exceptions relating to issuances of securities under stock option or employee stock purchase plans, pursuant to existing contractual obligations, in connection with acquisitions of other companies or in connection with strategic alliances, the conversion price of the Preferred Stock is subject to adjustment, pursuant to a weighted average anti-dilution formula, in the event that the Company shall issue shares of Common Stock, or securities convertible into or exchangeable or exercisable for shares of Common Stock, or rights to acquire shares of Common Stock, for consideration of less than $5.00 per share of Common Stock. The holders of the Preferred Stock are entitled to a liquidation preference of $5.00 per share, plus accrued but unpaid dividends. The payment of such liquidation preference shall be senior in priority to any payment with respect to the Common Stock and shall be on at least a pari passu basis with any other series of preferred stock of the Company. There are no redemption or sinking fund provisions applicable to the Preferred Stock.

The Preferred Stock is voted together with the Common Stock at any annual or special meeting of the shareholders of the Company, and each share of Preferred Stock has voting rights equal to the voting rights of that number of shares of Common Stock into which such share of Preferred Stock is then convertible. Except as required by law or in connection with any amendment to

the liquidation preference or other rights of the Preferred Stock, the shares of Preferred Stock shall not vote as a separate class on any matter submitted for shareholder approval.

The Board of Directors of the Company is authorized, without further shareholder approval, to issue up to an additional 2,800,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions granted or imposed upon any unissued shares of preferred stock and to fix the number of shares constituting any series and the designations of such series. The issuance of preferred stock may have the effect of delaying or preventing a change in control of the Company. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of Common Stock or could adversely affect the rights and powers, including voting rights, of the holders of the Common Stock. In certain circumstances, such issuance could have the effect of decreasing the market price of the Common Stock. The Company currently has no plans to issue any additional shares of preferred stock.

(d) The Company completed its initial public offering of securities pursuant to a Registration Statement (File No. 333-15415) that was declared effective on February 3, 1997. Through December 31, 1997, the net offering proceeds have been applied in the following approximate amounts to the following categories.

	Amount of direct or indirect payments to directors, officers, general partners or ten percent shareholders or affiliates	Amount of payments to others
Construction of plant, buildings and facilities	$ -	$ -
Purchase and installation of machinery and equipment	-	-
Purchase of real estate	-	-
Acquisition of other business(es)	-	-
Repayment of indebtedness	-	155,000
Working capital and general corporate uses	91,000	2,330,000
Temporary investment	-	-
Product/clinical development	-	10,329,000
Research and development	-	3,267,000
Total	$ 91,000	$ 16,081,000

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

(a) The Annual Meeting of Shareholders of Aastrom Biosciences, Inc. was held on November 12, 1997.

(c) At the 1997 Annual Meeting of Shareholders, votes were cast on matters submitted to the shareholders, as follows:

In the election of two Class III Directors with three-year terms ending at the 2000 Annual Meeting of Shareholders.

NOMINEE	IN FAVOR	WITHHELD
R. Douglas Armstrong	12,290,979	17,405
Horst R. Witzel	12,290,404	17,980

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the period.

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: February 5, 1998

/s/ R. Douglas Armstrong

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

Date: February 5, 1998

/s/ Todd E. Simpson

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

EXHIBIT INDEX

Exhibit No.	Description of Document
3.1*	Restated Articles of Incorporation of the Company.
3.2**	Bylaws of the Company.
3.3***	Certificate of Designation of 5.5% Convertible Preferred Stock.
4.1**	Amended and Restated Investors' Rights Agreement dated April 7, 1992.
4.2***	Amendment to Amended and Restated Investors' Rights Agreement, dated April 22, 1997.
10.1***	Strategic Planning Consulting Services and Collaboration Agreement, dated October 7, 1997, between the Company and Burrill & Company, LLC.
10.2***	Employment Agreement, dated October 24, 1997, between the Company and Bruce W. Husel.
10.3	5.5% Convertible Preferred Stock Purchase Agreement, dated November 25, 1997, between the Company and the purchasers set forth therein.
27.1	Financial Data Schedule.

*	Incorporated by reference to the Coimpany's 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 (File No. 333-15415), declared effective on February 3, 1997.
***	Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 333-37439), declared effective on November 25, 1997.

EXHIBIT 10.3

AASTROM BIOSCIENCES, INC.

5 1/2% CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

This 5 1/2% Convertible Preferred Stock Purchase Agreement (the "Agreement") is entered into as of November 25, 1997, by and among Aastrom Biosciences, Inc., a Michigan corporation (the "Company"), and each of the purchasers whose name and address is set forth on the Schedule of Purchasers attached hereto as Exhibit A (each, a "Purchaser," and, collectively, the "Purchasers").

WHEREAS, the Company has filed a registration statement on Form S-1 (File No. 333-37439) (the "Registration Statement") with the Securities and Exchange Commission (the "Commission"), covering two million two hundred thousand (2,200,000) shares (the "Shares") of the Company's 5 1/2% Convertible Preferred Stock, no par value ("Preferred Stock"), and the shares (the "Conversion Shares") of the Company's common stock, no par value ("Common Stock"), issuable upon conversion of the Shares;

WHEREAS, in connection with the offering contemplated by the Registration Statement, the Company has retained Cowen & Company to act, on a best efforts basis, on behalf of the Company as placement agent;

WHEREAS, on November 25, 1997, the Commission declared the Registration Statement effective; and

WHEREAS, prior to or concurrent with the execution of this Agreement, each Purchaser has deposited funds in an amount not less than the aggregate Purchase Price (as defined in Section 1.2) of the Shares to be purchased hereunder by such Purchaser (as set forth on Exhibit A attached hereto) with The Chase Manhattan Bank (the "Escrow Agent") to be held in escrow for the benefit of such Purchaser until the funds are released to the Company upon the Closing (as defined in Section 2.1).

NOW, THEREFORE, the parties hereby agree as follows:

SECTION 1. AUTHORIZATION AND SALE OF SHARES.

1.1 Authorization of Sale of Shares. Upon the terms and subject to the conditions of this Agreement, the Company has authorized the issuance and sale of the Shares following effectiveness of the Registration Statement.

1.2 Sale of Shares. At the Closing (as defined in Section 2.1), the Company will sell and issue to the Purchasers, and each Purchaser will purchase and acquire from the Company, upon the terms and subject to the conditions hereinafter set forth, the number of Shares set forth opposite such Purchaser's name on Exhibit A attached hereto at a purchase price of $5.00 per share (the "Purchase Price").

SECTION 2. CLOSING; DELIVERY.

2.1 Closing Date. The closing (the "Closing") of the purchase and sale of the Shares hereunder shall take place at the offices of Gray Cary Ware & Freidenrich, 400 Hamilton Avenue, Palo Alto, California at 9:00 a.m., California time, on December 2, 1997, or at such other time and place as the Company and the Placement Agent may agree (the "Closing Date").

2.2 Delivery. At the Closing, the Company will deliver to the Placement Agent for delivery to the Purchasers certificates evidencing the Shares to be purchased by the respective Purchasers, as set forth on Exhibit A attached hereto, and the Escrow Agent, on behalf of the Purchasers, will deliver the aggregate Purchase Price for the Shares to the Company by wire transfer, as instructed by the Company.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser as follows:

3.1 Organization, Good Standing and Qualification. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Michigan, with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Registration Statement, and the Company is duly qualified to do business as a foreign corporation in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to so qualify would not have a material adverse effect on the Company.

3.2 Authorization. The Company has full power and authority (corporate and otherwise) to enter into this Agreement and to perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable against the Company in accordance with its terms, except as rights may be limited by applicable laws or equitable principles and except as enforcement hereof may be limited to applicable bankruptcy, insolvency, reorganization or other similar laws relating to or affecting creditors' rights generally or by general equitable principles, and the performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby, including, without limitation, the issuance and sale of the Shares, and the issuance of the Conversion Shares upon conversion of the Shares, will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (a) any material lease, contract or other agreement or instrument to which the Company is a party or by which its properties are bound, (b) the Restated Articles of Incorporation or Bylaws of the Company, or (c) to the Company's knowledge, any law, order, rule, regulation, writ, injunction or decree of any court or governmental agency or body binding upon the Company. No consent, approval, authorization, order, designation or filing by or with any court or regulatory, administrative or other government agency or body is required for the consummation by the Company of the transactions herein contemplated, except such as may be required under the Securities Act of 1933, as amended (the "Act"), and state securities laws.

3.3 Capitalization. The authorized capital stock of the Company consists of 40,000,000 shares of Common Stock and 5,000,000 shares of preferred stock, no par value, 2,200,000 of which are designated as 5 1/2% Convertible Preferred Stock. The rights, preferences, privileges and restrictions of the Preferred Stock are as set forth in the Certificate of Designation attached hereto as Exhibit B (the "Certificate"). The outstanding shares of Common Stock, as set forth in the Registration Statement, are validly issued, fully paid and non-assessable. As of the date of this Agreement, no shares of the Company's preferred stock are outstanding.

3.4 Valid Issuance. The Shares have been duly authorized for issuance and, when issued and delivered to the Purchasers by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable. The Conversion Shares have been duly authorized for issuance and, when issued upon conversion of the Shares in accordance with the provisions of the Certificate, will be duly and validly issued and fully paid and nonassessable.

3.5 No Changes. Subsequent to the respective dates as of which information is given in the Registration Statement, there has not been (a) any material adverse change, or any development which, in the Company's reasonable judgment, is likely to cause a material adverse change, in the business, properties or assets described or referred to in the Registration Statement, or the results of operations, condition (financial or otherwise), business or operations of the Company, (b) any transaction which is material to the Company, except transactions in the ordinary course of business, (c) any obligation, direct or contingent, which is material to the Company, incurred by the Company, except obligations incurred in the ordinary course of business, (d) any material change in the capital stock or outstanding indebtedness of the Company, or (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company.

3.6 Nasdaq National Market. The Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is listed on the Nasdaq National Market. The Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the Nasdaq National Market, nor has the Company received any notification that the Commission or the National Association of Securities Dealers, Inc. is contemplating any termination of such registration or listing.

3.7 Effective Registration Statement. The Registration Statement has been declared effective by the Commission, and the Company has not received, and has no notice of, any order of the Commission preventing or suspending the effectiveness of the Registration Statement or any proceedings instituted for that purpose.

3.8 Securities Act Compliance. The Registration Statement, as of its effective date, and the final prospectus contained therein, as of its date, complied as to form in all material respects with the requirements of the Act and the published rules and regulations of the Commission thereunder. As of its effective date, the Registration Statement did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS.

Each Purchaser, severally and not jointly, hereby represents and warrants to the Company that this Agreement has been duly authorized, executed and delivered by the Purchaser and constitutes a valid and legally binding obligation of the Purchaser, enforceable in accordance with its terms, except as may be limited by applicable laws or equitable principles and except as enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or affecting creditors' rights generally or by general equitable principles.

SECTION 5. CONDITIONS TO CLOSING OF PURCHASERS.

The Purchasers' obligation to purchase the Shares at the Closing is subject to fulfillment or waiver as of the Closing Date of the following conditions:

5.1 Accuracy of Representations and Warranties. The representations and warranties made by the Company in Section 3 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect as if they had been made on and as of such date.

5.2 Conditions. All covenants, agreements and conditions contained in this Agreement to be performed by the Company on or prior to the Closing Date shall have been performed or complied with in all material respects.

5.3 Satisfaction of Placement Agent. The conditions contained in Section 9 of the Placement Agreement by and between the Company and the Placement Agent, dated as of the effective date of the Registration Statement, shall have been fulfilled to the reasonable satisfaction of or waived by the Placement Agent.

5.4 Effective Registration Statement. The Registration Statement shall continue to be effective, and no stop order suspending the effectiveness thereof shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Company, threatened, by the Commission.

SECTION 6. CONDITIONS TO CLOSING OF COMPANY.

The Company's obligation to sell and issue the Shares at the Closing is subject to the fulfillment or waiver as of the Closing date of the following conditions:

6.1 Accuracy of Representations and Warranties. The representations and warranties made by each Purchaser in Section 4 hereof shall be true and correct when made, and shall be true and correct on the Closing Date with the same force and effect as if they had been made on and as of such date.

6.2 Conditions. All covenants, agreements and conditions contained in the Agreement to be performed by the Purchasers on or prior to the Closing Date shall have been performed or complied with in all material respects.

6.3 Effective Registration Statement. The Registration Statement shall continue to be effective, and no stop order suspending the effectiveness thereof shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Company, threatened, by the Commission.

SECTION 7. REGISTRATION RIGHTS.

7.1 Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended (the "Securities Act"), and the declaration or ordering of the effectiveness of such registration statement.

(b) The term "Registrable Securities" means (i) the Conversion Shares, but only in the event that counsel for one or more Purchasers reasonably determines that the Conversion Shares are not freely tradable in the public market and, therefore, registration is necessary to effect a resale of such shares, (ii) any and all shares of Common Stock issued or issuable to the Purchasers in lieu of cash dividends on the Preferred Stock, and (iii) shares of capital stock of the Company issued in respect of the shares referred to in (i) or (ii) as a result of a stock split, stock dividend, recapitalization or the like.

(c) The terms "Holder" or "Holders" means Purchasers or qualifying transferees under subsection 7.8 hereof who hold Registrable Securities.

(d) The term "Initiating Holders" means any Holder or Holders of 25% or more of the aggregate of the Registrable Securities then outstanding.

(e) The term "SEC" means the Securities and Exchange Commission.

(f) The term "Registration Expenses" shall mean all expenses incurred by the Company in complying with Section 7.2 and Section 7.3 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company.)

7.2 Demand Registration.

(a) Request for Registration. In case the Company shall receive from Initiating Holders a written request that the Company effect any registration, qualification or compliance with respect to at least 25% of the aggregate number of Registrable Securities then outstanding, or any lesser percentage if the anticipated aggregate offering price of such registration, qualification or compliance, net of standard underwriting discounts, would exceed $5,000,000, the Company will:

(i) promptly give written notice of the proposed registration, qualification or compliance to all other Holders; and

(ii) as soon as practicable, use its best efforts to effect all such registrations, qualifications and compliances (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualifications under the applicable blue sky or other state securities laws and appropriate compliance with exemptive regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Initiating Holder's or Initiating Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request given within 30 days after receipt of such written notice from the Company; provided that the Company shall not be obligated to take any action to effect such registration, qualification or compliance pursuant to this Section 7.2:

(A) in any particular jurisdiction in which the Company would be required to execute a general qualification or compliance unless the Company is already subject to service in such jurisdiction and except as required by the Act; or

(B) after the Company has effected two (2) registrations pursuant to this Section 7.2(a) and such registrations have been declared effective; provided, however, that if such registrations included the
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Conversion Shares (as specified in Section 7.1(b)(i)), the Company shall be obligated to effect one (1) additional registration solely with respect to shares of Common Stock issued as dividends on the Preferred Stock (as specified in Section 7.1(b)(ii)).

Subject to the foregoing clauses (A) and (B), the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practical, but in any event within ten (10) days following the filing of the Company's next Annual Report on Form 10-K or Quarterly Report on Form 10-Q after receipt of the request or requests of the Initiating Holders (or, if later, within twenty (20) days after receipt of the request or requests of the Initiating Holders). In the event that the Company shall fail to file a registration statement within such period, the Initiating Holders of such request shall be entitled, in addition to all other rights and remedies otherwise available, to a liquidated damages fee of $1,000 per day until the registration statement is filed.

(b) Underwriting. If the Initiating Holders intend to
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distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as part of their request made pursuant to Section 7.2 and the Company shall include such information in the written notice referred to in Section 7.2(a)(i). In such event, the underwriter shall be selected by the Company and shall be reasonably acceptable to a majority in interest of the Initiating Holders. The right of any Holder to registration pursuant to Section 7.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. The Company shall (together with all Holders proposing to distribute their securities through such

underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters. Notwithstanding any other provision of this Section 7.2, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, the Initiating Holders shall so advise all Holders, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders. If any Holder of Registrable Securities disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company, the underwriter and the Initiating Holders. Any Registrable Securities which are excluded from the underwriting by reason of the underwriter's marketing limitation or withdrawn from such underwriting shall be withdrawn from such registration.

(c) Company Shares. If the managing underwriter has not limited the number of Registrable Securities to be underwritten, the Company may include securities for its own account or for the account of others in such registration if the managing underwriter so agrees and if the number of Registrable Securities which would otherwise have been included in such registration and underwriting will not thereby be limited.

7.3 Company Registration.

(a) Registration. If at any time or from time to time, the Company shall determine to register any of its securities, for its own account or the account of any of its shareholders, other than a registration on Form S-1 or S-8 relating solely to employee stock option or purchase plans, or a registration on Form S-4 relating solely to an SEC Rule 145 transaction, or a registration on any other form (other than Form S-1, S-2 or S-3, or their successor forms) or any successor to such forms, which does not include substantially the same information as would be required to be included in a registration statement covering the sale of Registrable Securities, the Company will:

(i) promptly give to each Holder written notice thereof; and

(ii) include in such registration (and compliance), all of the Registrable Securities specified in Section 7.1(b)(ii) (or in Section 7.1(b)(iii) that relate to Section 7.1(b)(ii)).

(b) Underwriting. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to Section 7.3(a)(i). In such event, the Holders shall have twenty (20) days to notify the Company in writing if they wish to have any Registrable Securities included in such underwriting. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Section 7.3, if the underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may limit the number of Registrable Securities to be included in the underwriting or may exclude Registrable Securities entirely from such underwriting. The Company shall so advise

all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among Holders requesting registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by each of such Holders as of the date of the notice pursuant to subsection 7.3(a)(i) above. Any Registrable Securities so excluded from the underwriting will still be included in the registration. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter.

(c) Resale Registration. In the event that the registration for which the Company gives notice pursuant to Section 7.3(a)(i) does not involve an underwriting, or in the event that a Holder or Holders do not elect to include Registrable Securities in an underwriting, all Registrable Securities will still be included in such registration, absent written notice to the contrary from a Holder or Holders with respect to the Registrable Securities held by them.

(d) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 7.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The expenses of such withdrawn registration shall be borne by the Company in accordance with Section 7.4 hereof.

7.4 Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 7 shall be borne by the Company except as follows:

(a) The Company shall not be required to pay for expenses of any registration proceeding begun pursuant to Section 7.2, the request for which has been subsequently withdrawn by the Initiating Holders, in which latter such case, such expenses shall be borne by the Holders requesting such withdrawal.

(b) The Company shall not be required to pay fees or disbursements of legal counsel of a Holder unless all of the Holders specify one special counsel.

(c) The Company shall not be required to pay underwriters' fees, discounts or commissions relating to Registrable Securities.

7.5 Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Section 7, the Company will keep each Holder participating therein advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. Except as otherwise provided in Section 7.4, at its expense the Company will:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities

registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days .

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

7.6 Indemnification.

(a) The Company will indemnify each Holder of Registrable Securities and each of its officers, directors and partners, and each person controlling such Holder, with respect to which such registration, qualification or compliance has been effected pursuant to this Section 7, and each underwriter, if any, and each person who controls any underwriter of the Registrable Securities held by or issuable to such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereto) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading, or any violation or alleged violation by the Company of the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any state securities law applicable to the Company or any rule or regulation promulgated under the Act, the

Exchange Act or any such state law and relating to action or inaction required of the Company in connection with any such registration, qualification of compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, within a reasonable amount of time after incurred for any reasonable legal and any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action; provided, however, that the
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indemnity agreement contained in this Section 7.6(a) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); and, provided further, that the Company will not
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be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Holder or underwriter specifically for use therein.

(b) Each Holder will, if Registrable Securities held by or issuable to such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company within the meaning of the Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, partners, persons or underwriters for any reasonable legal or any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by the Holder in an instrument duly executed by such Holder specifically for use therein; provided, however, that the indemnity
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agreement contained in this Section 7.6(b) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld); and, provided further, that the total amount for
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which any Holder shall be liable under this Section 7.6(b) shall not in any event exceed the aggregate proceeds received by such Holder from the sale of Registrable Securities held by such Holder in such registration.

(c) Each party entitled to indemnification under this Section 7.6 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided, however, that counsel for the
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Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the

Indemnified Party may participate in such defense at such party's expense; and, provided further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations hereunder, unless such failure resulted in prejudice to the Indemnifying Party; and, provided further, that an Indemnified Party (together with all other Indemnified Parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

7.7 Information by Holder. Any Holder or Holders of Registrable Securities included in any registration shall promptly furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to herein.

7.8 Rule 144 Reporting. With a view to making available to Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees at all times to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the Exchange Act;

(c) so long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144, and of the Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as the Holder may reasonably request in complying with any rule or regulation of the SEC allowing the Holder to sell any such securities without registration.

7.9 Transfer of Registration Rights. Holders' rights to cause the Company to register their securities and keep information available, granted to them by the Company under Sections 7.2, 7.3 and 7.8, may be assigned to a transferee or assignee of at least 100,000 Shares (as adjusted for stock splits, stock dividends, recapitalization and the like) not sold to the public; provided, however, that the Company is given written notice by such Holder at the time of or within a reasonable time after said transfer, stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being assigned. The Company may prohibit the transfer of any Holders' rights under this Section 7.9 to

any proposed transferee or assignee whom the Company reasonably believes is a competitor of the Company.

7.10 Termination of Registration Rights. The rights of the Holder provided for in this Section 7 shall terminate when such Holder may sell all of its Registrable Securities in a three (3) month period under Rule 144 of the Act.

SECTION 8. RIGHT OF FIRST REFUSAL.

8.1 Right to Purchase Pro Rata Share. Upon the terms and subject to the conditions of this Section 8, the Company hereby grants to each Purchaser who purchases at least 500,000 shares of Preferred Stock pursuant to this Agreement (as set forth on Exhibit A attached hereto) (a "Qualifying Purchaser"), for so long as the Qualifying Purchaser holds at least 500,000 shares of Preferred Stock (as adjusted for stock splits, stock dividends, recapitalizations and the like), the right of first refusal to purchase, on a pro rata basis, New Securities (as defined in Section 8.2 below) that the Company may, from time to time, propose to sell and issue. Each Qualifying Purchaser's pro rata share, for purposes of this Section 8, shall equal the ratio of (a) the number of shares of Common Stock held by the Qualifying Purchaser (with securities convertible into shares of Common Stock considered on an as-converted basis) held by the Qualifying Purchaser, to (b) the sum of (i) the number of outstanding shares of Common Stock, and (ii) the number of shares of Common Stock issuable upon conversion, exercise or exchange of any outstanding obligations or securities of the Company.

8.2 New Securities. The term "New Securities," as used in this Section 8, shall mean any shares of the Company's capital stock, or any obligation or other security of the Company convertible into or exchangeable for shares of the Company's capital stock offered by the Company for the purpose of financing its business, except for (a) shares of Common Stock or options to purchase Common Stock issued or granted to officers, directors, employees or consultants of the Company and its subsidiaries pursuant to any stock option plan or employee stock purchase plan approved by the Board, (b) securities issued pursuant to an acquisition of another corporation or entity by the Company through a merger or otherwise, provided that the shareholders of the Company immediately prior to the transaction hold more than fifty percent (50%) of the voting power of the surviving or continuing entity, (c) securities issued pursuant to contractual obligations of the Company existing prior to the initial issuance of shares of 5 1/2% Convertible Preferred Stock (as generally described in the Company's registration statement on Form S-1 (File No. 333-37439), as filed with the Securities and Exchange Commission on October 8, 1997), (d) securities issued in an underwritten public offering registered under the Act, (e) securities issued in any transaction approved by the Board if, in connection with or related to such transaction, the purchase or recipient of such securities, or an affiliate of such purchaser or recipient, enters into or agrees to enter into (or has previously entered into) a material business relationship with the Company, including, but not limited to, a relationship relating to licensing, clinical development, product development, marketing or distribution, and (f) securities issued in connection with any stock split, stock dividend, recapitalization or similar transaction.

8.3 Proposed Issuance. In the event that the Company proposes to undertake an issuance of New Securities, it shall give each Qualifying Purchaser written notice of its intention,

describing the type of New Securities, the proposed price, and the general terms upon which the Company proposes to issue the same. Each Qualifying Purchaser shall have ten (10) business days from the date of receipt of any such notice to agree to purchase its pro rata share of such New Securities for the price and upon the general terms specified in the notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased. In the event that a Qualifying Purchaser fails to exercise in full the right of first refusal within said ten (10) day period, the Company shall have ninety (90) days thereafter to sell the New Securities with respect to which the rights of the Qualifying Purchasers set forth in this Section 8 were not exercised, at a price and upon general terms no more favorable to the purchasers thereof than specified in the Company's notice. In the event the Company has not sold the New Securities within such ninety (90) day period, the Company shall not thereafter issue or sell any New Securities without first offering such securities to the Qualifying Purchasers in the manner provided above.

SECTION 9. MISCELLANEOUS.

9.1 Waiver and Amendments. The terms of this Agreement may be waived or amended only upon the written consent of the Company and the Purchasers holding a majority of the Shares purchased pursuant hereto then held by the Purchasers. The failure by any party at any time to enforce or to require the performance of any provision of this Agreement shall in no way be construed to be a waiver of any such provision and shall not affect the rights of such party hereunder thereafter to enforce or require the performance of such provision in accordance with the terms of this Agreement.

9.2 Governing Law. This Agreement shall be governed in all respects by the laws of the State of Michigan, without regard to the conflict of laws rules thereof.

9.3 Successors and Assigns. This Agreement may not be assigned by a Purchaser without the written consent of the Company.

9.4 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with respect to the subject matter hereof.

9.5 Notices. Any notice or other communication required or permitted under this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by telegram or facsimile, or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, addressed to the party to be notified at such party's address as set forth below or on Exhibit A attached hereto, or as subsequently modified by written notice, and, if to the Company, with a copy to Gray Cary Ware & Freidenrich, 4365 Executive Drive, Suite 1600, San Diego, California 92121, Attn.: T. Knox Bell, Esq. (Facsimile: 619/677-1477).

9.6 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing or interpreting this Agreement.

9.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

9.8 Further Assurances. Each party to this Agreement shall do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments and documents as the other party hereto may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

9.9 Expenses. The Company and each Purchaser shall bear its own expenses incurred on its behalf with respect to this Agreement and the transactions contemplated hereby, including, without limitation, fees and expenses of legal counsel.

9.10 Survivability. The respective representations and covenants of the parties hereto shall survive the Closing of the transactions contemplated hereby for a period of one (1) year following the Closing.

9.11 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this Agreement, (b) the balance of this Agreement shall be interpreted as if such provision were so excluded, and (c) the balance of this Agreement shall be enforceable in accordance with its terms.

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

THE COMPANY:
AASTROM BIOSCIENCES, INC.,
a Michigan corporation

By: /s/ R. Douglas Armstrong

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

Address:
---
24 Frank Lloyd Wright Drive
Lobby L
Ann Arbor, Michigan 48106

Facsimile:
---
(313) 665-0485

COUNTERPART SIGNATURE PAGE TO
AASTROM BIOSCIENCES, INC.
5 1/2% CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

PURCHASER:

The Kaufmann Fund, Inc.

Name of Purchaser

By: /s/ Lawrence Auriana

Lawrence Auriana

Print Name of Signatory

Chairman

Title of Signatory

Address:
---
140 East 45th Street

43rd Floor

New York, NY 10017

Facsimile:

212-661-2266

COUNTERPART SIGNATURE PAGE TO
AASTROM BIOSCIENCES, INC.
5 1/2% CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

PURCHASER:

SBSF Biotechnology Partners, L.P.

Name of Purchaser

By: /s/ Lisa B. Tuckerman

Lisa B. Tuckerman

Print Name of Signatory

Managing Director of the General Partner

Title of Signatory

Address:

101 East Main, Suite G

Bozeman, MT 59715

Facsimile:

406-586-6717

COUNTERPART SIGNATURE PAGE TO
AASTROM BIOSCIENCES, INC.
5 1/2% CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

PURCHASER:

SBSF Biotechnology Fund, L.P.

Name of Purchaser

By: /s/ Lisa B. Tuckerman

Lisa B. Tuckerman

Print Name of Signatory

Managing Director of the General Partner

Title of Signatory

Address:
---

101 East Main St., Suite G

Bozeman, MT 59715

Facsimile:

406-586-6717

EXHIBIT A

Schedule of Purchasers

Name of Purchaser	Address, Telephone Number and Facsimile Number	Number of Shares
The Kaufmann Fund, Inc.	140 East 45th Street New York, New York 10017 Attn: Peter Lerner Tel: (212) 922-0123 Fax: (212) 661-2266	2,000,000
SBSF Biotechnology Fund, L.P.	101 East Main Street, Suite G Bozeman, Montana 59715 Attn: Lisa Tuckerman Tel: (406) 586-6650 Fax: (406) 586-6717	180,000
SBSF Biotechnology Partners, L.P.	101 East Main Street, Suite G Bozeman, Montana 59715 Attn: Lisa Tuckerman Tel: (406) 586-6650 Fax: (406) 586-6717	20,000

EXHIBIT B

Certificate of Designation of 5 1/2% Convertible Preferred Stock

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

6-MOS
JUN-30-1997
JUL-01-1997
DEC-31-1997
1,270,000
18,511,000
0
0
0
20,078,000
2,852,000
2,018,000
20,912,000
2,068,000
0
0
9,930,000
57,992,000
(49,108,000)
20,912,000
0
65,000
0
8,527,000
0
0
7,000
(8,033,000)
0
(8,033,000)
0
0
0
(8,033,000)
(.87)
(.87)