SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number 0-26866

Sonus Pharmaceuticals, Inc.

(Exact name of the registrant as specified in its charter)

Delaware	**95-4343413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

22026 20th Avenue SE, Bothell, Washington 98021
(Address of principal executive offices)

(425) 487-9500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share
Series A Junior Participating Preferred Stock, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Act. Yes☐ No ☒

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 report), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes☐ No ☒

As of June 30, 2005, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was $74,397,381. As of March 1, 2006, 30,640,971 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed in connection with the solicitation of proxies for its 2006 Annual Meeting of Stockholders to be held on May 9, 2006 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III hereof.

Sonus Pharmaceuticals, Inc.
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PART I

References in this Form 10-K to "Sonus Pharmaceuticals", "Sonus", the "Company", "we", "us" or "our" refer to Sonus Pharmaceuticals, Inc. The information in this Form 10-K contains certain forward-looking statements, including statements related to clinical trials, regulatory approvals, markets for the Company's products, new product development, capital requirements and trends in its business that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Business", "Certain Factors that May Affect Our Business and Future Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere in this Form 10-K.

ITEM 1. BUSINESS

Overview

Sonus Pharmaceuticals is focused on the development of oncology drugs that provide better therapeutic alternatives for cancer patients, including improved efficacy, safety, tolerability and are more convenient to use. Our business strategy is as follows:

- Develop proprietary formulations of therapeutic drugs utilizing our proprietary TOCOSOL® technology; and
- Identify and acquire products/technologies that are complementary to our focus in oncology in order to broaden our business and market opportunities.

Proprietary TOCOSOL technology

Our vitamin E-based emulsion technology has been designed to address the challenges of hard-to-formulate cancer drugs. The technology uses vitamin E oil (d-tocopherol) and tocopherol derivatives to create, solubilize and stabilize drugs, making them easier to formulate and deliver into the body. Development of drugs with our proprietary technology may result in products with equivalent or better efficacy, decreased incidences of side effects and improved dosing convenience.

TOCOSOL Paclitaxel

Our lead oncology product candidate, TOCOSOL Paclitaxel, is a novel formulation of paclitaxel, one of the world's most widely prescribed anti-cancer drugs. Paclitaxel, a member of the taxane family of cancer drugs, is the active ingredient in Taxol®, which is approved in the U.S. for the treatment of breast, ovarian and non-small cell lung cancers and Kaposi's sarcoma. Our product, TOCOSOL Paclitaxel, is a ready-to-use, injectable paclitaxel emulsion formulation. We believe that data from clinical trials conducted to-date suggest that TOCOSOL Paclitaxel:

- compares favorably with approved taxane products and other new paclitaxel formulations under development (safety and efficacy remain to be proven in Phase 3 testing of TOCOSOL Paclitaxel);
- offers the convenience of a ready-to-use formulation that does not require preparation prior to administration;
- can be administered to patients by a short 15-minute infusion, compared to the one- to three-hour infusion that is typically required with Taxotere® and Taxol or generic versions of paclitaxel;
- does not require any special intravenous, or i.v. tubing, filters or other apparatus; and
- can be administered in small volumes of 15 to 35 milliliters compared to volumes of several hundred milliliters of i.v. solution that are required for dosing of

Taxol, Taxotere, or ABRAXANE®.

We concluded a Phase 1 study of TOCOSOL Paclitaxel in August 2002, with a total of 37 patients. The objectives of the Phase 1 study were to estimate the maximum tolerated dose of TOCOSOL Paclitaxel in patients with advanced cancers, and to evaluate the safety of repeated doses of TOCOSOL Paclitaxel given every three weeks. In the Phase 1 study, 30 of the 37 patients were treated at doses ranging from 175 mg/m(2) to 225 mg/m(2) every three weeks. The maximum tolerated dose (MTD) was estimated in this study to be 200 mg/m(2) every three weeks, slightly higher than the approved dose of Taxol at 175 mg/m(2) every three weeks. TOCOSOL Paclitaxel was generally well tolerated in all patients treated. All patients in the Phase 1 study had advanced cancers that were no longer responding to previous therapies or for which no standard therapy existed. Five patients with different types of cancers had objective partial responses during the course of the study, including four patients who had previously been treated with taxane-containing chemotherapy regimens (under RECIST, partial response is defined as reduction in the sum of the longest tumor dimensions of target lesions of ³30% for at least four weeks, and no evidence of progressive disease elsewhere). Dose-limiting toxicities included myalgia (muscle aches), fatigue, and neutropenia (low neutrophilic white blood cell count). No Grade 4 neuropathy (damage to the peripheral nerves) was seen at or below the estimated MTD in the Phase 1 study.

We initiated Phase 2a studies for TOCOSOL Paclitaxel in March 2002 to evaluate the safety and efficacy of TOCOSOL Paclitaxel in ovarian, non-small cell lung and bladder cancers using weekly dosing of the product. These were single agent, open label studies that enrolled patients who had progressive disease despite prior treatment with a standard chemotherapy regimen, but who had not previously received taxane chemotherapy. Each Phase 2a study began with a dose escalation phase to estimate the best tolerated dose of TOCOSOL Paclitaxel using weekly administration. The best tolerated dose was initially estimated to be 120 mg/m² per week in the ovarian and lung cancer trials, and 100 mg/m² per week in the bladder cancer trial, based on observations among a small number of patients treated for a few weeks. Subsequent review of actual doses administered across all patients in all studies over extended treatment periods indicated that patients assigned to receive weekly doses of 100 mg/m² or 120 mg/m² actually received similar cumulative doses over time, based on long-term tolerability.

Patient enrollment in the Phase 2a clinical trials was completed in the second quarter of 2003, and all patients have been evaluated by their physicians for efficacy results, including objective response rate, time to disease progression, and overall survival duration. Data review, confirmation and analysis are now complete, and databases have recently been locked. A total of 120 patients in the ovarian, non-small cell lung and bladder cancer studies were evaluable for objective response, which means that the patients received at least eight weekly cycles of TOCOSOL Paclitaxel and underwent CT scans to confirm anti-tumor responses according to RECIST. Final analyses of all data are expected to be complete by mid-2006.

In the ovarian cancer study, 51 enrolled patients were evaluable for anti-tumor effect. Twenty of the 51 evaluable patients (39%; 95% Confidence Interval 26% - 54%) were reported as having objective responses, including three complete responses (under RECIST, complete response is defined as no evidence of remaining tumor, confirmed on two CT scans at least four weeks apart) and 17 partial responses; 16 additional patients were reported to have stable disease (stable disease is defined as less than a 30% decrease and no more than a 20% increase in the sum of the longest tumor diameters per RECIST).

In the non-small cell lung cancer study, 42 enrolled patients were evaluable for anti-tumor effect. Nine of the 42 evaluable patients (21%; 95% Confidence Interval 10% - 37%) were reported as having objective responses, including three complete responses and six partial responses; 18 additional patients were reported to have stable disease.

In the bladder cancer study, 27 patients enrolled were evaluable for anti-tumor effect. Nine of the 27 evaluable patients (33%; 95% Confidence Interval 17% - 54%) were reported as having objective responses, including two complete responses and seven partial responses; 11 additional patients were reported to have stable disease.

The response rates for these three clinical trials are summarized in the table below:

Cancer Type	No. Patients Evaluable	Stable Disease	Objective Responses (OR)				
			Partial Response	Complete Response	Total OR	% OR	95% CI
Ovarian	51	16	17	3	20	39%	(26% - 54%)
NSCL	42	18	6	3	9	21%	(10% - 37%)
Bladder	27	11	7	2	9	33%	(17% - 54%)

Following completion of treatment, clinical monitoring of each consenting patient was continued to assess survival duration. Median survival in each of the three studies has been estimated based on reports received from investigators as of December 2005:

Cancer Type	Median Survival (wks)	95% CI (wks)
Ovarian	64.1	(49.1 - 106.4)
NSCL	34.7	(18.9 - 48.0)
Bladder	57.4	(27.1 - 94.9)

In September 2004, we initiated a Phase 2b study of TOCOSOL Paclitaxel for first line treatment of women with metastatic breast cancer. By October 2004, we had enrolled a total of 47 patients. At the end of September 2005, the investigators reported an overall objective response rate of 53%, (95% Confidence Interval 38% - 68%. Review of all radiographic images by an independent radiologist who had no information about individual patients' treatment or non-radiographic response assessments reported a confirmed objective response rate of 49%, (95% Confidence Interval 34% - 64%. Four patients remain on active treatment at the end of January 2006. We currently estimate the median time to disease progression at 7.2 months (95% Confidence Interval 5.5 – 9.8 months) and patient follow-up for survival duration will continue throughout the next two years.

In addition to being assessed for anti-tumor efficacy, patients are also monitored for adverse events in all clinical studies. The most significant adverse events expected with taxanes are neutropenia and peripheral neuropathy. Among 204 patients treated in the Phase 2 clinical trials, the incidence of at least one episode of Grade 4 neutropenia (absolute neutrophil count <500 cells/mm3) during treatment was 19%. However, only 2% of patients had febrile neutropenia, and there were no septic deaths. No peripheral neuropathy was observed in 53% of patients, Grade 3 peripheral neuropathy was reported in only 11% of patients cumulatively, and no patients experienced Grade 4 peripheral neuropathy. We believe these adverse event rates compare favorably to the reported neutropenia and peripheral neuropathy experienced when Taxol is administered with the approved dosing regimen of 175 mg/m(2) every three weeks. Dose reductions or treatment delays due to toxicity from TOCOSOL Paclitaxel did not limit long-term treatment in most patients. Paclitaxel-mediated infusion-related toxicities, sometimes called "hypersensitivity reactions" and involving pain, flushing, shortness of breath or chest tightness, were infrequently observed following more than 3,200 administered doses. Investigators have reported that infusion-related toxicities associated with our product could be ameliorated by temporary (a few minutes) interruption of infusion, while corticosteroid premedications were not helpful. Infusion-related toxicities very rarely prevented delivery of intended doses. Overall, we believe that TOCOSOL Paclitaxel appears to be well tolerated over multiple treatment cycles.

The results of the Phase 2 clinical trials may or may not be indicative of the final results upon completion of the ongoing studies or our Phase 3 pivotal study that was initiated in September 2005.

The manufacturing process for TOCOSOL Paclitaxel has been successfully scaled to support commercialization. In March 2005, Sonus met with the U.S. Food and Drug Administration ("FDA") to discuss the Chemistry, Manufacturing and Controls ("CMC") data for the drug product. The FDA did not identify any issues with the manufacture and control of the drug product that would preclude Sonus from using TOCOSOL Paclitaxel in the Phase 3 trial, nor from submitting our intended New Drug Application (NDA) based on the results of that trial.

Our objective is to work with our corporate partner (Schering AG) to advance final clinical development, gain marketing approval and maximize the commercial opportunity for TOCOSOL Paclitaxel. Our regulatory strategy is to gain the fastest possible market entry with a competitive label, while pursuing opportunities to further differentiate the product. Our strategy for product approval includes the following:

- *505(b)(2).* We will seek initial approval of TOCOSOL Paclitaxel with a 505(b)(2) NDA submission, which will rely on the FDA's previous findings of safety and efficacy for Taxol (the reference paclitaxel product), supplemented by data supporting TOCOSOL Paclitaxel's safety and efficacy. The FDA's use of the 505(b)(2) mechanism is designed to streamline the NDA review process by not requiring duplicate work for active pharmaceutical ingredients that are already well known. As part of our regulatory strategy, we initiated a randomized crossover clinical pharmacology study in the fourth quarter of 2003, to compare the amount of paclitaxel exposure in the circulation over time after single doses of TOCOSOL Paclitaxel and Taxol, with both drugs given at 175 mg/m(2) every three weeks (the approved dosing regimen for Taxol). We completed patient enrollment in March 2004 and final data were available for analysis in September 2004. The data from this study indicate that TOCOSOL Paclitaxel delivers 67% higher exposure to free (unbound) paclitaxel, and 108% higher exposure to total (protein-bound and unbound) paclitaxel than an equal dose of Taxol. How this may or may not correlate to the efficacy of TOCOSOL Paclitaxel as compared to Taxol is yet to be proven in Phase 3 clinical testing. Sonus met with the FDA in December 2004, and based on preclinical and clinical data generated to date, the FDA indicated that it was appropriate for Sonus to conduct a single Phase 3 clinical trial that would be the basis for submission of a NDA for TOCOSOL Paclitaxel under the 505(b)(2) regulatory mechanism. The FDA and Sonus finalized the study design and plans for conducting and analyzing the results of the Phase 3 trial, under a Special Protocol Assessment ("SPA"), which was completed in June 2005. The Phase 3 study is comparing the safety and efficacy of TOCOSOL Paclitaxel administered weekly with Taxol administered weekly.

  Based on agreement from the FDA to use the results of a single Phase 3 trial with a primary endpoint of objective response rate, we believe that the NDA for TOCOSOL Paclitaxel could be submitted within 12 months after the completion of patient enrollment into the Phase 3 study, which we believe may occur before the end of September 2006. We anticipate that submission of our NDA is likely to occur in 2007. The FDA has indicated to Sonus that NDA approval under 505(b)(2) will require either (i) demonstration of superior efficacy of TOCOSOL Paclitaxel as compared to Taxol; or (ii) demonstration of non-inferior efficacy of TOCOSOL Paclitaxel as compared to Taxol, and either a change of the approved label for Taxol and generic equivalents to include a weekly dosing schedule or availability of reviewable data from a Phase 3 trial comparing the efficacy of Taxol using a weekly dosing schedule to that of Taxol using the currently approved three-weekly dosing schedule. We do not currently believe that the timing or cost of the Phase 3 trial or the NDA submission will be adversely affected by these requirements. The clinical trial Protocol and Statistical Analysis Plan approved under the SPA provide for sequential superiority analyses for efficacy of TOCOSOL Paclitaxel compared to Taxol, provided that we first demonstrate a non-inferior objective response rate; however, there can be no assurance that the Phase 3 clinical trial data will demonstrate that TOCOSOL Paclitaxel has efficacy that is non-inferior or superior to Taxol. Further, there can be no assurance that the approved label for Taxol or generics will be changed to provide for weekly dosing, although we do believe, based on repeated discussions with the FDA, that they are pursuing this change. Large Phase 3 clinical trials have been conducted by third parties, utilizing Taxol on a weekly versus a three-weekly basis, and data from those studies may be available for submission to the FDA in support of our NDA. However, there can be no assurance that Sonus will have right of reference to the data from such trials. If Sonus is required to conduct an additional Phase 3 trial of Taxol given weekly versus three-weekly, substantial additional costs and time would be required before the NDA submission for TOCOSOL Paclitaxel.

- *New indications for taxanes.* In conjunction with our corporate partner, Schering AG, we may pursue clinical development of TOCOSOL Paclitaxel for the treatment of other types of cancer, including indications for which Taxol has been approved as well as for diseases for which Taxol is used but not approved, such as treatment of inoperable or metastatic urothelial transitional cell

cancers (mostly urinary bladder cancers). In October 2003, we announced that we were granted Fast Track designation by the FDA for the development of TOCOSOL Paclitaxel for this indication. We initiated a Phase 2b study in bladder cancer in the U.S. during the fourth quarter of 2003, and in Spain and the U.K. during 2005, using weekly dosing of TOCOSOL Paclitaxel. Enrollment in this trial has been challenging due to the limited population of patients in this indication and the inconsistent standard of treatment for it, however we now expect to complete enrollment in this study in 2006. In December 2004, the FDA granted an Orphan Drug designation to TOCOSOL Paclitaxel for the treatment of non-superficial urothelial cancer.

The scope, timing and costs of the clinical trials to be conducted under all of the above regulatory strategies are difficult to determine with accuracy. We are pursuing a single pivotal Phase 3 trial in metastatic breast cancer, an indication where paclitaxel is approved, with a primary endpoint of objective response rate and secondary endpoints of progression-free survival and overall survival durations. We expect to submit the NDA with data on the primary endpoint, potentially followed by supplemental submissions when data are mature for the secondary endpoints. The Phase 3 trial, which compares TOCOSOL Paclitaxel to Taxol administered weekly, is powered to achieve statistical significance on all three endpoints, and is expected to enroll approximately 800 evaluable patients. Our current estimate for the total cost of the Phase 3 trial is between $45 million and $50 million. Under our Collaboration and License Agreement with Schering AG, dated October 17, 2005, Schering will fund 50% of these costs. In addition, it is anticipated that we will collaborate with Schering on additional studies of TOCOSOL Paclitaxel. Under the terms of the agreement with Schering, we are also obligated to fund 50% of the costs of certain studies conducted by Schering AG in support of commercialization activities for the U.S. market. The exact cost and timing of these studies is yet to be finalized. The currently ongoing Phase 3 trial will constitute the bulk of the Company's clinical trial spending in the near term, and at least half of the cost of the Phase 3 trial will occur in the first 12 months after the start of the study (September 2005 through September 2006). However, these costs may vary significantly depending upon regulatory and other matters that are not within our control and there can be no assurance that such amount will be sufficient to complete the study. There can be no assurance that the results of any or all of the anticipated clinical trials will be successful or will support product approval.

Research and Development Pipeline

We continue to invest in the research and development of new product candidates, including those that we believe could extend the application of our technology. Our second oncology drug candidate, SN2310 Injectable Emulsion, is a novel camptothecin derivative discovered and formulated with Sonus' proprietary TOCOSOL technology. Camptothecins are among the most important classes of anti-cancer drugs introduced in recent years; however, the marketed camptothecin analogs pose substantial challenges in terms of efficacy, tolerability and difficulty of use. Our objective with SN2310 Injectable Emulsion is to provide a product that has enhanced tolerability and anti-tumor activity compared with the approved products. We anticipate submitting an Investigational New Drug Application (IND) to the U. S. Food and Drug Administration for SN2310 Injectable Emulsion and initiating its clinical testing in 2006. There are currently two marketed hydrophilic (water-based) camptothecin analogs that are based on chemical modifications to the native camptothecin molecule. Irinotecan, which is marketed under the name Camptosar® is indicated for treatment of colorectal cancer. Topotecan, which is marketed under the name Hycamtin®, is indicated for treatment of ovarian and non-small cell lung cancers. Our research and development efforts on SN2310 Injectable Emulsion are preliminary, and we cannot give any assurance that this compound will be successful or that it will progress to clinical trials. Advancing this development candidates into human clinical trials is dependent on several factors, including technological feasibility and commercial opportunity as well as the availability of

financial resources.

In addition to our internal research and development efforts, we may also consider acquisitions of other products, development candidates or technologies to expand our pipeline and capabilities.

Market Overview

Cancer is characterized by rapid, uncontrolled cell division resulting in the growth of an abnormal mass of cells generally referred to as a malignant tumor. Cancerous tumors can arise in almost any tissue or organ, and cancer cells, if not eradicated, can spread, or metastasize, throughout the body. As these tumors grow, they cause

damage to the surrounding tissue and organs and commonly result in death if left untreated. Cancer is believed to occur as a result of a number of hereditary and environmental factors. According to the American Cancer Society, cancer is the second leading cause of death in the United States and accounts for approximately one in every four deaths. Approximately 565,000 Americans are expected to die of cancer in 2006. The National Institutes of Health estimated the direct medical cost of cancer to be $74 billion in 2005.

Our lead product candidate, TOCOSOL Paclitaxel, is a cancer chemotherapy drug. Paclitaxel, the active ingredient in TOCOSOL Paclitaxel, is a member of the taxane class of chemotherapy drugs, which generates annual worldwide sales estimated to be in excess of $3.5 billion. TOCOSOL Paclitaxel, if approved, would address a portion of this market depending on the approved indication(s). Other product candidates in our pipeline are in the early stages of development, and it is difficult to evaluate the potential markets for these product candidates as the areas of potential application are diverse and specific applications are yet to be determined.

Manufacturing

We originally used the University of Iowa as the FDA-approved institution to manufacture TOCOSOL Paclitaxel under current Good Manufacturing Practice ("GMP") requirements for our use in preclinical and clinical studies. In mid-2002, we entered into a manufacturing and supply agreement with Sicor Pharmaceutical Sales, Inc. (Sicor is now known as TEVA Pharmaceuticals USA). The TEVA agreement has an initial term of five years after the market introduction of TOCOSOL Paclitaxel, provided that market introduction occurs before June 2009, and is not terminable at will. During 2003, in collaboration with TEVA Pharmaceuticals USA, we completed scale-up of the drug product manufacturing process for TOCOSOL Paclitaxel to commercial scale under current GMP requirements, ensuring adequate clinical drug supplies for ongoing and planned clinical trials, and providing a commercial process to enable regulatory approval and commercial product launch. On the material supply side, we have entered into agreements for the supply of GMP-grade paclitaxel, which is the active pharmaceutical ingredient in TOCOSOL Paclitaxel.

On March 2, 2006, in accordance with the Collaboration and License Agreement with Schering AG (Schering), Schering exercised their right to assume responsibility for all manufacturing of TOCOSOL Paclitaxel.

Research and Development

We currently conduct research and development activities at our facilities in Bothell, Washington. We also engage in certain research, preclinical studies and clinical development efforts at third party laboratories and other institutions. Our primary research and development efforts are currently directed at the development and application of the proprietary TOCOSOL technology to TOCOSOL Paclitaxel and to a lesser extent, other various compounds where we can use our expertise or technology to improve either the safety or efficacy of oncology drugs.

Our research and development activities for the last three years can be divided into research, preclinical and clinical development programs primarily associated with TOCOSOL Paclitaxel as well as research and preclinical activities related to our other early stage pipeline development product candidates. The costs associated with these programs for the last three fiscal years were as follows *(in millions)*:

	2005	2004	2003
TOCOSOL Paclitaxel	$ 21.2	$ 9.2	$ 6.3
Other research & preclinical programs	$ 3.3	$ 1.5	$ 1.4
Total research & development	$ 24.5	$ 10.7	$ 7.7

We separately track all costs directly and indirectly associated with TOCOSOL paclitaxel as it is our lead product candidate and has been partnered with Schering AG. Costs attributed to other research and preclinical projects largely represent our pipeline generating activities and are not tracked to the same level of precision. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of research and development spending trends.

Government Regulations – Drug Approval Process

Regulation by governmental authorities in the U.S. and other countries is a significant factor in our ongoing research and development activities and in the production and marketing of our products. In order to undertake clinical tests, to produce and market products for human use, mandatory procedures and safety standards, established by the FDA in the U.S. and by comparable agencies in other countries, must be followed.

The standard process before a pharmaceutical agent may be marketed includes the following steps:

- Preclinical studies including laboratory evaluation and animal studies to test for initial safety and efficacy;
- Submission to national health authorities of an Investigational New Drug application (IND), or Clinical Trials Application (CTA) or equivalent dossier, which must be accepted by each national health authority before human clinical trials may commence in that country;
- Adequate and well-controlled clinical trials to establish the safety and efficacy of the drug in its intended population and use(s);
- Submission to appropriate national and/or regional regulatory health authorities of a New Drug Application (NDA), or equivalent marketing authorization application, which application is not automatically accepted for review; and
- approval by appropriate regulatory health authorities of the marketing authorization application prior to any commercial sale or shipment of the drug in each country or jurisdiction.

In addition to obtaining regulatory health authority approvals for each product, each drug-manufacturing establishment for products to be sold in the U.S. must be registered by the FDA for each product that is manufactured at that facility. Manufacturing establishments are subject to inspections by the FDA and by other federal, state and local agencies and must comply with GMP requirements applicable to the production of pharmaceutical drug products. GMP requirements are enumerated in FDA regulations and guidance documents. The facilities, procedures, and operations of contract manufacturers must be determined to be adequate by the FDA before approval of commercial product manufacturing. Manufacturing facilities are subject to inspections by the FDA for compliance with GMP, licensing specifications, and other regulations. Failure to comply with regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, injunctions and criminal prosecution.

Preclinical studies include laboratory evaluation of the active drug substance and its formulation in animal studies to assess the potential safety and efficacy of the drug and its formulation. Prior to initiating the first clinical testing of a new drug product candidate, the results of the preclinical studies are submitted to regulatory health authorities as part of an IND or CTA, and must be accepted before the proposed clinical trial(s) can begin.

Clinical trials for cancer therapeutics involve the administration of the investigational drug product to patients with a defined disease state, under the supervision of a qualified principal investigator. Clinical trials are conducted in accordance with protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol is submitted to regulatory health authorities as part of the IND/CTA, in each country where clinical trials using our investigational products are to be conducted. Each clinical study is approved and monitored by one or more independent Institutional Review Boards or Ethics Committees who consider, among other things, ethical factors, informed consent documents, the safety of human subjects and the possible liability of the institutions conducting a clinical study. The Institutional Review Board or Ethics Committee may require changes in the clinical trials protocol, which may delay initiation or completion of the study.

Clinical trials typically are conducted in three sequential phases, although the phases may overlap. In Phase 1, the initial introduction of the drug to humans, the drug is tested for acute safety and clinical pharmacology. Phase 2 trials involve more detailed evaluation of the safety and efficacy of the drug in patients with a defined disease or condition. Phase 3 trials consist of large scale evaluations of safety and efficacy of the investigational product compared to accepted standard therapy in a defined disease or condition.

The process of completing clinical testing and obtaining regulatory health authority approval for a new product takes a number of years and requires the expenditure of substantial resources. In the U.S., the FDA may grant full approval of a drug product for a particular indication or may grant approval conditioned on further post-marketing clinical trials. Regulatory health authorities may conclude that the data submitted in a marketing authorization application are not adequate to support an approval and may require further clinical and preclinical testing, re-submission of the marketing application, and further review. Even after initial approval has been obtained, further studies may be required to provide additional data about the approved indication, and further studies will be required to gain approval for the use of a product for clinical indications other than those for which the product was approved initially. Also, health authorities may require post-marketing testing and surveillance programs to monitor the drug product's side effects.

Marketing of pharmaceutical products outside of the U.S. is subject to regulatory requirements that vary from country to country. In the European Union, the general trend has been towards coordination of common standards for clinical testing of new drug products. Centralized approval in the European Union is coordinated through the European Medicines Evaluation Agency, or EMEA.

The level of regulation outside of the U.S. and European Union varies widely. The time required to obtain regulatory approval from regulatory agencies in each country may be longer or shorter than that required for FDA or EMEA approval. In addition, in certain markets, reimbursement may be subject to governmentally mandated prices.

Many of the chemicals and compounds used in our research and development efforts are classified as hazardous materials under applicable federal, state and local environmental laws and regulations. We are subject to regulations under state and federal law regarding occupational safety, laboratory practices, handling and disposing of chemicals, environmental protection and hazardous substance control. We also will be subject to other possible future regulations of local, state, federal and other jurisdictions.

Competition

The healthcare industry in general is characterized by extensive research efforts, rapid technological change and intense competition. We believe that other pharmaceutical companies will compete with us in areas of research and development, acquisition of products and technology licenses, and the manufacturing and marketing of products that could potentially compete with ours. We expect that competition will be based on safety, efficacy, ease of administration, breadth of approved indications, price, reimbursement and physician and patient acceptance.

Several other companies are developing paclitaxel reformulations with a goal of delivering a more effective and tolerable therapy than Taxol and the approved generic paclitaxel-based products. On January 7, 2005, American Pharmaceutical Partners obtained FDA approval to market its paclitaxel-based product, ABRAXANE (paclitaxel protein-bound particles for injectible suspension). In addition, Sanofi-aventis has a taxane product, Taxotere (docetaxel), which has a similar mechanism of action to paclitaxel and is marketed for the treatment of breast, non-small cell lung and prostate cancers. There are also a number of generic paclitaxel products, identical to Taxol, currently on the market. As a result of the increased competition, the price for paclitaxel products has been under pressure and may drop significantly even if we achieve regulatory approval for TOCOSOL Paclitaxel.

We believe that our ability to successfully compete in the biotechnology and pharmaceutical industries will be based on our ability to do the following:

- Create and maintain advanced formulation technologies;
- Develop proprietary products;
- Attract and retain key scientific personnel;
- Obtain patent or other protection for products;
- Obtain required regulatory approvals; and
- Manufacture, market and or license our products alone or with collaborative partners.

Many of our competitors and potential competitors have substantially greater financial, technical and human resources than we do and have substantially greater experience in developing products, obtaining regulatory approvals and marketing and manufacturing products. Companies that complete clinical trials, obtain required regulatory approvals and commence commercial sales of their products before their competitors may achieve a significant competitive advantage if their products work through a similar mechanism as our products. In addition, other technologies or products may be developed that have an entirely different approach that would render our technology and products noncompetitive or obsolete.

Patents and Proprietary Rights

We consider the protection of our technology to be important to our business. In addition to seeking U.S. patent protection for our inventions, we are also seeking patent protection in other selected countries in order to broadly protect our proprietary rights. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position.

Our success will depend, in part, on our ability to obtain and defend patents and protect trade secrets. As of December 31, 2005, seven United States patents and four patents outside the U.S., one each in Canada, Taiwan, Mexico and India have been issued pertaining to our proprietary TOCOSOL technology. Additional patent applications are pending in the United States and counterpart filings have been made in Europe, Canada and key countries in Asia and Latin America.

The patent position of medical and pharmaceutical companies is highly uncertain and involves complex legal and factual questions. There can be no assurance that any claims which are included in pending or future patent applications will be issued, that any issued patents will provide us with competitive advantage or will not be challenged by third parties, or that existing or future patents of third parties will not have an adverse effect on our ability to commercialize our products. Furthermore, there can be no assurance that other companies will not independently develop similar products, duplicate any of our products or design around patents that may be issued to us. Litigation or administrative proceedings may be necessary to enforce any patents issued to us or to determine the scope and validity of others' proprietary rights.

Our commercial success will depend in part on not infringing patents issued to competitors. There can be no assurance that patents belonging to competitors or others will not require us to alter our products or processes, pay licensing fees or cease development of our current or future products. Further, there can be no assurance that we will be able to license other technology that we may require at a reasonable cost or at all. Failure by us to obtain a license to any technology that we may require to commercialize our products could have a material adverse effect on our business, financial condition and results of operations.

We have obtained registration for our marks TOCOSOL® and Sonus Pharmaceuticals®, in the United States. There can be no assurance that the registered or unregistered trademarks or trade names of our company will not infringe upon third party rights or will be acceptable to regulatory agencies.

We also rely on unpatented trade secrets, proprietary know-how and continuing technological innovation, which we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees and consultants in our drug development research. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that our trade secrets or know-how will not otherwise become known or be independently discovered by competitors. Further, there can be no assurance that we will be able to protect our trade secrets or that others will not independently develop substantially equivalent proprietary information and techniques.

Product Liability

The testing, marketing and sale of pharmaceutical products entails a risk of product liability claims by consumers and others. We currently maintain product liability insurance for our clinical trials with limits of $10 million per claim and in the aggregate, which we believe to be adequate for current non-commercial and Phase 3

applications of our products. In the event of a successful suit against us, the lack or insufficiency of insurance coverage could have a material adverse effect on our business and financial condition. Although we have never been subject to a product liability claim, there can be no assurance that the coverage limits of our insurance policies will be adequate or that one or more successful claims brought against us would not have a material adverse effect upon our business, financial condition and results of operations. If any of our products under development gain marketing approval from the FDA or other regulatory health authorities, there can be no assurance that adequate product liability insurance will be available, or if available, that it will be available at a reasonable cost. Any adverse outcome resulting from a product liability claim could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of March 1, 2006, we had 48 employees, 31 engaged in research and development, regulatory, clinical and manufacturing activities, and 17 in business operations and administration. All of our employees are covered by confidentiality agreements. We consider our relations with our employees to be good, and none of our employees is a party to a collective bargaining agreement.

Company Information

Sonus Pharmaceuticals was incorporated in California in October 1991 and subsequently reorganized as a Delaware corporation in September 1995. The Company's principal executive offices are located at 22026 20th Avenue SE, Bothell, Washington 98021, and its telephone number is (425) 487-9500. The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available on its website, at http://www.sonuspharma.com, free of charge as soon as practicable after filing with the SEC. All such reports are also available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by the Company with the SEC at the SEC's public reference room located at 450 Fifth St., N.W., Washington, D.C., 20549. Information regarding operation of the SEC's public reference room can be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Governmental regulatory *requirements are lengthy and expensive and failure to obtain necessary approvals will prevent us or our partners from commercializing a product.*

We are subject to uncertain governmental regulatory requirements and a lengthy approval process for our products prior to any commercial sales of our products. The development and commercial use of our products are regulated by the U.S. Food and Drug Administration, or FDA, the European Medicines Evaluation Agency, or EMEA, and comparable regulatory agencies in other countries. The regulatory approval process for new products is lengthy and expensive. Before we can submit an application to the FDA and comparable international agencies, the product candidate must undergo extensive testing, including animal studies and human clinical trials that can take many years and require substantial expenditures. Data obtained from such testing may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, changes in regulatory policy for product approval may cause additional costs in our efforts to secure necessary approvals.

Our product candidates are subject to significant uncertainty because they are in both early to late stages of development and are subject to regulatory approval. The results of preclinical and clinical testing of our products are uncertain and regulatory approval of our products may take longer or be more expensive than anticipated, which could have a material adverse effect on our business, financial condition and results of operations. In June 2005, the FDA completed its review of the contents of the SPA for TOCOSOL Paclitaxel. The FDA has indicated to Sonus that NDA approval under 505(b)(2) will require either (i) demonstration of superior efficacy of TOCOSOL Paclitaxel as compared to Taxol; or (ii) demonstration of non-inferior efficacy of TOCOSOL Paclitaxel as compared to Taxol, and either a change of the approved label for Taxol and generic equivalents to include a weekly dosing schedule or availability of reviewable data from a Phase 3 trial comparing the efficacy of Taxol using a weekly dosing schedule to that of Taxol using the currently approved three-weekly dosing schedule.

We do not currently believe that the timing or cost of the Phase 3 trial or the NDA submission will be adversely affected by these requirements. The clinical trial Protocol and Statistical Analysis Plan approved under the SPA provide for sequential superiority analyses for efficacy of TOCOSOL Paclitaxel compared to Taxol, provided that we first demonstrate a non-inferior objective response rate; however, there can be no assurance that the Phase 3 clinical trial data will demonstrate that TOCOSOL Paclitaxel has efficacy that is non-inferior or superior to Taxol. Further, there can be no assurance that the approved label for Taxol or generics will be changed to provide for weekly dosing, although we do believe, based on repeated discussions with the FDA, that they are pursuing this change. Large Phase 3 clinical trials have been conducted by third parties, utilizing Taxol on a weekly versus a three-weekly basis, and data from those studies may be available for submission to the FDA in support of our NDA. However, there can be no assurance that Sonus will have right of reference to the data from such trials. If Sonus is required to conduct an additional Phase 3 trial of Taxol given weekly versus three-weekly, substantial additional costs and time would be required before the NDA submission for TOCOSOL Paclitaxel. In addition, there is pending litigation attacking the utilization of the 505(b)(2) regulatory strategy generally. There can be no assurance that such litigation will not be successful. A 505(b)(2) application permits us to rely upon the FDA's findings of safety and efficacy for a previously approved drug product without requiring us to obtain a right of reference from the original applicant. In addition to permitting reliance upon the FDA's prior findings of safety and effectiveness for previously approved drugs, section 505(b)(2) continues to allow reliance on third party data that is available in published literature and which establishes the safety and effectiveness of a drug. However, we are required to provide any additional clinical data necessary to demonstrate the safety and effectiveness of differences between the original drug and the 505(b)(2) drug, so while unnecessary duplication of preclinical and certain human studies is avoided, specific studies may be required to establish the relevance and applicability of prior findings for our particular product formulation. We cannot predict if or when any of our products under development will be commercialized.

We will need additional capital in the future, and if it is not available on terms acceptable to us, or at all, we would have to scale back our expenditures and our development and commercialization activities.

We expect that our cash requirements will continue to increase in future periods due to development costs associated with TOCOSOL Paclitaxel and other product candidates. We estimate that existing cash, cash equivalents and marketable securities, in addition to payments pending and cost sharing arrangements under our Collaboration and License Agreement with Schering AG, will be sufficient to fund operations through at least the end of the first quarter of 2007. We will need additional capital to complete the development of TOCOSOL Paclitaxel, fund our obligations under the collaborative license agreement with Schering, fund the development of other product candidates and support our continuing operations. In addition to the supportive trials Sonus plans to conduct, it is anticipated that we will collaborate with Schering on additional studies. Under the terms of the Collaboration and License Agreement with Schering, we are also obligated to fund 50% of the costs of certain studies conducted by Schering for the U.S. The exact cost and timing of these studies is yet to be finalized. Our current estimate for the total cost of the Phase 3 trial is between $45 million and $50 million. However, the scope, timing and costs of the Phase 3 clinical trial are difficult to determine with accuracy and these costs may vary significantly depending upon regulatory and other matters that are not within our control. Should our clinical data support an NDA submission based on the primary endpoint of objective response rate, we anticipate that the NDA could be submitted within 12 months after conclusion of patient enrollment. Our future capital requirements depend on many factors including:

- our ability to obtain and timing of payments under corporate partner agreements;
- our ability to obtain and timing of capital funding under equity or debt financing agreements;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and amount of costs to support our obligations under the Collaboration and License Agreement with Schering AG;
- entering into new collaborative or product license agreements;
- timing and costs of technology transfer associated with manufacturing and supply agreements; and
- costs related to obtaining, defending and enforcing patents.

Any future debt or equity financing, if available, may result in substantial dilution to existing stockholders, and debt financing, if available, may include restrictive covenants. If we are unable to raise additional financing by the end of the first quarter of 2007, we will have to reduce our expenditures and scale back the development of our products and new product research and development. In addition, we may not be able to fund our obligations under the Collaboration and License Agreement with Schering, in which case we could be in default under the agreement which could cause us to incur penalties or the agreement to be terminated.

If we fail to develop new products, then we may never realize revenue from product commercialization.

A key element of our business strategy is to utilize our technologies for the development and commercialization of products that utilize our proprietary TOCOSOL technology. Most of our attention and resources are directed to the development of our proprietary TOCOSOL technology, a technology that provides a novel approach to the formulation of water insoluble compounds for therapeutic applications. Significant expenditures in additional research and development, clinical testing, regulatory, manufacturing, and sales and marketing activities will be necessary in order for us to demonstrate the efficacy of our products, or commercialize any products developed with our technology. There can be no assurance that product candidates under development or any future products will be safe or efficacious. If the product candidates under development are ultimately ineffective in treating cancer, do not receive the necessary regulatory approvals or do not obtain commercial acceptance, we will incur additional losses, our accumulated deficit will increase and our business will be materially adversely affected.

Even if we are successful in developing our products, there is no assurance that such products will receive regulatory approval or that a commercially viable market will develop.

We have a history of operating losses which we expect will continue and we may never become profitable.

We have experienced significant accumulated losses since our inception, and are expected to incur net losses for the foreseeable future. These losses have resulted primarily from expenses associated with our research and development activities, including nonclinical and clinical trials, and general and administrative expenses. As of December 31, 2005, our accumulated deficit totaled $88.2 million. We anticipate that our operating losses will continue as we further invest in research and development for our products. We will not generate the majority of milestone or royalty revenues under our collaboration and license agreement with Schering AG unless and until we receive regulatory approvals, which are not likely to occur until 2008 and beyond. Even if we generate milestone and royalty revenues, there can be no assurance that we will be able to achieve or sustain profitability. Our results of operations have varied and will continue to vary significantly and depend on, among other factors:

- timing of payments, under our Collaboration and License Agreement with Schering or our ability to obtain other corporate partner agreements or other financing;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and amount of costs to support our obligations under the Collaboration and License Agreement with Schering;
- drug discovery and research and development;
- timing and costs of technology transfer associated with manufacturing and supply agreements; and

- costs related to obtaining, defending and enforcing patents.

We depend on third parties for funding, clinical development, manufacturing and distribution of TOCOSOL Paclitaxel.

We are dependent, and may in the future be dependent, on third parties for funding or performance of a variety of key activities including research, clinical development, manufacturing, marketing, sales and distribution of our products. Our current business strategy is to enter into agreements with third parties both to license rights to our potential products and to develop and commercialize new products. We executed an agreement with Schering AG for TOCOSOL Paclitaxel in October 2005. Under the Collaboration and License Agreement,

Schering has a worldwide exclusive license to market and promote TOCOSOL Paclitaxel and is responsible for clinical development and regulatory activities outside of the U.S. If these arrangements with Schering or other third parties are terminated or the collaborations are not successful, we will be required to identify alternative sources of funding to finance research, clinical development, manufacturing, marketing, sales and/or distribution. Our inability to secure additional funding would have a material adverse effect on our business, financial condition and results of operations. Our success depends in part upon the performance by these collaborators of their responsibilities under these arrangements. We have no control over the resources that our partners may devote to the development and commercialization of products under these collaborations and our partners may fail to conduct their collaborative activities successfully or in a timely manner.

If we lose our key personnel or are unable to attract and retain qualified scientific and management personnel, we may be unable to become profitable.

We are highly dependent on our key executives, including Michael A. Martino, President & Chief Executive Officer, Michael B. Stewart, Senior Vice President & Chief Medical Officer and Alan Fuhrman, Senior Vice President & Chief Financial Officer. We do not have employment agreements in place with these key executives nor do we maintain any key person life insurance coverage on these persons. The loss of any of these key executives or the inability to recruit and retain qualified scientific personnel to perform research and development and qualified management personnel could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we will be able to attract and retain such personnel on acceptable terms, if at all, given the competition for experienced scientists and other personnel among numerous medical and pharmaceutical companies, universities and research institutions.

Future U.S. or international legislative or administrative actions also could prevent or delay regulatory approval of our products.

Even if regulatory approvals are obtained, they may include significant limitations on the indicated uses for which a product may be marketed. A marketed product also is subject to continual FDA, EMEA and other regulatory agency review and regulation. Later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market, as well as possible civil or criminal sanctions. In addition, if marketing approval is obtained, the FDA, EMEA or other regulatory agency may require post-marketing testing and surveillance programs to monitor the product's efficacy and side effects. Results of these post-marketing programs may prevent or limit the further marketing of a product.

The development of pharmaceutical products in general and the development of paclitaxel reformulations in particular is extremely competitive, and if we fail to compete effectively, it would negatively impact our business.

Competition in the development of pharmaceutical products is intense and expected to increase. We also believe that other medical and pharmaceutical companies will compete with us in the areas of research and development, acquisition of products and technology licenses, and the manufacturing and marketing of our products. Success of products in these fields will be based primarily on:

- efficacy;
- safety;
- price;
- ease of administration;
- breadth of approved indications; and
- physician, healthcare payor and patient acceptance.

Several other companies are developing paclitaxel reformulations with a goal of delivering a more effective and tolerable therapy than the approved paclitaxel products. Some of these products are further in development than TOCOSOL Paclitaxel and may achieve regulatory approval before our product. On January 7, 2005, American Pharmaceutical Partners obtained FDA approval to market its paclitaxel-based product, ABRAXANE (paclitaxel protein-bound particles for injectible suspension). In addition, Sanofi-aventis has a taxane product,

Taxotere (docetaxel), which is similar to paclitaxel and is marketed for the treatment of breast, non-small cell lung and prostate cancers. There are also a number of generic paclitaxel products, identical to Taxol, currently on the market. As a result of the increased competition, the price for paclitaxel products has been under pressure and may drop significantly even if we achieve regulatory approval.

Many of our competitors and potential competitors, including large pharmaceutical, chemical and biotechnology concerns and universities and other research institutions, have substantially greater financial, technical and human resources than we do and have substantially greater experience in developing products, obtaining regulatory approvals and marketing and manufacturing medical products. Accordingly, these competitors may succeed in obtaining FDA approval for their products more rapidly than we do. In addition, other technologies or products may be developed that have an entirely different approach that would render our technology and products noncompetitive or obsolete. If we fail to compete effectively, it would have a material adverse effect on our business, financial condition and results of operations.

We rely on third party suppliers and manufacturers to produce products that we develop and failure to retain such suppliers and manufacturers would adversely impact our ability to commercialize our products.

We currently rely on third parties to supply the chemical ingredients necessary for our drug product candidates. We have entered into supply agreements for the supply of GMP grade paclitaxel, which is the active pharmaceutical ingredient in TOCOSOL Paclitaxel. The chemical ingredients for our products are manufactured by a limited number of vendors. The inability of these vendors to supply medical-grade materials to us could delay the manufacturing of, or cause us to cease the manufacturing of our products. We also rely on third parties to manufacture our products for research and development and clinical trials. TEVA Pharmaceuticals USA (TEVA) is our primary manufacturer of TOCOSOL Paclitaxel for clinical studies and has also agreed to manufacture TOCOSOL Paclitaxel for commercialization. The TEVA agreement has an initial term of five years after market introduction of TOCOSOL Paclitaxel, provided that market introduction occurs before June 2009, and is not terminable at will. We previously manufactured clinical supplies of TOCOSOL Paclitaxel at other GMP certified contract laboratories. Suppliers and manufacturers of our products must operate under GMP regulations, as required by the FDA, and there are a limited number of contract manufacturers that operate under GMP regulations. GMP are enumerated in FDA regulations and guidance documents. The facilities, procedures, and operations of our contract manufacturers must be determined to be adequate by the FDA before approval

of product manufacturing. Manufacturing facilities are subject to inspections by the FDA for compliance with GMP, licensing specifications, and other FDA regulations. Failure to comply with FDA and other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, injunctions and criminal prosecution. Any of these actions could have a material adverse effect on us. Our reliance on independent manufacturers involves a number of other risks, including the absence of adequate capacity, the unavailability of, or interruptions in, access to necessary manufacturing processes and reduced control over delivery schedules. If our manufacturers are unable or unwilling to continue manufacturing our products in required volumes or have problems with commercial scale-up, we will have to identify acceptable alternative manufacturers. The use of a new manufacturer may cause significant interruptions in supply if the new manufacturer has difficulty manufacturing products to our specifications. Further, the introduction of a new manufacturer may increase the variation in the quality of our products.

If we fail to secure adequate intellectual property protection or become involved in an intellectual property dispute, it could significantly harm our financial results and ability to compete.

Our success will depend, in part, on our ability to obtain and defend patents and protect trade secrets. As of December 31, 2005, we held seven United States patents and four patents outside the U.S., one each in Canada, Taiwan, Mexico and India pertaining to our proprietary TOCOSOL technology. We hold one additional United States patent directed to other technologies. Additional patent applications are pending in the United States and counterpart filings have been made in Europe, Canada and key countries in Asia and Latin America. The patent position of medical and pharmaceutical companies is highly uncertain and involves complex legal and factual questions. There can be no assurance that any claims which are included in pending or future patent applications will be issued, that any issued patents will provide us with competitive advantages or will not be challenged by

third parties, or that the existing or future patents of third parties will not have an adverse effect on our ability to commercialize our products. Furthermore, there can be no assurance that other companies will not independently develop similar products, duplicate any of our products or design around patents that may be issued to us. Litigation may be necessary to enforce any patents issued to us or to determine the scope and validity of others' proprietary rights in court or administrative proceedings. Any litigation or administrative proceeding could result in substantial costs to us and distraction of our management. An adverse ruling in any litigation or administrative proceeding could have a material adverse effect on our business, financial condition and results of operations.

Our commercial success will depend in part on not infringing patents issued to competitors.

There can be no assurance that patents belonging to competitors will not require us to alter our products or processes, pay licensing fees or cease development of our current or future products. Any litigation regarding infringement could result in substantial costs to us and distraction of our management, and any adverse ruling in any litigation could have a material adverse effect on our business, financial condition and results of operations. Further, there can be no assurance that we will be able to license other technology that we may require at a reasonable cost or at all. Failure by us to obtain a license to any technology that we may require to commercialize our products could result in the termination of the Collaboration and License Agreement with Schering and would have a material adverse effect on our business, financial condition and results of operations. In addition, to determine the priority of inventions and the ultimate ownership of patents, we may participate in interference, reissue or re-examination proceedings conducted by the U.S. Patent and Trademark Office or in proceedings before international agencies with respect to any of our existing patents or patent applications or any future patents or applications, any of which could result in loss of ownership of existing, issued patents, substantial costs to us and distraction of our management.

Reimbursement procedures and future healthcare reform measures are uncertain and may adversely impact our ability to successfully sell pharmaceutical products.

Our ability to successfully sell any pharmaceutical products will depend in part on the extent to which government health administration authorities, private health insurers and other organizations will reimburse patients for the costs of future pharmaceutical products and related treatments. In the United States, government and other third-party payors have sought to contain healthcare costs by limiting both coverage and the level of reimbursement for new pharmaceutical products approved for marketing by the FDA. In some cases, these payors may refuse to provide any coverage for uses of approved products to treat medical conditions even though the FDA has granted marketing approval. Healthcare reform may increase these cost containment efforts. We believe that managed care organizations may seek to restrict the use of new products, delay authorization to use new products or limit coverage and the level of reimbursement for new products. Internationally, where national healthcare systems are prevalent, little if any funding may be available for new products, and cost containment and cost reduction efforts can be more pronounced than in the United States.

If our products are not accepted by the medical community our business will suffer.

Commercial sales of our proposed products will substantially depend upon the products' efficacy and on their acceptance by the medical community. Widespread acceptance of our products will require educating the medical community as to the benefits and reliability of the products. Our proposed products may not be accepted, and, even if accepted, we are unable to estimate the length of time it would take to gain such acceptance.

The businesses in which we engage have a risk of product liability, and in the event of a successful suit against us, our business could be severely harmed.

The testing, marketing and sale of pharmaceutical products entails a risk of product liability claims by consumers and others. We currently maintain product liability insurance for our clinical trials with limits of $10 million per claim and in the aggregate, which we believe to be adequate for current non-commercial and Phase 3 applications of our products. In the event of a successful suit against us, the lack or insufficiency of insurance coverage could have a material adverse effect on our business and financial condition.

Since we use hazardous materials in our business, we may be subject to claims relating to improper handling, storage or disposal of these materials.

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result and any such liability not covered by insurance could exceed our resources. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or production efforts.

Market volatility may affect our stock price and the value of an investment in our common stock may be subject to sudden decreases.

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, preclinical and clinical trial results, market perception of the prospects for biotechnology companies as an industry sector and general market and economic conditions, some of which are beyond our control. Factors such as fluctuations in our financial and operating results, changes in government regulations affecting product approvals, reimbursement or other aspects of our or our competitors' businesses, FDA review of our product development activities, the results of preclinical studies and clinical trials, announcements of technological innovations or new commercial products by us or our competitors,

developments concerning key personnel and our intellectual property rights, significant collaborations or strategic alliances and publicity regarding actual or potential performance of products under development by us or our competitors could also cause the market price of our common stock to fluctuate substantially. In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These broad market fluctuations may lower the market price of our common stock. Moreover, during periods of stock market price volatility, share prices of many biotechnology companies have often fluctuated in a manner not necessarily related to the companies' operating performance. Also, biotechnology or pharmaceutical stocks may be volatile even during periods of relative market stability. Accordingly, our common stock may be subject to greater price volatility than the stock market as a whole.

Failure to satisfy Nasdaq National Market Listing requirements may result in our common stock being delisted from The Nasdaq National Market.

Our common stock is currently listed on The Nasdaq National Market under the symbol "SNUS." For continued inclusion on The Nasdaq National Market, we must maintain among other requirements stockholders' equity of at least $10.0 million, a minimum bid price of $1.00 per share and a market value of our public float of at least $5.0 million; or market capitalization of at least $50 million, a minimum bid price of $1.00 per share and a market value of our public float of at least $15.0 million. As of December 31, 2005, we had stockholders' equity of approximately $35.3 million. In the event that we fail to satisfy the listing standards on a continuous basis, our common stock may be removed from listing on The Nasdaq National Market. If our common stock were delisted from The Nasdaq National Market, our common stock may be transferred to the Nasdaq SmallCap Market if we satisfy the listing criteria for the Nasdaq SmallCap Market or trading of our common stock, if any, may be conducted in the over-the-counter market in the so-called "pink sheets" or, if available, the National Association of Securities Dealer's "Electronic Bulletin Board." In addition, delisting from Nasdaq may subject our common stock to so-called "penny stock" rules. These rules impose additional sales practice and market making requirements on broker-dealers who sell and/or make a market in such securities. Consequently, broker-dealers may be less willing or able to sell and/or make a market in our common stock. Additionally, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, our common stock. As a result of a delisting, it may become more difficult for us to raise funds through the sale of our securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease approximately 27,000 square feet of laboratory and office space in a single facility near Seattle, Washington. The lease expires in July 2007 and includes an option to extend the term of the lease for three years. While we believe that this facility is adequate to meet our projected needs for the foreseeable future, we are currently looking at alternative locations to better accommodate our anticipated growth.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may be involved in litigation relating to claims arising out of our operations in the normal course of business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the Company's results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2005.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK

Our common stock first began trading on the Nasdaq National Market under the symbol SNUS on October 12, 1995. No cash dividends have been paid on the common stock, and we do not anticipate paying any cash dividends in the foreseeable future. As of March 1, 2006, there were approximately 164 stockholders of record and approximately 8,000 beneficial stockholders of our Common Stock. The high and low sales prices of our common stock as reported by Nasdaq National Market for the periods indicated are as follows:

	High	Low
2004		
First Quarter	$ 8.81	$ 5.00
Second Quarter	7.64	3.67
Third Quarter	4.76	2.97
Fourth Quarter	3.95	2.15
2005		
First Quarter	$ 4.50	$ 2.56
Second Quarter	3.85	2.39
Third Quarter	5.04	3.33
Fourth Quarter	5.28	3.77
2006		
First Quarter (through 3/1/06)	$ 6.25	$ 4.85

The information required by this item regarding equity compensation plan information is set forth in Part III, Item 12 of this Annual Report filed on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the

Financial Statements and Notes thereto appearing at Item 8 of this report.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(in thousands, except per share data)				
Statements of Operations Data:					
Total revenue	$ 8,254	$ —	$ 25	$ 25	$ 8,749
Operating expenses	$ 30,064	$ 16,576	$ 10,663	$ 12,199	$ 8,532
Net income (loss)	$ (21,097)	$ (16,311)	$ (10,467)	$ (11,636)	$ 542
Net income (loss) per share:					
Basic	$ (0.88)	$ (0.81)	$ (0.68)	$ (0.86)	$ 0.05
Diluted	$ (0.88)	$ (0.81)	$ (0.68)	$ (0.86)	$ 0.05
Shares used in calculation of net income (loss) per share					
Basic	24,027	20,169	15,504	13,564	10,288
Diluted	24,027	20,169	15,504	13,564	11,048

	December 31,				
	2005	2004	2003	2002	2001
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 49,318	$ 20,580	$ 19,664	$ 16,334	$ 15,124
Accounts receivable from Schering AG	$ 7,057	$ —	$ —	$ —	$ —
Total assets	$ 57,914	$ 22,571	$ 21,468	$ 17,934	$ 15,864
Current liabilities	$ 11,242	$ 3,255	$ 1,794	$ 1,938	$ 1,199
Long-term liabilities	$ 11,408	$ 239	$ 364	$ 272	$ —
Stockholders' equity	$ 35,264	$ 19,077	$ 19,310	$ 15,724	$ 14,665

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Examples of these forward-looking statements include, but are not limited to:

- timing and amount of future contractual payments, product revenue and operating expenses;
- progress and preliminary results of clinical trials;
- our anticipated future capital requirements and the terms of any capital financing agreements;
- anticipated regulatory filings, requirements and future clinical trials; and
- market acceptance of our products and the estimated potential size of these markets.

While these forward-looking statements made by us are based on our current beliefs and judgments, they are subject to risks and uncertainties that could cause actual results to vary from the projections in the forward-looking statements. You should consider the risks below carefully in addition to other information contained in this report before engaging in any transaction involving shares of our common stock. If any of these risks occur, they could seriously harm our business, financial condition or results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

The discussion and analysis set forth in this document contains trend analysis, discussions of regulatory status and other forward-looking statements. Actual results could differ materially from those projected in the forward-looking statement as a result of the following factors, among others:

- uncertainty of governmental regulatory requirements and lengthy approval process;
- future capital requirements and uncertainty of payments under corporate partnerships or additional funding through either debt or equity financings;
- dependence on the development and commercialization of products;
- future prospects heavily dependent on results of the Phase 3 trial for TOCOSOL Paclitaxel and subsequent commercialization should the product be approved by the FDA;
- history of operating losses and uncertainty of future financial results;
- dependence on third parties for funding, clinical development, manufacturing and distribution;
- dependence on key employees;
- uncertainty of U.S. or international legislative or administrative actions;
- competition and risk of competitive new products;
- limited manufacturing experience and dependence on a limited number of contract manufacturers and suppliers;
- ability to obtain and defend patents, protect trade secrets and avoid infringing patents held by third parties;
- limitations on third-party reimbursement for medical and pharmaceutical products;
- acceptance of our products by the medical community;
- potential for product liability issues and related litigation;
- potential for claims arising from the use of hazardous materials in our business;
- volatility in the value of our common stock; and
- continued listing on the Nasdaq National Market.

MD&A Overview

In Management's Discussion and Analysis of Financial Condition and Results of Operations we explain the general financial condition and the results of operations for our Company, including:

- An overview of our business;
- Results of operations and why those results are different from the prior year; and
- The capital resources we currently have and possible sources of additional funding for future capital requirements.

Overview

Sonus Pharmaceuticals is focused on the development of oncology drugs that provide better therapeutic alternatives for cancer patients, including improved efficacy, safety, tolerability and are more convenient to use. Our business strategy is as follows:

- Develop proprietary formulations of therapeutic drugs utilizing our proprietary TOCOSOL technology; and
- Identify and acquire products/technologies that are complementary to our focus in oncology in order to broaden our business and market opportunities.

Results of Operations

As of December 31, 2005, our accumulated deficit was approximately $88.2 million. We expect to incur substantial additional operating losses over the next several years. Such losses have been and will continue to principally be the result of various costs associated with our discovery and research and development programs. Substantially all of our working capital in recent years has resulted from equity financings and payments under corporate partnership agreements. Our ability to achieve a consistent, profitable level of operations depends in large part on obtaining regulatory approval for TOCOSOL Paclitaxel as well as future product candidates in addition to successfully manufacturing and marketing those products once they are approved. Even if we are successful in the aforementioned activities our operations may not be profitable. In addition, payments under corporate partnerships and licensing arrangements are subject to significant fluctuations in both timing and amount. Therefore, our operating results for any period may fluctuate significantly and may not be comparable to the operating results for any other period.

Collaboration and License Agreement with Schering AG

On October 17, 2005, the Company entered into a Collaboration and License Agreement with Schering AG, a German corporation, pursuant to which, among other things, the Company granted Schering an exclusive, worldwide license to its TOCOSOL Paclitaxel anti-cancer product (the "Product"). With respect to the Product, Schering paid Sonus an upfront license fee of $20 million and pays Sonus for research and development services performed equal to 50% of eligible Product research and development costs. In addition, Schering may pay Sonus (i) product milestone payments of up to $132 million upon the achievement of certain U.S., European Union and Japanese clinical and regulatory milestones, (ii) sales milestone payments of up to $35 million upon the achievement of certain annual worldwide net sales, and (iii) upon commercialization, royalties ranging between 15-30% of annual net sales in the U.S., with the exact percentage to be determined based on the achievement of certain annual net sales thresholds, and royalties equal to 15% of the annual net sales outside the U.S. The parties have agreed to a U.S. development program consisting of the ongoing initial pivotal trial for FDA NDA approval in metastatic breast cancer and trials to support launch of the Product and planned trials for additional indications. The Company has retained co-promotion rights in the U.S. and also granted Schering the right of first negotiation on the Camptothecin molecule it is currently developing.

In connection with the Collaboration and License Agreement, the Company entered into a Securities Purchase Agreement with Schering and Schering Berlin Venture Corporation, a Delaware corporation ("SBVC" and collectively with Schering, the "Investors"), pursuant to which the Company sold an aggregate of 3,900,000 shares of common stock (the "Common Shares") and a warrant to purchase an aggregate of up to 975,000 shares of common stock (the "Warrant Shares" and collectively with the Common Shares, the "Shares"), resulting in aggregate consideration of approximately $15.8 million. The Common Shares were sold at $4.02 per share, which was equal to the per share closing price of the Company's common stock as reported on the Nasdaq National Market on October 14, 2005, the trading day immediately preceding the date of the Securities Purchase Agreement. The corresponding warrant was sold at a purchase price of $0.125 per Warrant Share. The warrant has a five-year term and entitles the Investors to purchase the Warrant Shares at an exercise price of $4.42 per share, which is equal to 110% of the purchase price per share of the common stock paid by the Investors under the Securities Purchase Agreement. As of December 31, 2005, the Investors held approximately 13% of the outstanding common stock of Sonus.

Years Ended December 31, 2005 and December 31, 2004

Our revenue was $8.3 million for the year ended December 31, 2005 as compared with $0 for 2004. Revenue in 2005 was fully attributable to the collaboration agreement with Schering AG. We recognized $1.2 million in amortization of the upfront license fee and an additional $7.1 million in research and development funding related to the Phase 3 trial for TOCOSOL Paclitaxel. Amortization of the upfront fee will continue until the end of the development period for TOCOSOL Paclitaxel which is currently estimated at the end of 2008 or the currently estimated date for FDA approval assuming no further research is required and the results of the Phase 3 trial successfully meet its endpoints. Research and development funding will also continue during this time. This estimate is subject to change as facts and circumstances surrounding our Phase 3 trial for TOCOSOL Paclitaxel. We expect revenue to increase substantially in 2006 as we will have a full year of amortization of the upfront fee and funding of a larger portion of the overall research and development costs associated with the Phase 3 trial.

Our research and development (R&D) expenses were $24.5 million for the year ended December 31, 2005 compared with $10.7 million for 2004. The 2005 increase was primarily the result of the spending associated with the Phase 3 clinical trial for TOCOSOL Paclitaxel including both clinical and drug supply and manufacturing costs (both control and study drug). We expect R&D expenses to increase substantially in 2006 as we will have a full year of activity related to our Phase 3 clinical trial for TOCOSOL Paclitaxel, additional spending related to supportive studies for the continued development of TOCOSOL Paclitaxel, as well as greater spending on our camptothecin class of molecules as they move through product development.

Our general and administrative (G&A) expenses were $5.6 million for the year ended December 31, 2005 compared with $5.9 million for 2004. The 2005 decrease was primarily attributed to approximately $1.0 million in costs related to the termination of our acquisition of Synt:em incurred in 2004, offset in part by increased personnel costs in 2005 as we enhanced our management team. We believe that G&A expenses may increase in 2006 in administrative support of research and development activity for TOCOSOL Paclitaxel.

Our total operating expenses in 2006 are expected to increase from 2005 levels as we continue to advance our Phase 3 clinical development of TOCOSOL Paclitaxel. We estimate that R&D spending will comprise approximately 80%-90% of the anticipated spending in 2006. A significant portion of the R&D spending will be devoted to the Phase 3 clinical trial for TOCOSOL Paclitaxel. These estimates and actual expenses are subject to change depending on many factors, including unforeseen expansion of study size or duration, complications in conducting or completing studies when the study begins, changes in FDA requirements, increased material costs and other factors.

Our interest income, net of interest expense, was $708,000 for the year ended December 31, 2005 compared with $265,000 for 2004. The 2005 increase was due primarily to higher levels of invested cash in 2005 in addition to generally higher interest rates throughout 2005.

The Company had no income tax expense in 2005 or 2004 as it had incurred significant losses and has significant net operating loss carryforwards.

Years Ended December 31, 2004 and December 31, 2003

We had no revenue for the year ended December 31, 2004 as compared with $25,000 for 2003.

Our research and development (R&D) expenses were $10.7 million for the year ended December 31, 2004 compared with $7.7 million for 2003. The 2004 increase was primarily the result of the expansion of clinical trial programs in support of the anticipated Phase 3 clinical trial for TOCOSOL Paclitaxel.

Our general and administrative (G&A) expenses were $5.9 million for the year ended December 31, 2004 compared with $3.0 million for 2003. The 2004 increase was primarily attributed to approximately $1.0 million in costs related to the termination of our acquisition of Synt:em as well as increased personnel, business development and Sarbanes-Oxley compliance costs in 2004.

Our interest income, net of interest expense, was $265,000 for the year ended December 31, 2004 compared with $171,000 for 2003. The 2004 increase was due primarily to higher levels of invested cash in 2004.

The Company had no income tax expense in 2004 or 2003 as it had incurred significant losses and has significant net operating loss carryforwards.

Liquidity and Capital Resources

We have historically financed operations with proceeds from equity financings and payments under corporate partnerships with third parties. At December 31, 2005, we had cash, cash equivalents and marketable securities totaling $49.3 million compared to $20.6 million at December 31, 2004. The increase was primarily due to the $35.8 million in payments received from Schering AG under the collaboration agreement, $16.6 million in net proceeds from the private placement of 4.7 million shares of common stock and common stock warrants in August 2005, $2.4 million in proceeds from the issuance of 575,000 shares of common stock from the exercise of common stock warrants and $185,000 in proceeds from the issuance of 86,000 shares of common stock under employee benefit programs. These increases were offset in part by the net loss for 2005 of $21.1 million.

Net cash used in operating activities for the years ended December 31, 2005, 2004 and 2003, was $8.4 million, $14.6 million and $9.9 million, respectively. Expenditures in all periods were primarily a result of R&D expenses, including clinical trial costs, and G&A expenses in support of our operations and product development activities primarily related to TOCOSOL Paclitaxel and to a lesser extent other potential product candidates. We believe that G&A expenses may increase in 2006 in administrative support of research and development activity for TOCOSOL Paclitaxel. Our R&D expenses are expected to continue to increase substantially as we continue to advance our Phase 3 development for TOCOSOL Paclitaxel. We recognized $8.3 million in revenue in 2005, none in 2004 and $25,000 in 2003. We expect revenue to increase substantially in 2006 as we will have a full year of amortization of the upfront fee and funding of a larger portion of the research and development costs associated with the Phase 3 trial. We paid no corporate income taxes in any of the periods presented.

Net cash provided by (used in) investing activities for the years ended December 31, 2005, 2004 and 2003, was $20.1 million, ($2.6) million and ($2.7) million, respectively. The cash provided by investing activities in 2005 was primarily related to maturities and sales of marketable securities as we shifted our portfolio to a cash equivalent basis and did not purchase any marketable securities. All funds received from corporate partnerships and equity financings in 2005 were directed to cash equivalent securities. The cash used in investing activities in 2004 and 2003 was primarily related to purchases of marketable securities and property and equipment, offset in part by maturities and sales of marketable securities occurring in the normal course of business. Activity related to marketable securities in 2004 and 2003 related primarily to the investment of money raised in equity financings and the related maturities and sales of those investments recorded accordingly to provide working capital to us on an as needed basis.

Net cash provided by financing activities for the years ended December 31, 2005, 2004 and 2003, was $37.2 million, $16.0 million and $13.9 million, respectively. The net cash provided by financing activities in 2005 primarily related to the payments received from Schering AG under our Collaboration and License Agreement,

proceeds from the August 2005 equity financing, the exercise of common stock warrants and the issuance of common stock under employee benefit plans. The net cash provided by financing activities in 2004 and 2003 primarily related to proceeds from equity financings, exercise of common stock warrants and the issuance of common stock under employee benefit plans.

We expect that our cash requirements will continue to increase in future periods due to development costs associated with TOCOSOL Paclitaxel and other product candidates. We believe that existing cash, cash equivalents and marketable securities, in addition to payments under our agreement with Schering, will be sufficient to fund operations through at least the end of the first quarter of 2007. In addition to the supportive trials Sonus plans to conduct, it is anticipated that we will collaborate with Schering AG on additional studies. Under the terms of the Collaboration and License Agreement with Schering AG, we are also obligated to fund 50% of the costs of certain studies conducted by Schering AG. The exact cost and timing of these studies is yet to be finalized. In addition, the scope, timing and costs of the Phase 3 clinical trial are difficult to determine with accuracy and these costs may vary significantly depending upon regulatory and other matters that are not within our control. Our current estimate for the total cost of the Phase 3 Clinical trial is between $45 and $50 million. We will need significant additional capital by the second quarter of 2007 to support the continued development of TOCOSOL Paclitaxel, our obligations under the Collaboration and License Agreement with Schering AG and to fund continuing operations. Should our clinical data support an NDA submission based on the primary endpoint of objective response rate, we anticipate that the NDA could be submitted within 12 months after conclusion of patient enrollment, which we believe will occur before the end of September 2006. Our future capital requirements depend on many factors including:

- our ability to obtain and timing of payments, under corporate partner agreements and/or debt or equity financings;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and amount of costs to support our obligations under the Collaboration and License Agreement with Schering;
- drug discovery and research and development;
- entering into new collaborative or product license agreements for products in our pipeline;
- timing and costs of technology transfer associated with manufacturing and supply agreements; and
- costs related to obtaining, defending and enforcing patents.

We have contractual obligations in the form of operating leases and leasehold financing arrangements. We have remaining contractual obligations through2007 under our operating leases of $1.1 million and $46,000 under our leasehold financing agreements. Under the Collaboration and License Agreement with Schering, we are obligated to fund 50% of the costs of certain studies conducted by Schering. As these additional studies have not yet been finalized, no dollar amounts have been disclosed below. The following table summarizes our contractual obligations under these agreements, including interest as of December 31, 2005:

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Lease financing obligations	$ 45,590	$ 30,393	$ 15,197	$ —	$ —
Operating lease obligations	1,144,307	710,052	434,255	—	—
Total	$ 1,189,897	$ 740,445	$ 449,452	$ —	$ —

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical

accounting estimates which are those that are most important to the portrayal of our financial condition and results of operations and which require our most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We also have other policies that we consider key accounting policies; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments which are difficult or subjective.

- *Cash and Cash Equivalents.* We consider investments in highly liquid instruments purchased with a remaining maturity at purchase of 90 days or less to be cash equivalents. The amounts are recorded at cost, which approximate fair market value. Our cash equivalents and marketable securities consist principally of commercial paper, money market securities, corporate bonds/notes and government agency securities. We have classified our entire investment portfolio as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity and included in accumulated other comprehensive income. The amortized cost of investments is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Interest earned on securities is included in interest income. We consider marketable securities with maturity greater than twelve months long-term and maturity less than twelve months short-term.

- *Revenue Recognition.* Since inception, we have generated revenue from collaborative agreements, licensing fees and from the assignment of developed and patented technology. These arrangements may include upfront non-refundable payments, development milestone payments, payments for research and development services performed and product sales royalties or revenue. Our revenue recognition policies are based on the requirements of SEC Staff Accounting Bulletin No. 104 "*Revenue Recognition*," and, for contracts with multiple deliverables, we allocate arrangement consideration based on the fair value of the elements under guidance from Emerging Issues Task Force Issue 00-21 ("EITF 00-21"), "*Revenue Arrangements with Multiple Deliverables.*" Under EITF 00-21, revenue arrangements with multiple deliverables are divided into separate units of accounting and revenue is allocated to these units based upon relative fair values with revenue recognition criteria considered separately for each unit.

  Nonrefundable upfront technology license fees, for product candidates where we are providing continuing services related to product development, are deferred and recognized as revenue over the development period.

  Milestones, in the form of additional license fees, typically represent nonrefundable payments to be received in conjunction with the achievement of a specific event identified in the contract, such as initiation or completion of specified clinical development activities and / or regulatory approvals. We believe that a milestone represents the culmination of a distinct earnings process when it is not associated with ongoing research, development or other performance on our part. We recognize such milestones as revenue when they become due and collection is reasonably assured. When a milestone does not represent the culmination of a distinct earnings process, we recognize revenue in a manner similar to that of an upfront technology license fee.

  The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon our estimates of the development period. We define the development period as the point from which research activities commence up to FDA approval of our submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should the FDA require additional data or information, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period.

  Revenue from research and development services performed under collaboration agreements is generally recognized in the period when the services are performed. Payments received in excess of amounts earned are recorded as deferred revenue.

  Royalty revenue is generally recognized at the time of product sale by the licensee.

- *Research and Development Expenses.* Pursuant to SFAS No. 2 "Accounting for Research and Development Costs," our research and development costs are expensed as incurred. Research and development expenses include, but are not limited to, payroll and personnel expenses, lab expenses, clinical trial and related clinical manufacturing costs, facilities and overhead costs. Clinical trial expenses, which are included in research and development expenses and represent a significant portion of our research and development expenditures, represent obligations resulting from our contracts with various clinical research organizations in connection with conducting clinical trials for our product candidates. We recognize expenses for these contracted activities based on a variety of factors, including actual and estimated labor hours, clinical site initiation activities, patient enrollment rates, estimates of external costs and other activity-based factors. We believe that this method best approximates the efforts expended on a clinical trial with the expenses we record. We adjust our rate of clinical expense recognition if actual results differ from our estimates.

- *Valuation of Equity Instruments.* As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS 123), we elected to continue to apply the provisions of APB Opinion 25, "Accounting for Stock Issued to Employees," (APB Opinion 25) and related interpretations in accounting for our employee stock option and stock purchase plans. We are generally not required under APB Opinion 25 and related interpretations to recognize compensation expense in connection with our employee stock option and stock purchase plans. To comply with SFAS 123, we presented in the Notes to Consolidated Financial Statements, the pro forma effect on our net loss and loss per share as if we had applied the fair value recognition provisions of SFAS 123, as amended, to options granted to employees under our stock-based employee compensation plans.

  We have adopted the requirements of SFAS 123R effective January 1, 2006, utilizing the "modified prospective" method. We have selected the Black-Scholes-Merton option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards' vesting

periods. We anticipate that the adoption of SFAS 123R effective January 1, 2006, will result in stock-based compensation expense in fiscal 2006 of approximately $1.6 million for the vested portion of past awards. These estimates are based solely on awards that were currently unvested at January 1, 2006, and does not reflect the potential impact of additional options that may be granted in 2006.

In valuing our options using the Black-Scholes-Merton option-pricing model, we make assumptions about risk-free interest rates, dividend yields, volatility and weighted average expected lives of the options. Risk-free interest rates are derived from United States treasury securities as of the option grant date. Dividend yields are based on our historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of our common stock as traded on Nasdaq. The weighted average expected lives of the options is based on historical experience of option exercises and the average vesting option schedule. Each year, we have consistently applied the same methodology when deriving these assumptions. Revisions of any of these assumptions would increase or decrease the value of the option and increase or decrease the pro forma effect on reported net income (loss) and earnings (loss) per share if compensation expense had been recognized based on the fair value method. As of December 31, 2005, no revisions to the methods used in deriving the assumptions used in the Black-Scholes-Merton option-pricing model have been made. Revisions may occur in the future with the adoption of SFAS 123R.

In valuing our warrants using the Black-Scholes-Merton option-pricing model, we make assumptions about risk-free interest rates, dividend yields, volatility and expected lives of the warrants. Risk-free interest rates are derived from United States treasury securities as of the warrant issue date. Dividend yields are based on our historical dividend payments, which have been zero to date. Volatility is derived

from the historical volatility of our common stock as traded on Nasdaq. The expected lives of the warrants is based on the term of the warrants. Upon issuance of a warrant to consultants or collaborators, we recognize an expense in our statements of operations, although in certain circumstances (as was the case in our collaboration with Schering AG), the value of warrants to collaborators may not be a separate unit of accounting for revenue recognition purposes and therefore may be considered in revenue recognition rather than as a separate expense in the statements of operations. Upon issuance of warrants in connection with an equity financing, we recognize issuance costs with an offset to additional paid-in capital in our balance sheets. Each year, we have consistently applied the same methodology when deriving these assumptions. Revisions of any of these assumptions would increase or decrease the value of the warrant and increase or decrease the expense or issuance cost recognized upon vesting of the warrant. As of December 31, 2005, no revisions to the methods used in deriving the assumptions used in the Black- Scholes-Merton option-pricing model for warrants have been made. Revisions may occur in the future with the adoption of SFAS 123R.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "Share Based Payment." This statement is a revision to SFAS 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. This statement is effective for the first interim reporting period that begins after June 15, 2005.

SFAS 123R permits public companies to choose between the following two adoption methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, or

2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, we generally recognize no compensation cost for employee stock options. The valuation of employee stock options under SFAS 123R is similar to SFAS 123, with minor exceptions. For information about what our reported results of operations and earnings per share would have been had we adopted SFAS 123, please see the discussion under the heading "Stock Based Compensation" in Note 1 to our Financial Statements. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. We plan to adopt SFAS 123R on January 1, 2006 using the modified prospective approach. We estimate that stock-based compensation expense for 2006 will be approximately $1.6 million based on options outstanding as of December 31, 2005.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our marketable securities portfolio represents the potential loss arising from adverse changes in interest rates. If market rates hypothetically increase immediately and uniformly by 100 basis points from levels at December 31, 2005, the decline in the fair value of the investment portfolio would not be material. Because we have the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonus Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Sonus Pharmaceuticals, Inc. as of December 31, 2005 and 2004, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sonus Pharmaceuticals, Inc. at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sonus Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Seattle, Washington
March 14, 2006

Sonus Pharmaceuticals, Inc.

Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,317,845	$ 416,847
Marketable securities	—	20,163,641
Accounts receivable from Schering AG	7,056,640	—
Other current assets	341,787	458,826
Total current assets	56,716,272	21,039,314
Equipment, furniture and leasehold improvements, net	1,006,403	1,479,785
Long term receivable from Schering AG	87,500	—
Other assets	103,739	51,500
Total assets	$ 57,913,914	$ 22,570,599
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,668,357	$ 3,176,709
Deferred revenue from Schering AG	5,545,920	—
Current portion of lease obligations	27,410	78,445
Total current liabilities	11,241,687	3,255,154
Deferred revenue from Schering AG, less current portion	11,086,612	—
Lease obligations, less current portion	14,763	42,172
Other liabilities	307,060	196,092
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value: 5,000,000 shares authorized; no shares outstanding	—	—
Common stock, $.001 par value: 75,000,000 shares authorized; 30,565,746 and 21,352,795 shares issued and outstanding in 2005 and 2004, respectively	123,443,666	86,202,180
Accumulated deficit	(88,187,373)	(67,090,356)
Accumulated other comprehensive income (loss)	7,499	(34,643)
Total stockholders' equity	35,263,792	19,077,181
Total liabilities and stockholders' equity	$ 57,913,914	$ 22,570,599

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Operations

	Year Ended December 31,		
	2005	2004	2003
Revenue:			
Collaboration revenue from Schering AG	$ 8,254,483	$ —	$ —
License fees	—	—	25,000
Total revenue	8,254,483	—	25,000
Operating expenses:			
Research and development	24,493,651	10,706,223	7,653,486
General and administrative	5,570,051	5,869,331	3,009,665
Total operating expenses	30,063,702	16,575,554	10,663,151
Operating loss	(21,809,219)	(16,575,554)	(10,638,151)
Other income (expense):			
Other income	4,160	—	—
Interest income	714,866	289,587	213,188
Interest expense	(6,824)	(24,625)	(42,136)
Total other income, net	712,202	264,962	171,052
Net loss	$ (21,097,017)	$ (16,310,592)	$ (10,467,099)
Basic and diluted net loss per share	$ (0.88)	$ (0.81)	$ (0.68)
Shares used in calculation of basic and diluted net loss per share	24,027,127	20,169,258	15,503,794

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Stockholders' Equity

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance at December 31, 2002	13,691,547	$ 56,010,950	$ (40,312,665)	$ 25,643	$ 15,723,928
Comprehensive income (loss):					
Net loss	—	—	(10,467,099)	—	(10,467,099)
Change in unrealized gain (loss) on investments	—	—	—	(21,495)	(21,495)
Comprehensive loss					(10,488,594)
Issuance of common stock under employee benefit plans	98,725	191,746	—	—	191,746
Exercise of common stock warrants	237,109	728,893	—	—	728,893
Issuance of common stock and common stock warrants (net of offering costs of $1,082,977)	3,930,071	13,153,710	—	—	13,153,710
Balance at December 31, 2003	17,957,452	70,085,299	(50,779,764)	4,148	19,309,683
Comprehensive income (loss):					
Net loss	—	—	(16,310,592)	—	(16,310,592)
Change in unrealized gain (loss) on investments	—	—	—	(38,791)	(38,791)
Comprehensive loss					(16,349,383)
Issuance of common stock under employee benefit plans	150,628	259,093	—	—	259,093
Exercise of common stock warrants	344,715	1,409,884	—	—	1,409,884
Issuance of common stock (net of offering costs of $777,096)	2,900,000	14,447,904	—	—	14,447,904
Balance at December 31, 2004	21,352,795	86,202,180	(67,090,356)	(34,643)	19,077,181
Comprehensive income (loss):					
Net loss	—	—	(21,097,017)	—	(21,097,017)
Change in unrealized gain (loss) on investments	—	—	—	42,142	42,142
Comprehensive loss					(21,054,875)
Issuance of common stock under employee benefit plans	86,082	185,117	—	—	185,117
Exercise of common stock warrants	575,000	2,351,750	—	—	2,351,750
Issuance of common stock and common stock warrants (net of offering costs of $1,180,669)	8,551,869	34,704,619	—	—	34,704,619
Balance at December 31, 2005	30,565,746	$ 123,443,666	$ (88,187,373)	$ 7,499	$ 35,263,792

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Cash Flows

	Year Ended December 31,		
	2005	2004	2003
Operating activities:			
Net loss	$ (21,097,017)	$ (16,310,592)	$ (10,467,099)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	592,825	552,277	390,965
Accretion of discount on marketable securities	(6,669)	(36,798)	(10,539)
Gain on sale of capital equipment	(4,160)	—	—-
Changes in operating assets and liabilities:			
Accounts receivable from Schering AG	(7,056,640)	—	—-
Other current assets	117,039	(311,742)	91,325
Other long term assets	(139,739)	—	—-
Accounts payable and accrued expenses	2,491,648	1,533,762	130,566
Deferred revenue from Schering AG	16,632,532	—	—
Other liabilities	110,968	(47,532)	(44,782)
Net cash used in operating activities	(8,359,213)	(14,620,625)	(9,909,564)
Investing activities:			
Purchases of capital equipment	(119,443)	(426,001)	(686,636)
Proceeds from sale of capital equipment	4,160	—	—-
Purchases of marketable securities	—	(31,830,775)	(21,876,067)
Proceeds from sales of marketable securities	7,360,968	8,198,719	1,386,530
Proceeds from maturities of marketable securities	12,851,484	21,421,000	18,480,000
Net cash used in investing activities	20,097,169	(2,637,057)	(2,696,173)
Financing activities:			
Proceeds from issuance of common stock and common stock warrants under equity financings, net of issuance costs	34,704,619	14,447,904	13,153,710
Proceeds from exercise of common stock warrants	2,351,750	1,409,884	728,893
Proceeds from issuance of common stock under employee benefit plans	185,117	259,093	191,746
Payments on lease obligations	(78,444)	(151,369)	(137,602)
Net cash provided by financing activities	37,163,042	15,965,512	13,936,747
Change in cash and cash equivalents for the year	48,900,998	(1,292,170)	1,331,010
Cash and cash equivalents at beginning of year	416,847	1,709,017	378,007
Cash and cash equivalents at end of year	$ 49,317,845	$ 416,847	$ 1,709,017
Supplemental cash flow information:			
Interest paid	$ 6,824	$ 24,625	$ 42,136

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Notes to Financial Statements

1. Description of Business and Summary of Accounting Policies

Overview

Sonus Pharmaceuticals is focused on the development of oncology drugs that provide better therapeutic alternatives for cancer patients, including improved efficacy, safety, tolerability and are more convenient to use. Our business strategy is as follows:

- Develop proprietary formulations of therapeutic drugs utilizing our proprietary TOCOSOL technology; and
- Identify and acquire products/technologies that are complementary to our focus in oncology in order to broaden our business and market opportunities.

Liquidity

The Company has historically experienced recurring losses from operations which have generated an accumulated deficit of $88.2 million through December 31, 2005. For the year ended December 31, 2005, the Company used $8.4 million of cash to fund operations. At December 31, 2005, the Company had cash and cash equivalents of $49.3 million, and working capital of $45.5 million.

The Company expects that its cash requirements will continue to increase in future periods due to the projected development costs associated with TOCOSOL Paclitaxel and other product candidates. However, the Company believes it has sufficient cash to fund operations through the end of the first quarter of 2007.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less at the date of purchase.

Marketable Securities

The Company classifies the marketable securities portfolio as available-for-sale, and such securities are stated at fair value based on quoted market prices, with the unrealized gains and losses included as a component of accumulated other comprehensive loss. Interest earned on securities available-for-sale is included in interest income. The carrying value of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses and declines in value judged to be other than temporary on securities available-for-sale also are included in interest income. The cost of securities sold is based on the specific identification method.

Concentrations of Credit Risk

The Company invests its excess cash in accordance with investment guidelines, which limit the credit exposure to any one financial institution and to any one type of investment, other than securities issued by the U.S. government. The guidelines also specify that the financial instruments are issued by institutions with strong credit ratings. These securities are generally not collateralized and mature within one year.

Revenue Recognition

Since inception, the Company has generated revenue from collaborative agreements, licensing fees and from the assignment of developed and patented technology These arrangements may include upfront non-refundable payments, development milestone payments, payments for research and development services performed and product sales royalties or revenue. The Company's revenue recognition policies are based on the requirements of SEC Staff Accounting Bulletin No. 104 "*Revenue Recognition*," and, for contracts with multiple deliverables, the Company allocates arrangement consideration based on the fair value of the elements under guidance from Emerging Issues Task Force Issue 00-21 ("EITF 00-21"), "*Revenue Arrangements with Multiple Deliverables*." Under EITF 00-21, revenue arrangements with multiple deliverables are divided into separate units of accounting and revenue is allocated to these units based upon relative fair values with revenue recognition criteria considered separately for each unit.

Nonrefundable upfront technology license fees, for product candidates where the Company provides continuing services related to product development, are deferred and recognized as revenue over the development period.

Milestones, in the form of additional license fees, typically represent nonrefundable payments to be received in conjunction with the achievement of a specific event identified in the contract, such as initiation or completion of specified clinical development activities and / or regulatory approvals. The Company believes that a milestone represents the culmination of a distinct earnings process when it is not associated with ongoing research, development or other performance on its part. The Company recognizes such milestones as revenue when they become due and collection is reasonably assured. When a milestone does not represent the culmination of a distinct earnings process, the Company recognizes revenue in a manner similar to that of an upfront technology license fee.

The timing and amount of revenue recognized from licenses of technology, either from upfront fees or milestones where the Company provides continuing services related to product development, is primarily dependent upon its estimates of the development period. The Company defines the development period as the point from which research activities commence up to FDA approval of our submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of the Company's control. Should the FDA require additional data or information, the Company would adjust its development period estimates accordingly. The impact on revenue of changes in estimates and the timing thereof is recognized prospectively over the remaining estimated product development period.

Revenue from research and development services performed under collaboration agreements is generally recognized in the period when the services are performed. Payments received in excess of amounts earned are recorded as deferred revenue.

Royalty revenue is generally recognized at the time of product sale by the licensee.

Research and Development Costs

Research and development costs including personnel costs, supplies, depreciation and other indirect costs are expensed as incurred. In instances where the Company enters into collaborative agreements with third parties, costs are expensed the earlier of when amounts are due or when services are performed. In instances where the Company enters into agreements with third parties for research and/or clinical trial activities, costs are expensed the earlier of when amounts are due or when services are performed.

Equipment, Furniture and Leasehold Improvements

Equipment, furniture and leasehold improvements are stated at cost. Depreciation of equipment is provided using the straight-line basis over three to five years, the estimated useful life of the assets. Leasehold

improvements are amortized over the lesser of the economic useful lives of the improvements or the term of the related lease. Repair and maintenance costs are expensed as incurred.

Stock-Based Compensation

Under the provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation,"* companies may continue to follow Accounting Principles Board Opinion No. 25 (APB 25) in accounting for stock-based compensation and provide footnote disclosure of the pro forma impact of expensing stock options. The Company has elected to follow the disclosure-only provisions of SFAS No. 123 and continues to apply APB 25 and related interpretations in accounting for its stock option plans. Under the provisions of APB 25 and related interpretations, employee stock-based compensation expense is recognized based on the intrinsic value of the option on the date of grant (the difference between the market value of the underlying common stock on the date of grant and the option exercise price, if any).

At December 31, 2005, the Company had several stock-based employee compensation plans, which are described more fully in Note 8. All options granted under these plans had exercise prices equal to the market value of the underlying common stock on the date of grant and therefore, in accordance with APB 25, no stock-based employee compensation cost has been recorded.

As required under SFAS 123, the following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value expense recognition provision of SFAS 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	2005	2004	2003

Net loss, as reported	$ (21,097,017)	$ (16,310,592)	$ (10,467,099)
Add: Stock-based employee compensation expense included in reported net loss	—	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,629,317)	(1,528,401)	(976,056)
Pro forma net loss	$ (22,726,334)	$ (17,838,993)	$ (11,443,155)
Loss per share:			
Basic and diluted-as reported	$ (0.88)	$ (0.81)	$ (0.68)
Basic and diluted-pro forma	$ (0.95)	$ (0.88)	$ (0.74)

Comprehensive Income

In accordance with Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" (SFAS 130), the Company has reported comprehensive income, defined as net income (loss) plus other comprehensive income, in the Statements of Stockholders' Equity. The total of other accumulated comprehensive income consists of unrealized gains and losses on certain cash equivalent and marketable securities.

Per Share Data

Basic net loss per share is based on the weighted average number of common shares outstanding. Diluted net loss per share is based on the weighted average number of common shares and dilutive potential common shares. Dilutive potential common shares are calculated under the treasury stock method and consist of unexercised stock options and warrants.

Use of Estimates

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "Share Based Payment." This statement is a revision to SFAS 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." This statement requires a public entity to expense the cost of employee services received in exchange for an award of equity instruments. This statement also provides guidance on valuing and expensing these awards, as well as disclosure requirements of these equity arrangements. This statement is effective for the first interim reporting period that begins after June 15, 2005.

SFAS 123R permits public companies to choose between the following two adoption methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, or

2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

As permitted by SFAS 123, we currently account for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, we generally recognize no compensation cost for employee stock options. The valuation of employee stock options under SFAS 123R is similar to SFAS 123, with minor exceptions. For information about what our reported results of operations and earnings per share would have been had we adopted SFAS 123, please see the discussion under the heading "Stock Based Compensation" in Note 1 to our Financial Statements. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. We plan to adopt SFAS 123R on January 1, 2006 using the modified prospective approach. We estimate that stock-based compensation expense for 2006 will be approximately $1.6 million based on options outstanding as of December 31, 2005.

2. Collaboration and License Agreement with Schering AG

On October 17, 2005, the Company entered into a Collaboration and License Agreement with Schering AG, a German corporation, pursuant to which, among other things, the Company granted Schering an exclusive, worldwide license to its TOCOSOL Paclitaxel anti-cancer product (the "Product"). With respect to the Product, Schering paid Sonus an upfront license fee of $20 million and pays Sonus for research and development services performed equal to 50% of eligible Product research and development costs. In addition, Schering may pay Sonus (i) product milestone payments of up to $132 million upon the achievement of certain U.S., European Union and Japanese clinical and regulatory milestones, (ii) sales milestone payments of up to $35 million upon the achievement of certain annual worldwide net sales, and (iii) upon commercialization, royalties ranging between 15-30% of annual net sales in the U.S., with the exact percentage to be determined based on the achievement of certain annual net sales thresholds, and royalties equal to 15% of the annual net sales outside the U.S. The parties have agreed to a development program consisting of the ongoing initial pivotal trial in metastatic breast cancer and trials to support launch of the Product and planned trials for additional indications. The Company has retained co-promotion rights in the U.S. and also granted Schering the right of first negotiation on the Camptothecin molecule it is currently developing.

In connection with the Collaboration and License Agreement, the Company entered into a Securities Purchase Agreement with Schering and Schering Berlin Venture Corporation, a Delaware corporation ("SBVC" and collectively with Schering, the "Investors"), pursuant to which the Company sold an aggregate of 3,900,000 shares of common stock (the "Common Shares") and a warrant to purchase an aggregate of up to 975,000 shares of common stock (the "Warrant Shares" and collectively with the Common Shares, the "Shares"), resulting in aggregate consideration of approximately $15.8 million. The Common Shares were sold at $4.02 per share, which was equal to the per share closing price of the Company's common stock as reported on the Nasdaq National Market on October 14, 2005, the trading day immediately preceding the date of the Securities Purchase Agreement. The corresponding warrant was sold at a purchase price of $0.125 per Warrant Share. The warrant has a five-year term and entitles the Investors to purchase the Warrant Shares at an exercise price of $4.42 per share, which is equal to 110% of the purchase price per share of the common stock paid by the Investors under the Securities Purchase Agreement. As of December 31, 2005, the Investors held approximately 13% of the outstanding common stock of the Company.

During 2005, the Company recognized revenue of $1.2 million as amortization of the upfront license fee and an additional $7.1 million related to research and development services performed for the Phase 3 trial for TOCOSOL Paclitaxel and related drug supply and manufacturing costs. The Company expects to recognize revenue related to amortization of the upfront fee and cost reimbursements through the end of the development period which is currently estimated as the end of 2008. As the clinical development program for TOCOSOL Paclitaxel is still being finalized in collaboration with Schering AG, we cannot estimate the total costs or expected reimbursements at this time. The Company reduced the revenue to be recognized over the development period related to the $20 million upfront license payment by $2.3 million. This represented the excess fair value of the warrants purchased by the Investors above the amount paid in connection with their equity investment in Sonus. This adjustment was made because both the equity investment and the upfront payment were considered to be a single unit of accounting. As of December 31, 2005, the Company had $16.6 million in deferred revenue related to the unamortized upfront payment (net of the adjustment for the warrant valuation) as well as $7.1 million in current and long-term receivables from Schering AG on its balance sheet.

3. Marketable Securities

Marketable securities consist of the following at December 31, 2005 and 2004:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2005:				
	$ —	$ —	$ —	$ —

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2004:				
Corporate debt securities (principally commercial paper and bonds/notes) and government securities	$ 20,198,284	$ —	$ (34,643)	$ 20,163,641

Realized gains on the sales of available for sale securities were $0, $1,058 and $1,893 in 2005, 2004 and 2003, respectively. The realized losses on sales of available for sale securities were $1,171, $0 and $0 in 2005, 2004 and 2003, respectively. The Company held no marketable securities as of December 31, 2005 as the entire portfolio was reinvested in cash equivalent securities due to the prevailing interest rate environment. The unrealized gains on cash equivalent securities were $7,499 as of December 31, 2005. All of the marketable securities held as of the end of 2004 had maturities of one year or less. The Company only invests in triple A (or equivalent) rated securities with maturities of one year or less. The Company does not believe that there are any

permanent impairments related to unrealized losses for the years ended December 31, 2005 and 2004, respectively given the quality of the investment portfolio and its short-term nature.

4. Equipment, Furniture and Leasehold Improvements

Equipment, furniture and leasehold improvements consist of the following:

	2005	2004
Laboratory equipment	$ 3,595,440	$ 3,613,803
Office furniture and equipment	1,257,729	1,183,541
Leasehold improvements	1,306,840	1,304,487
	6,160,009	6,101,831
Less accumulated depreciation and amortization	(5,153,606)	(4,622,046)
	$ 1,006,403	$ 1,479,785

We held laboratory equipment acquired under capital leases with an original cost of $392,968 as of December 31, 2005 and 2004. Accumulated depreciation on this equipment was $355,600 and $300,900 at December 31, 2005 and 2004, respectively.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	2005	2004
Accounts payable	$ 1,260,513	$ 815,203
Accrued expenses:		
Clinical trials	2,224,447	912,643
Compensation	1,455,329	792,755
Legal & professional	60,660	423,732
Other	667,408	232,376
	$ 5,668,357	$ 3,176,709

6. Other assets

Other assets consist of the following:

	2005	2004
Long-term portion of prepaid insurance	$ 52,239	$ —
Deposit on facility lease	51,500	51,500
	$ 103,739	$ 51,500

7. Income Tax

The Company recorded no income tax expense or benefit during 2005, 2004 or 2003.

A reconciliation of the Federal Statutory tax rate of 34% to the Company's effective income tax rate follows:

	2005	2004	2003

Statutory tax rate	(34.00)%	(34.00)%	(34.00)%
Utilization of net operating loss carryforwards	—	—	—
Permanent difference	3.67	0.05	0.02
Change in valuation allowance	33.63	33.95	33.98
Federal tax (refund)	—	—	—
Other	(3.30)	—	—
Effective tax rate	—	—	—

Significant components of the Company's net deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004
Deferred tax assets:		
Federal net operating loss carryforwards	$ 23,782,000	$ 22,698,000
Deferred Revenue	5,655,000	0
Other	166,000	192,000
Research and development credits	2,651,000	2,299,000
Book in excess of tax depreciation expense	106,000	69,000
Gross deferred tax assets	32,360,000	25,258,000
Valuation allowance for net deferred tax assets	(32,360,000)	(25,258,000)
Net deferred tax assets	$ —	$ —

Due to the uncertainty of the Company's ability to generate taxable income to realize its net deferred tax assets at December 31, 2005 and 2004, a valuation allowance has been recognized for financial reporting purposes. The Company's valuation allowance for deferred tax assets increased $7.1 million and $4.5 million for the years ended December 31, 2005 and 2004, respectively.

At December 31, 2005, the Company has federal net operating loss carryforwards of approximately $69.9 million for income tax reporting purposes and research and development tax credit carryforwards of approximately $2.7 million. The federal operating loss carryforwards and research and development credits begin to expire in 2006. To the extent that net operating loss carryforwards, when realized, relate to stock option deductions of approximately $2.6 million, the resulting benefit will be credited to stockholders' equity.

The Company's past sales and issuances of stock have likely resulted in ownership changes as defined by Section 382 of the Internal Revenue Code of 1986, as amended. As a result, the utilization of the Company's net operating losses and tax credits will be limited and a portion of the carry-forwards may expire unused.

8. Stockholders' Equity

Common Stock

At December 31, 2005, the Company had shares of common stock reserved for possible future issuance as follows:

Stock options outstanding	3,819,170
Warrants outstanding	4,554,052
Shares available for future grant under stock plans	1,686,966
	10,060,188

Private Placements

In October 2005, the Company issued 3,900,000 shares of common stock and warrants to purchase 975,000 shares of common stock to Schering Berlin Venture Corporation for aggregate consideration of $15.8 million in connection with the Collaboration and License Agreement with Schering AG. The Common Shares were sold at $4.02 per share, which is equal to the per share closing price of the Company's common stock as reported on the Nasdaq National Market on October 14, 2005, the trading day immediately preceding the date of the Securities Purchase Agreement. The five-year warrants were sold at a price of $0.125 per share underlying each warrant, have an exercise price of $4.42 per share and expire in October 2010.

In August 2005, the Company sold 4.7 million shares of common stock and warrants to purchase up to 2.3 million shares of common stock in a private placement transaction for gross proceeds of $17.8 million (approximately $16.6 million net of transaction costs). The common stock was sold at a price of $3.77 per share.

The five-year warrants were sold at a price of $0.125 per share underlying each warrant, have an exercise price of $4.15 per share and expire in August 2010.

In May 2004, the Company sold 2.9 million shares of common stock in a private placement transaction for gross proceeds of $15.2 million (approximately $14.4 million net of transaction costs). The common stock was sold at a price of $5.25 per share.

Stock Warrants

At December 31, 2005, there were warrants outstanding to purchase 4.6 million shares of common stock at exercise prices ranging from $4.09 to $9.40 per share and expiration dates ranging from January 2007 to October 2010. During 2005, the Company recorded $2.4 million in proceeds from the issuance of 575,000 shares of common stock from the exercise of common stock warrants. During 2004, the Company recorded $1.4 million in proceeds from the issuance of 345,000 shares of common stock from the exercise of common stock warrants.

Stock Options

The Company has stock option plans whereby shares of common stock are reserved for future issuance pursuant to stock option grants or other issuances. Under the 2000 Stock Incentive Plan, an incremental number of shares equal to four percent of the Company's common stock outstanding as of December 31 of each year commencing December 31, 2000 are made available for issuance under the plan up to a lifetime maximum of five million shares. Employee stock options vest over a period of time determined by the Board of Directors, generally four years, and director stock options are generally fully vested on the date of grant. Stock options generally are granted at the

fair market value on the date of grant and expire ten years from the date of grant.

A summary of activity related to the Company's stock options follows:

	Shares	Exercise Price		
Balance, December 31, 2002	2,218,794	$ 0.20	—	$ 44.00
Granted	817,827	2.14	—	5.08
Exercised	(78,220)	0.20	—	3.79
Canceled	(369,749)	1.46	—	44.00
Balance, December 31, 2003	2,588,652	0.63	—	44.00
Granted	926,575	2.86	—	7.84
Exercised	(136,670)	0.63	—	3.38
Canceled	(368,048)	0.88	—	8.08
Balance, December 31, 2004	3,010,509	0.63	—	44.00
Granted	1,039,000	2.87	—	5.10
Exercised	(60,998)	0.88	—	4.06
Canceled	(169,341)	2.03	—	8.19
Balance, December 31, 2005	3,819,170	0.63	—	44.00

Options exercisable at December 31, 2005, 2004, and 2003, were 1,953,680 1,485,380 and 1,346,995, respectively. The weighted average exercise prices for those options for the years ended December 31, 2005, 2004 and 2003, were $4.83, $4.13 and $4.23, respectively

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.63 — $ 1.46	237,975	4.92 years	$ 0.74	237,441	$ 0.74
$ 2.03 — $ 3.72	1,091,507	8.08 years	$ 2.85	558,975	$ 2.72
$ 3.79 — $ 6.00	1,802,143	8.49 years	$ 5.08	572,828	$ 5.28
$ 6.25 — $ 8.08	659,912	5.24 years	$ 6.98	556,803	$ 7.06
$ 19.38 — $ 20.50	15,000	1.81 years	$ 19.75	15,000	$ 19.75
$ 37.00 — $ 44.00	12,633	1.83 years	$ 39.77	12,633	$ 39.77
Total	3,819,170	7.54 years	$ 4.67	1,953,680	$ 4.83

Pro forma information regarding net loss per share required by SFAS 123 and disclosed in Note 1 has been determined as if we accounted for our employee options under the fair value method of SFAS 123. The fair value of each option is estimated using the Black-Scholes-Merton option pricing model. The assumptions used in this model include (1) the stock price at grant date, (2) the exercise price, (3) an estimated option life of four years (4) no expected dividends for each year presented, (5) stock price volatility factor of 0.7870, 0.9913, and 1.116 in 2005, 2004 and 2003, respectively, and (6) a risk-free interest rate of 4.39%, 3.49% and 2.97% in 2005, 2004 and 2003, respectively. The weighted average fair value per share of options granted during 2005, 2004 and 2003 was $2.99, $2.89 and $3.17, respectively.

Stock Purchase Plan

The Company has an employee stock purchase plan whereby employees may contribute up to 15% of their compensation to purchase shares of the Company's common stock at 85% of the stock's fair market value at the lower of the beginning or end of each three-month offering period. Shares purchased under the plan were 6,493, 3,390 and 10,860 in 2005, 2004 and 2003, respectively. At December 31, 2005, a total of 6,057 shares remain available for purchase by employees under the plan. The plan expired on December 31, 2005.

401(k) Plan

The Company has a 401(k) plan for all employees under which it provides a specified percentage match on employee contributions. Currently, the Company match is made in shares of the Company's common stock. Shares issued as matching contributions under the plan were 18,591 10,568 and 9,645 in 2005, 2004 and 2003, respectively. The related expense recorded on these matching contributions was $66,770, $44,400 and $33,400 in 2005, 2004 and 2003, respectively. At December 31, 2005, a total of 28,478 shares remain available for future issuances as matching contributions under the plan.

Shareholder Rights Plan

The Company has adopted a Shareholder Rights Plan ("Plan") which was amended in July 2002. Under the Plan, as amended, the Company's Board of Directors declared a dividend of one Preferred Stock Purchase Right ("Right") for each outstanding common share of the Company. The Rights have an exercise price of $140 per Right and provide the holders with the right to purchase, in the event a person or group acquires 15% or more of the Company's common stock, additional shares of the Company's common stock having a market value equal to two times the exercise price of the Right. The Rights expire in 2006.

9. Net Income (Loss) Per Share

A reconciliation between basic and diluted net loss per share is as follows:

	2005	2004	2003
Basic net loss per share:			
Net loss	$ (21,097,017)	$ (16,310,592)	$ (10,467,099)
Weighted average common shares	24,027,017	20,169,258	15,503,794
Basic net loss per share	$ (0.88)	$ (0.81)	$ (0.68)

Diluted net loss per share:			
Net loss	$ (21,097,017)	$ (16,310,592)	$ (10,467,099)
Weighted average common shares	24,027,017	20,169,258	15,503,794
Dilutive potential common shares	—	—	—
Total dilutive shares	24,027,017	20,169,258	15,503,794
Diluted net loss per share	$ (0.88)	$ (0.81)	$ (0.68)

As of December 31, 2005, 2004 and 2003 a total of 8,373,222 4,838,625 and 4,761,483 options and warrants, respectively, have not been included in the calculation of potential common shares as their effect on diluted per share amounts would have been anti-dilutive.

10. Commitments and Contingencies

The Company has leased office space and equipment under three operating lease agreements, which expire in July 2007 and November 2007, respectively. Under the office space lease, the Company has the option to extend the lease for an additional three years at the then fair market value of the leased premises. Future minimum lease payments under these leases are as follows:

2006	$ 710,052
2007	434,255
2008	0
2009	0
2010 and thereafter	0
	$ 1,144,307

Rental expense for the years ended December 31, 2005, 2004 and 2003 was $644,000, $647,000 and $553,000, respectively.

The Company also entered into two capital leases for laboratory equipment and a leasehold financing arrangement in 2002. Both capital leases had terms of 36 months, implied interest rates of approximately 10% and are secured by the underlying assets. These leases were fully paid in 2005 and ownership of the assets transferred to the Company. The leasehold financing arrangement has a term of 64 months and an interest rate of 10%. The following is a summary of the lease obligations and the related future minimum payments as of December 31, 2005:

2006	$ 30,393
2007	15,197
2008	0
2009	0
2010 and thereafter	0
Total lease payments	45,590
Less amount representing interest	(3,417)
Present value of net minimum lease payments	42,173
Less current portion	(27,410)
Long-term lease obligations, excluding current portion	$ 14,763

11. Quarterly Financial Information (unaudited)

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands, except per share data)			
2005				
Collaboration revenue from Schering AG	$ —	$ —	$ —	$ 8,254
Operating expenses	$ 4,866	$ 4,165	$ 9,042	$ 11,991
Operating loss	$ (4,866)	$ (4,165)	$ (9,042)	$ (3,736)
Net loss	$ (4,775)	$ (4,091)	$ (8,908)	$ (3,323)
Net loss per share:				
Basic	$ (0.22)	$ (0.19)	$ (0.37)	$ (0.10)
Diluted	$ (0.22)	$ (0.19)	$ (0.37)	$ (0.10)
2004				
Revenue	$ —	$ —	$ —	$ —
Operating expenses	$ 3,614	$ 3,817	$ 3,692	$ 5,453
Operating loss	$ (3,614)	$ (3,817)	$ (3,692)	$ (5,453)
Net loss	$ (3,578)	$ (3,761)	$ (3,612)	$ (5,360)
Net loss per share:				
Basic	$ (0.20)	$ (0.19)	$ (0.17)	$ (0.25)
Diluted	$ (0.20)	$ (0.19)	$ (0.17)	$ (0.25)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)), as of the end of the period covered by this annual report on Form

10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2005 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of Sonus Pharmaceuticals, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a–15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2005, management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2005.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of its internal control over financial reporting as of December 31, 2005, has been audited by Ernst &Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonus Pharmaceuticals, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Sonus Pharmaceuticals, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sonus Pharmaceutical Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Sonus Pharmaceuticals, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Sonus Pharmaceuticals, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Sonus Pharmaceuticals, Inc. as of December 31, 2005 and 2004, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Sonus Pharmaceuticals, Inc. and our report dated March 14, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Seattle, Washington
March 14, 2006

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In compliance with Section 406 of the Sarbanes-Oxley Act of 2002 and the Nasdaq corporate governance listing standards, the Company has adopted a code of conduct that is applicable to all of the Company's employees and directors. Interested parties may request a copy of this code of conduct, free of charge, by delivering a written request addressed to the Chief Financial Officer, Sonus Pharmaceuticals, Inc., 22026 20th Avenue S.E., Bothell, Washington 98021. The Company will disclose any amendments to the code of conduct and any waivers from the code of conduct for directors and executive officers by posting such information on its website at www.sonuspharma.com.

The other information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our 2006 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2006 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2005:

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders (1)	3,334,651	$ 4.62	1,642,230
Equity compensation plans not approved by security holders (2)	484,519	$ 4.97	16,258
Total	3,819,170		1,658,488

(1) Our 2000 Stock Incentive Plan was approved by security holders with 500,000 shares authorized under the plan. Stock options issued under the 2000 plan are generally granted at the fair market value on the date of grant and expire ten years from the date of grant. The plan also has an annual feature whereby an incremental number of shares equal to four percent of the Company's common stock outstanding as of December 31 of each year commencing December 31, 2000 are made available for issuance under the plan up to a lifetime maximum of five million shares. 1,636,173 shares were available for issuance as of December 31, 2005. The Company also had 6,057 shares available at December 31, 2005 for issuance under its Employee Stock Purchase Plan. This plan expired on December 31, 2005.

(2) Our 1999 Nonqualified Stock Incentive Plan (the "1999 Plan") is a broad-based plan for which shareholder approval was not required or obtained. A total of 900,000 shares are authorized under the 1999 Plan with 16,258 available for issuance as of December 31, 2005. Options to purchase 484,519 shares of common stock under the 1999 Plan were outstanding as of December 31, 2005 at a weighted average exercise price of $4.97. Stock options issued under the 1999 Plan are generally granted with an exercise price equal to fair market value on the date of grant, but in no event may be less than 85% of the then fair market value. Options under the 1999 Plan have various vesting schedules and expire ten years from the date of grant. The 1999 Plan also authorizes the issuance of restricted stock, although no restricted stock grants have been issued under the 1999 Plan. Shares underlying unexercised options that expire or are terminated become available again for future grants.

The remaining information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2006 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2006 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2006 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2005 and 2004

Statements of Operations for the years ended December 31, 2005, 2004, and 2003

Statements of Stockholders' Equity for the years ended December 31, 2005, 2004, and 2003

Statements of Cash Flows for the years ended December 31, 2005, 2004, and 2003

(2) All schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(3) Exhibits

Index to Exhibits

Exhibit No.	Description	Location
Exhibit No. 2: Plan of Acquisition		
2.1	Stock Purchase Agreement, dated November 3, 2004	(22)
2.2	Amended and Restated Stock Purchase Agreement, dated December 22, 2004.	(23)
Exhibit No. 3: Articles of Incorporation		
3.2	Amended and Restated Certificate of Incorporation of the Company.	(1)
3.3	Certificate of Amendment of Certificate of Incorporation of the Company.	(7)
3.4	Amended and Restated Bylaws of the Company.	(1)
3.5	Amended and Restated Certificate of Incorporation of the Company.	(20)
Exhibit No. 4: Instruments Defining the Rights of Security Holders		
4.1	Specimen Certificate of Common Stock.	(1)
4.2	Rights Agreement, dated as of August 23, 1996, between the Company and U.S. Stock Transfer Corporation.	(3)
4.3	First Amendment to Rights Agreement, dated as of August 23, 1996, between the Company and U.S. Stock Transfer Corporation.	(17)

Index to Exhibits

Exhibit No.	Description	Location
Exhibit No. 10: Material Contracts		
Compensation Plans and Arrangements		
10.1	Sonus Pharmaceuticals, Inc. Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan – 1991 (the "1991 Plan"), as amended.	(1)
10.2	Form of Incentive Stock Option Agreement pertaining to the 1991 Plan.	(1)
10.3	Form of Nonqualified Stock Option Agreement pertaining to the 1991 Plan.	(1)
10.4	Form of Restricted Stock Purchase Agreement pertaining to the 1991 Plan.	(1)
10.5	Sonus Pharmaceuticals, Inc. 1995 Stock Option Plan for Directors (the "Director Plan").	(1)
10.6	Form of Stock Option Agreement pertaining to the Director Plan.	(1)
10.7	1999 Nonqualified Stock Incentive Plan (the "1999 Plan").	(7)
10.8	Form of Stock Option Agreement pertaining to the 1999 Plan.	(7)
10.9	Form of Restricted Stock Purchase Agreement pertaining to the 1999 Plan.	(7)
10.10	2000 Stock Incentive Plan (the "2000 Plan").	(9)
10.11	Form of Stock Option Agreement pertaining to the 2000 Plan.	(9)
10.12	Sonus Pharmaceuticals, Inc. Employee Stock Purchase Plan.	(2)
10.13	Change in Control Agreement for Michael Martino, dated September 15, 1998.	(4)
10.14	Change in Control Agreement for Richard J. Klein, dated October 25, 2000.	(10)
10.15	Change in Control Agreement for Michael A. Martino, dated July 18, 2001.	(12)
10.16	Change in Control Agreement for Michael B. Stewart, dated May 1, 2003.	(18)
10.17	Change in Control Agreement for Michael A. Martino, dated October 10, 2003.	(19)
10.18	Change in Control Agreement for Richard J. Klein, dated October 10, 2003.	(19)
10.19	Change in Control Agreement for Michael B. Stewart, dated October 10, 2003.	(19)
10.20	Change in Control Agreement for Alan Fuhrman, dated September 15, 2004.	(22)
10.21	Amended and Restated Executive Compensation Program.	(25)
10.22	Form of Performance Award under Executive Compensation Program.	(25)
Other Material Contracts		
10.20	Lease Agreement dated January 17, 1994 between the Company and WRC Properties, Inc.	(1)
10.21	Amendment 2 dated October 28, 1997 to Lease Agreement dated January 17, 1994.	(5)
10.22	Amendment 3 dated October 15, 1998 to Lease Agreement dated January 17, 1994.	(5)
10.23	Amendment 4 dated November 29, 2001 to Lease Agreement dated January 17, 1994.	(15)
10.24	Form of Indemnification Agreement for Officers and Directors of the Company.	(1)
10.25	License Agreement by and between Nycomed Amersham AS and the Company dated August 31, 1999.	(8)
10.26	License Agreement by and between Chugai Pharmaceutical Co. Ltd., Molecular Biosystems, Inc., and the Company, dated December 22, 2000.	(11)
10.27	Nycomed Assignment and Asset Transfer Agreement, dated August 3, 2001.	(13)
10.28	Supply Agreement dated January 22, 2002 between Indena SpA and Sonus Pharmaceuticals, Inc.	(14)
10.29	First Amendment dated May 5, 2003 to Supply Agreement dated January 22, 2002 between Indena SpA and Sonus Pharmaceuticals, Inc.	(18)
10.30	Manufacturing and Supply Agreement by and between the Company and Gensia Sicor Pharmaceutical Sales, Inc., dated June 26, 2002.	(16)
10.31	Securities Purchase Agreement, dated May 7, 2004.	(21)
10.32	Registration Rights Agreement, dated May 7, 2004.	(21)
10.33	Securities Purchase Agreement, dated August 15, 2005.	(26)

Index to Exhibits

Exhibit No.	Description	Location

10.34	Registration Rights Agreement, dated August 15, 2005.	(26)
10.35	Collaboration and License Agreement by and between the Company and Schering AG, dated October 17, 2005.	(6)
10.36	Securities Purchase Agreement, dated October 17, 2005.	(6)
10.37	Registration Rights Agreement, dated October 17, 2005.	(6)
Exhibit No. 23: Consents of Experts and Counsel		
23.1	Consent of Independent Registered Public Accounting Firm.	(6)
24.1	Power of Attorney (included on the Signature Page of this Annual Report on Form 10-K).	(6)
Certifications		
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a).	(6)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a).	(6)
32.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(b) or 15d-14(b).	(6)
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b).	(6)

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, Reg. No. 33-96112.

(2) Incorporated by reference to the Company's Registration Statement on Form S-1, Reg. No. 33-80623.

(3) Incorporated by reference to the Company's Registration Statement on Form 8-A, dated August 23, 1996.

(4) Incorporated by, reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 1998.

(6) Filed herewith.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999.

(8) Incorporated by reference to the Company's Current Report on Form 8-K dated September 28, 1999.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.

(10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.

(11) Incorporated by reference to the Company's Annual Report on Form 10-KA for the period ended December 31, 2000.

(12) Incorporated by reference to the Company's Quarterly Report on Form 10-QA for the quarterly period ended June 30, 2001.

(13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001.

(14) Incorporated by reference to the Company's Registration Statement on Form S-3 filed February 8, 2002.

(15) Incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001.

(16) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002.

(17) Incorporated by reference to the Company's filing on Form 8-A12G/A dated July 25, 2002.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003.

(19) Incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2003.

(20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.

(21) Incorporated by reference to the Company's Current Report on Form 8-K filed May 13, 2004.

(22) Incorporated by reference to the Company's Current Report on Form 8-K filed September 20, 2004.

(23) Incorporated by reference to the Company's Current Report on Form 8-K filed November 8, 2004.

(24) Incorporated by reference to the Company's Current Report on Form 8-K filed December 28, 2004.

(25) Incorporated by reference to the Company's Current Report on Form 8-K filed January 4, 2005.

(26) Incorporated by reference to the Company's Current Report on Form 8-K filed August 17, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Bothell, State of Washington, on March 16, 2006.

SONUS PHARMACEUTICALS, INC.

Dated: March 16, 2006

By: /s/ Michael A. Martino
Michael A. Martino
President, Chief Executive Officer
and Director (Principal Executive Officer)

We, the undersigned directors and officers of Sonus Pharmaceuticals, Inc., do hereby constitute and appoint Michael A. Martino and Alan Fuhrman, or either of them, our true and lawful attorneys and agents, with full powers of substitution to do any and all acts and things in our name and on behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments thereto; and we do hereby ratify and confirm all that said attorneys and agents, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Michael A. Martino Michael A. Martino	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2006
/s/ Alan Fuhrman Alan Fuhrman	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	March 16, 2006
/s/ Craig S. Eudy Craig S. Eudy	Vice President, Corporate Controller (Principal Accounting Officer)	March 16, 2006
/s/ Michelle Burris Michelle Burris	Director	March 16, 2006
/s/ George W. Dunbar, Jr. George W. Dunbar, Jr.	Director	March 16, 2006
/s/ Robert E. Ivy Robert E. Ivy	Director, Chairman of the Board of Directors	March 16, 2006
/s/ Dwight Winstead Dwight Winstead	Director	March 16, 2006

COLLABORATION AND LICENSE AGREEMENT

between

SONUS PHARMACEUTICALS, INC.

and

SCHERING AG

Dated: October 17th 2005

COLLABORATION AND LICENSE AGREEMENT

This Collaboration and License Agreement (the "Agreement") is made as of October 17, 2005 (the "Execution Date") by and between Sonus Pharmaceuticals, Inc., a Delaware corporation ("Sonus"), and Schering AG, a German corporation ("Schering"). Sonus and Schering are sometimes referred to collectively herein as the "Parties" or singly as a "Party."

RECITALS

WHEREAS, Sonus has developed a novel formulation of paclitaxel, known as TOCOSOL® Paclitaxel, a cancer therapy product;

WHEREAS, Schering possesses substantial resources and expertise in the research, development, manufacturing, marketing and sale of pharmaceutical products; and

WHEREAS, Schering and Sonus desire to collaborate to develop, promote and commercialize the Product in the Territory for use in the Field;

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements contained herein, the Parties hereto, intending to be legally bound, do hereby agree as follows:

AGREEMENT

ARTICLE I
DEFINITIONS

The following terms as used in this Agreement shall, unless the context clearly indicates to the contrary, have the meaning set forth below:

"Act" means the United States Food, Drug and Cosmetics Act, as amended from time to time and regulations promulgated thereunder.

"*Affiliate"* means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by or is under common control with such Person. For the purposes of this definition, a Person shall be deemed to control another Person if such Person possesses the power to direct or cause the direction of the management, business and policies of such Person, whether through ownership of fifty percent (50%) or more of the voting securities of such Person, by contract or otherwise.

"Applicable Laws" means all applicable laws, statutes, rules, regulations, orders, judgments, injunctions and/or ordinances of any Governmental Authority in the Territory, including but not limited to: laws, rules and regulations governing the import, export, development, manufacturing, marketing, distribution and sale of the Product in the Territory; all current Good Clinical Practices, Good Manufacturing Practices or current Good Laboratory Practices standards promulgated by the FDA or other Governmental Authorities, where applicable; U.S. export control laws and the U.S. Foreign Corrupt Practices Act and equivalent statutes of any other Governmental Authority; and, for the U.S., the Guidance of the U.S. Department of Health and Human Services, Office of Inspector General, entitled "Compliance Program for Pharmaceutical Manufacturers" released in April 2003,

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as it may be amended from time to time, and equivalent laws, regulations and guidances in other countries.

"Approval" means any approval (including, without limitation, Pricing Approvals), registration, license or authorization from any Governmental Authority required for the manufacture, development, Co-Promotion, distribution, sale, storage or transport of the Product in the Field in any country of the Territory, and shall include, without limitation, an approval, registration, license or authorization granted in connection with, any Approval Application.

"Approval Application" means the submission to the relevant Governmental Authority of an appropriate application seeking any approval, registration, license or authorization from any Governmental Authority required for the manufacture, development, Co-Promotion, distribution, sale, storage or transport of the Product in the Field in any country of the Territory, and shall include, without limitation, a marketing authorization application, supplementary application or variation thereof, Pricing Approval, NDA, HRD or any equivalent application in any country of the Territory.

"Audit Disagreement" has the meaning set forth in Section 8.03(d).

"Bankruptcy Event" has the meaning set forth in Section 16.02(c).

"Business Day" means a day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the States of Washington or New Jersey, US, or in Berlin, Germany.

"Clinical Development" means all activities relating to planning and execution of clinical studies in humans directed towards obtaining Approval of a Product, including but not limited to Phase 1 clinical trials, Phase 2 clinical trials, Phase 3 clinical trials and Phase 4 clinical trials but does not include any activities falling within the definition of CMC/Manufacturing or ISS Activities.

"CMC/Manufacturing" means the development of one or more processes for the manufacture and packaging of the Product for Preclinical Development, Clinical

Development and Commercialization necessary to achieve a scale of **[*]** per aggregate batch, defined as the sum of the batch size capacities of development facilities. This includes, without limitation, formulation, production, fill-finish, sourcing of plant, equipment, components, raw materials and packaging supplies, development of regulatory methods and controls, including assays, quality control and quality assurance methodology and stability protocols, and qualification and scale-up of one or more production facilities.

"CMC/Manufacturing Costs" means the Development Costs incurred by a Manufacturing Party or for its account consistent with the CMC/Manufacturing Plan and Budget and specifically attributable to the CMC/Manufacturing of the Product.

"CMC/Manufacturing Plan and Budget" means a written development plan and budget providing for the CMC/Manufacturing of the Product in the Territory, as updated, amended, supplemented and otherwise modified from time to time by the Steering Committee.

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[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

"Commercialize" means to promote, market, use for commercial purposes, import, export, distribute and sell or offer to sell, or to the extent permitted under this Agreement to have any of those things done, and "*Commercialization*" has a corresponding meaning.

"Commercially Reasonable Efforts" means, with respect to the efforts to be expended by a Party with respect to any objective, such reasonable, diligent and good faith efforts as would normally be expended by a reasonably prudent pharmaceutical company to accomplish a similar objective with respect to a product at a similar stage in its development or product life and of similar market potential, taking into account efficacy, safety, anticipated or approved labeling, the competitiveness of alternative products in the marketplace, the patent and other proprietary position of the Product, the likelihood of Approval given the regulatory structure involved, the profitability of the Product and other relevant factors.

"Confidential Information" means Information and any other information and materials regarded by the disclosing Party as confidential (including, without limitation, information relating to the Sonus Technology) furnished by one Party to the other pursuant to this Agreement and all Information created or developed during the course of the Parties' collaboration hereunder, whether in oral, written, graphic or electronic form. Confidential Information shall not include any information which the receiving Party can prove by competent evidence:

(a) is now, or hereafter becomes, through no act or failure to act on the part of the receiving Party, generally known or available;

(b) is known by the receiving Party, without obligations of confidentiality, at the time of receiving such information, as demonstrated by written evidence;

(c) is hereafter furnished to the receiving Party by a Third Party, as a matter of right and without restriction on disclosure;

(d) is independently developed by the receiving Party without the aid, application or use of, the disclosing Party's Confidential Information, as demonstrated by written evidence; or

(e) is the subject of a written permission to disclose provided by the disclosing Party.

"Co-Promotion" means marketing and promotional activities with respect to the Product in the Field, including, without limitation, detailing of the Product.

"Core Development" means: (i) all Preclinical Development, Clinical Development, and regulatory affairs activities, regardless of where they are performed, which are part of the Core Development Plan for the Product for the Field and which the Steering Committee believes are reasonably necessary to obtain or maintain NDA Approval in the US for the Product for the Core Indications, and shall include, without limitation, any post-Approval studies required by a Governmental Authority with respect to such NDA Approval; and (ii) all ISS Activities to be performed in the US and which the Steering Committee believes are reasonably necessary or desirable for the Development of the Product in the Field in the US.

"Core Development Costs" means those Development Costs incurred in the performance of Core Development in accordance with the Core Development Plan and Budget.

"Core Development Plan and Budget" means a written development plan and budget providing for the performance of Core Development, as updated, amended, supplemented and otherwise modified from time to time by the Steering Committee in accordance with Section 5.02(b).

"Core Indications" shall mean those Indications for which the Parties wish to jointly develop the Product as part of their Core Development activities hereunder, which Indications are identified as Core Indications in the Initial Development Plan and Budget, together with such additional Indications as may be identified as Core Indications in the Core Development Plan as updated and modified from time to time in accordance with this Agreement.

"Development" and "Develop" shall refer to all activities relating to PreclinicaI Development, Clinical Development, regulatory activities, CMC/Manufacturing and ISS Activities.

"Development Costs" means the total of: (i) the cost of Development FTEs, calculated in accordance with Section 5.09(c); and (ii) Out-of-Pocket Costs, in each case incurred by a Party or for its account consistent with the Development Plan and Budget and specifically attributable to the Development of the Product.

"Development FTE" means a full-time equivalent person year for a person engaged in Development activities. The Parties' respective Development FTE costs shall be included in the applicable Development Plan and Budget and shall be reviewed and mutually agreed upon annually by the Steering Committee in accordance with Section 5.09(c).

"Development Plan and Budget" means: (i) the Core Development Plan and Budget; and (ii) the CMC/Manufacturing Plan and Budget, agreed upon by the Parties in accordance with Sections 5.02 and 5.03 respectively of this Agreement, as updated, amended, supplemented and otherwise modified from time to time by the Steering Committee in accordance with this Agreement.

"Execution Date" means the date first written above in the introductory paragraph of this Agreement.

"EMEA" means the European Medicines Evaluation Agency, or successor agency thereto.

"EU Approval" means receipt by Schering or its Affiliate or sublicensee of the EU Commission's written decision granting Approval for the marketing and sale of the Product in the Field in the EU, or in the case of Approvals granted pursuant to the de-centralized procedure, the written decisions of all Major EU Member States granting Approval for the marketing and sale of the Product in the Field in their respective regulatory jurisdictions.

"European Union" or *"EU"* means the countries of the European Union as constituted from time to time.

"EU Commission" means the Commission of the European Communities or successor agency thereto.

"FDA" means the United States Food and Drug Administration or successor agency thereto.

"Field" means all uses of the Product for the diagnosis, prevention, treatment, cure or mitigation of all disease states, conditions, disorders and indications in humans or in animals.

"GAAP" means those generally accepted accounting principles in agreement with IFRSs.

"Generic Product" means a product which, if sold in the US on the Execution Date, would infringe a Valid Claim of a Sonus Patent.

"Good Clinical Practices" means the Good Clinical Practices guidelines published by the FDA, and published standards of the FDA (or other standards of the FDA that are generally recognized within the United States pharmaceutical industry) that relate to the conduct of clinical studies in humans. Good Clinical Practices also includes similar standards, guidelines and regulations promulgated or otherwise required by Governmental Authorities in any country of the Territory that relate to the conduct of clinical studies in humans including, without limitation, the ICH Harmonised Tripartite Guideline for Good Clinical Practice, as amended from time to time.

"Good Manufacturing Practices" means current Good Manufacturing Practices as defined from time to time by the applicable FDA regulations in effect for the manufacture, handling, testing, storage and control of pharmaceutical materials as applied to "finished products" in the United States of America and the corresponding requirements of each Governmental Authority within the Territory.

"Good Laboratory Practices" means the current Good Laboratory Practices as defined by the applicable FDA regulations in effect for nonclinical laboratory studies that support applications for research and marketing of products regulated by the FDA in the United States of America and the corresponding requirements of each Governmental Authority in the Territory in which the Product is to be marketed and sold.

"Governmental Authority" means any court, agency, authority, department, regulatory body or other instrumentality of any government or country or of any national, federal, state, provincial, regional, county, city or other political subdivision of any such government or any supranational organization of which any such country is a member including, without limitation, the FDA for the United States, the EMEA and EU Commission for the EU and the MHLW for Japan.

"HRD" means a health registration dossier covering the Product for the Field, filed in any country in the Territory and which is analogous to an NDA.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IFRSs" mean international financial reporting standards, as published by the International Accounting Standards Board and its predecessor, the International Accounting Standards Committee.

"Improvements" means any and all developments, inventions or discoveries owned, controlled or licensed by Sonus, or its Affiliates, at any time during the Term hereof, which do not relate specifically to the Product but which may be of benefit to the Development or Commercialization of the Product, and shall include, but not be limited to, developments which may enhance the safety and/or efficacy of the Product, or a combination product or new formulation of the Product for use in the Field.

"IND" means an Investigational New Drug application required for approvals or authorizations from the FDA to commence human clinical testing of a drug, as defined by the FDA, or the equivalent application in another country.

"Indication" means a particular application of the Product in the Field.

"Information" means (i) techniques, data, and information relating to the Product, including, but not limited, to inventions, practices, methods, knowledge, know-how, skill, trade secrets, experience, test data including pharmacological, toxicological, preclinical and clinical test data; data, records and information derived from Preclinical Development, Clinical Development and ISS Activities; Approval Applications, adverse reactions, CMC/Process Development, analytical and quality control data, marketing, pricing, distribution, cost, sales and manufacturing data or descriptions and, (ii) compounds, compositions of matter, assays and materials relating to the Product.

"Initial Development Plan and Budget" means the initial Development Plan and Budget concerning the Development of the Product set out in Schedule Ito this Agreement.

"Investigator Sponsored Study" or *"ISS"* means any clinical study with respect to the Product in the Field where the sponsor of the study is a physician or group of physicians acting as sponsor-investigator(s) and neither of the Parties nor any of their Affiliates or sublicensees accept the role of sponsor or co-sponsor of such a study.

"ISS Activities" means interactions with physicians relating to the conduct of Investigator Sponsored Studies (including discussion of potential Investigator Sponsored Studies) and the processing of appropriate agreements pursuant to which a Party provides support (in the form of funding or drug supply) for Investigator Sponsored Studies for the Product in the Field.

"Loss" means the losses as defined in Section 12.01.

"Major EU Member States" means Germany, France, Italy, Spain, United Kingdom, Belgium, The Netherlands and Luxembourg.

"Manufacturing Party" means the Party who is from time to time responsible for: (i) manufacture and supply of Product for use during Development, or (ii) manufacture and supply of Product for use during Commercialization.

"Marketing Plan" means the marketing plan as provided in Section 6.01.

"MHLW" means the Japanese Ministry of Health, Labor and Welfare, including the agency responsible for regulating the development and commercialization of human pharmaceuticals in Japan, and any successor agency.

"MHLW Approval" means receipt by Schering or its Affiliate or sublicensee of the official approval letter from the MHLW approving the marketing and sale of the Product in the Field in Japan under an HRD.

"NDA" means New Drug Application, as described in FDA regulations, 21 C.F.R. 50, including all amendments and supplements to the application.

"NDA Approval" means receipt by Schering, its Affiliate or permitted sublicensee of the official approval letter from the FDA approving the marketing and sale of the Product in the Field in the United States of America under an NDA or supplemental NDA, as applicable.

"Net Sales" means, for any period, the amount invoiced for sales by Schering, its Affiliates or sublicensees, of Product in the Territory to Third Parties less the following deductions:

(a) distributors' fees, fees paid to wholesalers or other entities in the chain of distribution, quantity discounts, cash discounts, chargebacks, rebates or allowances actually paid, granted, allowed or incurred in the ordinary course of business in connection with the sale of a Product;

(b) allowances or credits to customers in the ordinary course of business in connection with the sale of a Product, not in excess of the selling price of such Product, on account of outdating, recall, market withdrawal, rejection, or return of such Product;

(c) sales and excise taxes, customs brokers fees or customs duties paid by the selling Party, and any other governmental charges imposed upon the sale of a Product and paid by the selling Party;

(d) transportation charges, and related charges such as insurance relating to the shipment of Product to the customer, and paid by the selling Party;

(e) fees paid to governmental agencies based on the sales volume (expressed in units or currency) or selling price of a Product, such as Medicaid rebates paid to Medicaid authorities, and paid by the selling Party;

(f) costs of customer programs such as cost effectiveness or patient assistance studies or programs designed to aid in patient compliance with medication schedules, in the ordinary course of business in connection with the sale of a Product; and

(g) all actual bad debts.

Components of Net Sales shall be determined in the ordinary course of business and using the accrual method of accounting in accordance with GAAP. Any deductions listed above which involve a payment by a party shall be taken as a deduction against aggregate sales for the period in which the payment or deduction is made. Sales of a Product between the selling Party and its Affiliates or sublicensees shall be excluded from the computation of Net Sales. Net Sales will be accounted for in accordance with IFRSs, consistently applied.

For the purpose of calculating a selling Party's Net Sales, the Parties recognize that: (a) a Party's customers may include persons in the chain of commerce who enter into agreements with a Party as to price even though title to the Product does not pass directly from a Party to such customers, and even though payment for such Product is not made by such customers directly to a Party, and (b) in such cases chargebacks paid by a Party to or through a Third Party (such as a wholesaler) can be deducted by a Party from gross revenue in order to calculate a Product's Net Sales.

In the event that Schering or its Affiliates or sublicensees sells Product (or offers any rebate or discount or any other reduction in the price of Product) to a Third Party in return for any form of consideration other than money (for example, in return for obtaining more favorable pricing for Schering or its Affiliates or sublicensees on other products), then the amount of such reasonable

value of such non-cash consideration will be included in assessing any payments due to Sonus as if such non-cash consideration were payment in cash for sales of the Product.

"Non-Core Development" means: (i) Preclinical Development, Clinical Development, or regulatory affairs activities that do not constitute Core Development but which are performed for the purpose of obtaining or maintaining Approval in the US, regardless of where such Preclinical Development or Clinical Development is actually performed; and (ii) ISS Activities performed in the US that do not constitute Core Development.

"Non-Core Development Costs" means Development Costs incurred in the performance of Non-Core Development.

"Operating Profits on US. Net Sales" means the profits before interest and taxes of Schering from the sale of the Product in the United States determined in accordance with IFRSs.

"Out-of-Pocket Costs" means direct expenses paid or payable to Third Parties (other than employees or employees of an Affiliate) that are: (i) specifically identifiable and incurred in the Development of the Product in the Field in the Territory; and (ii) recorded as income statement items in accordance with IFRSs. For avoidance of doubt, Out-of-Pocket Costs shall not include pre-paid amounts or capital expenditures-

"Patent" means all existing US patents and patent applications and all US patent applications hereafter filed, including any continuation, continuation-in-part, division, provisional or any substitute applications, any patent issued with respect to any such patent applications, any reissue, re-examination, renewal or extension (including any supplemental protection certificate) of any such patent, and any confirmation patent or registration patent or patent of addition based on any such patent, and all foreign counterparts of any of the foregoing that are now owned or controlled or hereafter acquired or controlled by a Party or its Affiliates. "Patents" also includes a Supplementary Certificate of Protection of a member state of the EU and any other similar protective rights in any other country.

"Patent Committee" means the patent committee established by the Parties pursuant to Section 9.04 of this Agreement.

"Person" means any individual, partnership, joint venture, limited liability company, corporation, firm, trust, association, unincorporated organization, governmental authority or agency, or any other entity not specifically listed herein.

"Pharmacovigilance Agreement" means the pharmacovigilance agreement concerning exchange and reporting of pharmacovigilance information to be entered into by the Parties in accordance with Section 8.02 of this Agreement.

"Phase 3 Clinical Trial" has the meaning set forth in 21 CFR 312.21(c), as amended from time to time.

"Pivotal Trial" means the Phase 3 clinical trial of approximately 800 evaluable patients conducted under protocol number SON-8184-1075.

"Preclinical Development" means all activities relating to the planning and execution of non-human studies conducted in*in vitro* or in relevant *in vivo* animal models directed toward obtaining

Approval of a Product in each regulatory jurisdiction in the Territory. This includes preclinical testing, pharmacokinetics, toxicology, documentary and medical writing directly related to Preclinical Development activities and related regulatory affairs.

"Pricing Approval" means, in countries of the Territory where Governmental Authorities may approve or determine pricing or pricing reimbursement for pharmaceutical products, and where such pricing or reimbursement approval is reasonably necessary for widespread sales of the Product, such approval or determination.

"Product" means the product known as TOCOSOL Paclitaxel, as more particularly described in Exhibit A, and any other formulation of unmodified paclitaxel that uses α-tocopherol (vitamin E) to provide a sterile delivery vehicle.

"Product Launch" means the first sale of the Product in the Field in a country or regulatory jurisdiction in the Territory by or on behalf of Schering, or an Affiliate or permitted sublicensee of Schering after obtaining all required Approvals in such country or regulatory jurisdiction, including, without limitation, Pricing Approvals.

"Recall" means the recall of the Product as provided in Section 14.01.

"Royalty Term" means the period for which royalties are payable by Schering to Sonus, as described in Section 3.02(c) of this Agreement.

"ROW" means all countries, territories and geographical areas of the world, excluding the United States of America and its territories, commonwealths and possessions.

"Safety" means adverse experiences which are significant, unexpected (as defined in 21 C.F.R. § 314.80(a)), serious or life threatening or have a significant, unexpected (as defined in 21 C.F.R. § 314.80(a)), serious or life threatening toxicological effect on one or more body tissues.

"Sonus Know-How" means, with respect to the Product, Information owned, controlled or licensed by Sonus as of the Execution Date and at any time during the Term, which is not covered by the Sonus Patent Rights, but is necessary or useful to use, research, develop, manufacture, market, import for sale or Commercialize the Product, and shall include Improvements.

"Sonus Marks" means any trademarks owned by Sonus that it agrees may be used in connection with the promotion of the Product in the Territory pursuant to Section 2.03, alone or accompanied by any logo or design and any foreign language equivalents in sound or meaning, whether registered or not.

"Sonus Patent Rights" means, with respect to the Product, all rights owned, controlled or licensed by Sonus or its Affiliates under Patents as of the Execution Date and at any time during the Term of this Agreement, which are necessary or useful to use, research, develop, manufacture, market, import for sale or commercialize the Product in the Territory for use in the Field, and shall include Improvements. A list of the Sonus Patents existing as of the Execution Date is set forth on Exhibit B.

"Sonus Technology" means the Sonus Patent Rights and the Sonus Know-How.

"Steering Committee" means the committee established pursuant to Section 5.01 below.

"Superior Efficacy Label" means a label for the Product approved by the appropriate Governmental Authority which includes language to the effect that the Product is superior as compared to Taxol with respect to the efficacy of treatment, as measured by objective response rate, duration of progression-free survival (or comparable endpoint), or duration of overall survival, for a particular Indication and which allows Schering to advertise and promote the Product with such a superiority claim compared to Taxol in accordance with Applicable Laws, and which does not, in other significant and clinically meaningful respects, taken as a whole, result in a materially less favorable profile for the Product than for corresponding data generated for Taxol in the applicable registrational trial.

"Territory" means the entire world.

"Term" has the meaning set forth in Section 16.01.

"Third Party" means any entity other than Sonus or Schering or an Affiliate or sublicensee of Sonus or Schering.

"United States" or "US" shall mean the United States of America and its territories and possessions, including but not limited to the District of Columbia and Puerto Rico.

"Valid Patent Claim" means, with respect to the Product any claim of any issued and unexpired patent included within the Sonus Patent Rights which has not been held revoked, unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been admitted to be invalid or unenforceable.

ARTICLE II

LICENSE; OTHER RIGHTS

Section 2.01 ***Technology License Grant.*** Subject to the terms and conditions of this Agreement, including Schering's obligations under Article III, Sonus hereby grants to Schering, an exclusive (even as to Sonus) license, with the right to sublicense, under Sonus Technology to develop, make, have made, use, market, distribute, import, offer for sale, and sell the Product in the Territory for use in the Field. The foregoing notwithstanding, Sonus retains (i) the right to Co-Promote the Product as provided in Section 6.03 below, provided that Sonus exercise the option to Co-Promote in accordance with Section 6.03 below; and (ii) the right to conduct Development and related activities and to manufacture and have manufactured the Product to the extent specifically provided for in this Agreement, subject to the terms and conditions hereof.

Section 2.02 ***Sublicenses.*** Nothing herein shall restrict Schering from distributing, marketing and selling Product through or with sublicensees, distributors or sales representatives; provided, however, that Schering shall not enter into a sublicense agreement with respect to the marketing or sale of the Product in the United States or the EU (except where such sublicense agreement is with an Affiliate) without first providing at least four (4) weeks' written notice to Sonus of its intention to enter into such a sublicense agreement, such notice to include the name of the proposed sublicensee. If Sonus, within two weeks of receipt of Schering's notice, demonstrates in writing to Schering that the sublicensee lacks the necessary financial, regulatory or marketing resources or expertise to fulfill the obligations of Schering in the country or region in

which the

sublicense is to be granted, as and when such obligations arise, then Schering shall not, without the prior written agreement of Sonus, enter into the proposed sublicense agreement with such proposed sublicensee. Any sublicense grant made by Schering hereunder shall be made subject to the applicable terms of this Agreement and shall impose restrictions and conditions upon sublicensees that are consistent with those imposed upon Schering by this Agreement. Schering shall remain fully responsible for the performance and conduct of its sublicensees under the terms of this Agreement, including any breach of the terms hereof by such sublicensees. Promptly after the execution of each sublicense, Schering will provide to Sonus a true and complete copy of such sublicense; provided that Schering may redact any financial and other information to the extent not required to enable Sonus to monitor compliance with this Agreement.

Section 2.03 ***Trademarks*.**

(a) Subject to the terms and conditions of this Agreement, including without limitation Section 6.04, Sonus hereby grants to Schering a non-exclusive royalty-free license and right to use the Sonus Marks in connection with the manufacture, use, Development and Commercialization of the Product in the Territory for use in the Field, with the right to sublicense to sublicensees in accordance with Section 2.02. Nothing herein shall preclude Sonus or any of its licensees from using the Sonus Marks in the ordinary course of business for products other than the Product, or outside of the Field.

(b) Schering acknowledges that the Sonus Marks being licensed to Schering pursuant to this Agreement belong to Sonus and that Schering shall have no rights in such Sonus Marks except pursuant to the license granted herein. If Schering elects to use the Sonus Marks in connection with its Commercialization of the Product, Schering shall use the Sonus Marks in the exact form registered by Sonus, including without limitation, the ® symbol or ^{TM} symbol, as applicable. Any other use of the Sonus Marks shall be subject to the prior written approval of Sonus, which shall not be unreasonably withheld or delayed. All content or other specific graphic elements related to the Sonus Marks provided by Sonus shall remain the property of Sonus and shall be used only in the manner set forth in this Agreement except as otherwise approved by Sonus.

(c) Schering shall not take any action inconsistent with Sonus' exclusive ownership of the Sonus Marks. Schering shall not publish, employ or cooperate in the publication of, any misleading or deceptive advertising material with regard to Sonus or the Sonus Marks.

Section 2.04 ***Improvements.*** Sonus shall promptly notify Schering of any Improvements and of any efforts by Sonus to patent Improvements in the Territory including, but not limited to, designation of the countries in which any patent application in respect thereof is to be filed- The ownership, prosecution and maintenance with respect to any patent application or technology in respect of such Improvement and any patent issued therefrom shall be handled in accordance with Article IX of this Agreement. All intellectual property rights in Improvements, including under such patents and patent applications, shall become part of the Sonus Patent Rights and Sonus Know-How licensed hereunder, and Exhibit B shall be modified to reflect the addition of such patents.

Section 2.05 ***Compliance with Applicable Laws.*** Sonus and Schering, and their respective Affiliates, shall perform their obligations under this Agreement, including, without limitation, any Co-Promotion activities, in an effort to Develop and Commercialize the Product and perform all of their obligations hereunder with respect to the Product for the Field in the Territory in accordance with all Applicable Laws. Neither Party nor its Affiliates shall, or shall be required to, undertake any

activity under or in connection with this Agreement which violates, or which it believes, in good faith, may violate, any Applicable Law.

ARTICLE III

LICENSE FEE, MILESTONE AND ROYALTY PAYMENTS

Section 3.01 ***License Fee and Milestone Payments.*** In partial consideration for the licenses granted under Article II, Schering shall pay to Sonus the amounts, and at the times, set forth in this Section.

(a) *Initial License Fee.* Within ten (10) Business Days of execution of this Agreement by both Parties, Schering shall deliver into escrow an initial license fee equal to Twenty Million Dollars ($20,000,000) pursuant to the terms of an escrow agreement provided by Schering (the terms of which shall be reasonably acceptable to Sonus) with an escrow agent selected by Schering (and reasonably acceptable to Sonus). The terms of the escrow agreement will provide that (i) upon effectiveness of this agreement pursuant to Section 16.01(a) hereof, the initial license fee will be paid to Sonus and (ii) if termination of the waiting period or approval under the HSR Act is not received within six months from the date hereof the initial license fee shall be returned to Schering.

(b) *Product Milestone Payments.* Schering shall pay the following amounts within thirty (30) days after the first occurrence of each of the following Product-related milestones:

Milestone	Amount
(i) Product Launch in the United States following NDA Approval for a metastatic breast cancer ("MBC") Indication with a Superior Efficacy Label	**[*]**
(ii) Product Launch in the United States following NDA Approval for a MBC Indication without a Superior Efficacy Label	**[*]**
(iii) Product Launch in the EU following EU Approval for a MBC Indication with a Superior Efficacy Label	**[*]**
(iv) Product Launch in the EU following EU Approval for a MBC Indication without a Superior Efficacy Label	**[*]**
(v) Product Launch in Japan following MHWL Approval for a MBC Indication with a Superior Efficacy Label	**[*]**
(vi) Product Launch in Japan following MHWL Approval for a MBC Indication without a Superior Efficacy Label	**[*]**

[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

Milestone	Amount
(vii) First dosing of a patient in a Phase 3 Clinical Trial to support NDA Approval for second Indication	[*]
(viii) Acceptance for filing by the FDA of an NDA for second Indication	[*]
(ix) Product Launch in the United States following NDA Approval for second Indication with a Superior Efficacy Label	[*]
(x) Product Launch in the United States following NDA Approval for second Indication without a Superior Efficacy Label	[*]
(xi) Product Launch in the EU following EU Approval for second Indication with a Superior Efficacy Label	[*]
(xii) Product Launch in the EU following EU Approval for second Indication without a Superior Efficacy Label	[*]
(xiii) Product Launch in Japan following MHWL Approval for second Indication with a Superior Efficacy Label	[*]
(xiv) Product Launch in Japan following MHWL Approval for second Indication without a Superior Efficacy Label	[*]

In no event shall any milestone payment be paid more than once. Except for milestone payments expressly stated to be made for a second Indication in this Section 3.01(b), payments will be made only for the first Indication for which the Product is developed regardless of the number of Indications for which the Product is developed. Each set of two milestones listed at (i) and (ii), (iii) and (iv), (v) and (vi), (ix) and (x), (xi) and (xii) and (xiii) and (xiv) respectively are alternative and not cumulative milestones and only one of each set of milestone payments is payable, provided however, that if, in the case of each set of two milestones: (I) the second milestone (namely the milestone referring to Approval "without a Superior Efficacy Label") is reached before the first milestone of that set (namely the milestone referring to Approval "with a Superior Efficacy Label"); and (II) the first milestone of that set is subsequently reached on the basis of further data from the same Phase 3 Clinical Trial for which the Approval described in the second milestone of that set was reached, then, within thirty (30) days of such first milestone having been met, Schering shall pay to Sonus the difference between the milestone payment already paid for the second milestone of that set and the milestone payment payable for the first milestone of that set. Only milestone payments falling due and payable during the Term of the Agreement are payable. Payments made under this Section 3.01 are not refundable and will not be credited against any other payments payable by Schering under the terms of this Agreement except to the extent expressly provided for in this Agreement.

[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

(c) *Sales Milestone Payments.* Schering shall pay the following amounts upon the occurrence of the following sales related milestones:

Milestone	Amount
Annual Worldwide Net Sales of at least **[*]**	[*]
Annual Worldwide Net Sales of at least **[*]**	[*]
Annual Worldwide Net Sales of at least **[*]**	[*]

Annual Worldwide Net Sales shall be determined on a calendar year basis. As provided in Section 3.02(f) below, Schering shall provide Sonus with a report of Net Sales within sixty (60) days of the end of each calendar quarter, which report shall include payment of the applicable milestone payment in the event the milestone is achieved by the end of the quarter for which the report relates. The above milestone payments shall be cumulative but in no event shall any milestone payment be paid more than once. For example, if annual Net Sales in the Territory following NDA Approval were: Year 1 – **[*]**, Year 2 – **[*]**, Year 3 – **[*]** and Year 4 – **[*]**, Sonus would receive **[*]** sales milestone payment for Year 1, a **[*]** sales milestone payment for Year 2, **[*]** sales milestone payment for Year 3 and a **[*]** milestone payment for Year 4.

Section 3.02 ***Royalty Payments***

(a) *Royalty Payments for U.S. Net Sales.* In the event Sonus does not elect to exercise its Co-Promotion rights pursuant to Section 6.03 below, in addition to the other consideration provided for herein, and subject to the other terms of this Agreement, Schering shall pay to Sonus a royalty on U.S. Net Sales of the Product, in the following amounts:

U.S. Annual Net Sales	Royalty (% of U.S. Net Sales)
On that portion of U.S. Annual Net Sales from **[*]** to **[*]**	15 %
On that portion of U.S. Annual Net Sales from **[*]** to **[*]**	20 %
On that portion of U.S. Annual Net Sales from **[*]** to **[*]**	25 %
On that portion of U.S. Annual Net Sales above **[*]**	30 %

(b) *Royalty Payments on ROW Net Sales.* In addition to the other consideration provided for herein, and subject to the other terms of this Agreement, Schering shall pay to Sonus a royalty equal to fifteen percent (15%) of Net Sales of the Product in the countries of the ROW Territory.

[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

(c) *Royalty Term.* All royalties payable by Schering to Sonus shall be paid, on a country-by-country basis, from the date of Product Launch by Schering or an Affiliate or sublicensee of the Product in a particular country until the later of: (i) ten (10) years from the date of Product Launch in such country; and (ii) the last to expire of any Sonus Patent containing a Valid Claim which covers the use or sale of the Product in such country.

(d) *No Valid Claim:* For countries in which, at any time during the Royalty Term, there is no Sonus Patent containing at least one Valid Claim which covers the use or sale of the Product, the applicable royalty on Net Sales of the Product in that country shall, for the period during which there is no such Sonus Patent containing at least one Valid Claim, be reduced in accordance with the terms of this Section 3.02(d) as follows:

(i) For as long as there is no Generic Product sold in the applicable country, the royalty payable in the applicable country during the Royalty

Term shall be **[*]** of the royalty rate provided for in Section 3.02(a) or 3.02(b), as the case may be, and;

(ii) For as long as a Generic Product is sold in the applicable country, the royalty payable in the applicable country during the Royalty Term shall be **[*]** of the royalty rate provided for in Section 3.02(a) or 3.02(b), as the case may be.

(e) *License following Expiration.* Upon expiration of the Royalty Term in each country as described above, Schering shall thereafter have an exclusive (even as to Sonus), paid-up license under Sonus Know-How to make, have made, use, sell, offer for sale, have sold and import the Product in that country. This Section 3.02(e) shall survive the expiration of this Agreement.

(f) *Royalty Reports and Payments.* Schering shall make royalty payments to Sonus within sixty (60) days after the end of each calendar quarter in which Net Sales occurred. A report summarizing the Net Sales of the Product during each relevant quarter, on a country-by-country basis, shall be delivered to Sonus within sixty (60) days following the end of each calendar quarter for which royalties are due in sufficient detail to permit confirmation of the accuracy of the royalty payment made, including, without limitation, withholding taxes, if any, required to be withheld, the method used to calculate the royalty payment, any discounts, rebates, or other amounts included in calculating Net Sales, and the exchange rates used.

(g) *Exchange Rate; Manner and Place of Payment.* All payments to be made by Schering pursuant to this Section 3.02 shall be payable by Schering to Sonus in United States Dollars by wire transfer to a bank account designated in writing by Sonus at least ten (10) Business Days before such payment is due and payable. The calculation of royalty rates within Schering is based upon EUR. Therefore, where payments are based on Net Sales in countries other than the member states of the European Monetary Union, the amount of such Net Sales expressed in the currency of each country shall be converted into EUR at the Euro Foreign Exchange Reference Rates published by the European Central Bank in Frankfurt / Main Germany on the last Business Day of the applicable calendar quarter. The resulting EUR amount will be converted into USD again at the Euro Foreign Exchange Reference Rates published by the European Central Bank in Frankfurt / Main Germany on the last Business Day of the applicable calendar quarter.

These Euro Foreign Exchange Reference Rates are, as of the Execution Date, published on Reuters screen <ECB37>. If no Euro Foreign Exchange Reference Rate is determined for the relevant currency, the Parties shall agree upon another reference rate.

(h) *Taxes.* All taxes levied on account of the royalties and other payments accruing to Sonus under this Agreement shall be paid by Sonus for its own account, including taxes levied thereon as income to Sonus. If provision is made in law or regulation for withholding on payments due to Sonus, such tax shall be deducted from the royalty payment or other payment made by Schering and paid to the proper taxing authority and a receipt of payment of the tax secured promptly delivered to Sonus. Each Party agrees to provide reasonable assistance to the other Party in claiming exemption from such deductions or withholdings under any double taxation or similar agreement or treaty from time to time in force.

ARTICLE IV

STOCK PURCHASE

Section 4.01 ***Purchase and Sale of Stock.*** Concurrently with the execution and delivery of this Agreement, Sonus and Schering shall enter into a Stock Purchase Agreement and Registration Rights Agreement in the form of Exhibit C and Exhibit D, respectively, attached hereto (the "Stock Purchase Agreement" and "Registration Rights Agreement" respectively), whereby Sonus shall issue and deliver to Schering Berlin Venture Corporation a number of shares of Common Stock of Sonus equal to Fifteen Million Six Hundred and Seventy-Eight Thousand Dollars ($15,678,000) divided by the closing sales price of the Common Stock of Sonus on the last trading day preceding the closing date under the Stock Purchase Agreement and issue and deliver to Schering a Warrant to purchase 975,000 shares of Common Stock of Sonus.

ARTICLE V

DEVELOPMENT

Section 5.01 ***Steering Committee***

(a) *Formation of the Steering Committee.* Within fifteen (15) days after the Execution Date, the Parties shall establish the Steering Committee. The Steering Committee shall consist of an equal number of representatives of Sonus and Schering to be agreed upon from time to time. Each member shall have the appropriate background and expertise to contribute to the deliberations and decisions of the Steering Committee. Each Party may, in its reasonable discretion, invite non-member representatives of such Party to attend meetings of the Steering Committee as appropriate to provide input with respect to matters on the agenda. Non-member representatives will not have the power to vote on matters before the Steering Committee. Regardless of the number of representatives from each Party on the Steering Committee, each Party shall have one vote on each issue. The Parties may rotate their respective representatives on the Steering Committee to ensure that the Steering Committee is comprised, at all times, of members whose backgrounds, experiences and expertise are appropriate in light of the progressive stages of Development and Commercialization of the Product in the Field in the Territory. One of the Schering members of the Steering Committee, chosen at the sole discretion of Schering, along with one of the Sonus members of the Steering Committee, chosen at the sole discretion of Sonus, shall serve as co-chairs of the Steering Committee.

(b) *Functions of the Steering Committee.* The Steering Committee shall function as a forum for the Parties to inform and consult with one another concerning progress of and changes to Development, to the Core Development Plan and Budget, and to the CMC/Manufacturing Plan and Budget. The Parties shall also inform and consult with one another with respect to progress in meeting Development goals, dealing with obstacles to successful Development, and the status of obtaining Approvals. The Steering Committee shall also function as a forum for Schering to keep Sonus informed of progress in the Development of the Product in the ROW and Commercialization of the Product in the Territory. The following specific functions shall be delegated to the Steering Committee:

(i) Plan, coordinate and oversee the Core Development and the CMC/Manufacturing of the Product;

(ii) Review and approve updates yearly to the Core Development Plan and Budget, which plan and budget will specify in reasonable detail the Core Development to be undertaken by the Parties, and the allocation of such activities between the Parties;

(iii) Review and approve updates yearly to the CMC/Manufacturing Plan and Budget, which plan and budget will specify in reasonable detail the CMC/Manufacturing activities to be undertaken by the Parties, and the allocation of such activities between the Parties;

(iv) Review and approve any amendments to the Core Development Plan and Budget and/or the CMC/Manufacturing Plan and Budget that are not covered in the yearly updates.

(v) Adopt and oversee the operation of the Pharmacovigilance Agreement (required pursuant to Section 8.02) consistent with the

requirements for regulatory compliance in all countries of the Territory.

(vi) Receive reports from any Party who is performing Non-Core Development, on the progress of such Non-Core Development.

(vii) Receive reports from Schering on the Development of the Product in the ROW; and provide summary of reports.

(viii) Receive reports from Schering on marketing and sale of the Product in the Field in the Territory.

(c) *Meetings of the Steering Committee.* Meetings of the Steering Committee shall be held quarterly, and may be called by either Party with not less than ten (10) Business Days notice to the other unless such notice is waived, and meetings shall alternate between the offices of Sonus in Bothell, Washington and the offices of Schering's Affiliate in Montville, New Jersey, unless otherwise agreed. The Parties may meet by telephone or videoconference rather than in person if both Parties agree. In addition to the quarterly meetings, the Steering Committee may be polled, or consulted from time to time by means of telecommunication or correspondence. Each Party will disclose to the other proposed agenda items reasonably in advance of each meeting of the Steering Committee. Each Party shall bear its own costs for participation in the Steering Committee.

(d) *Limitation on Steering Committee Authority.* Notwithstanding the creation of the Steering Committee, each Party to this Agreement shall retain the rights, powers and discretions granted to it hereunder, and the Steering Committee shall not be delegated or vested with any such rights, powers or discretions unless such delegation or vesting is expressly provided for herein or the Parties expressly so agree in writing. The Steering Committee shall not have the power to amend or modify this Agreement, which may be amended or modified only as provided in Section 17.10.

(e) *Resolution of Disputes.* If the Steering Committee cannot reach a unanimous decision with respect to the Development matters delegated to it within ten (10) Business Days, then the disputed matter shall promptly be referred to a senior manager of each Party designated by such Party for resolutions. If the senior managers are unable to resolve such matter within ten (10) Business Days after one Party notifies the other of its desire to have the matter referred to such senior managers, then the decision of Schering's senior manager shall control, provided, however, that the following decisions must be by unanimous consent of the Parties and shall not be subject to the final decision of Schering's senior manager: (i) any decision to add or remove a Core Indication from the Core Development Plan; (ii) any decision which would have the effect of increasing the Core Development Costs and/or the CMC/Manufacturing Costs by an aggregate amount of **[*]**; and (iii) any other decision which would increase in any material respect the duties, obligations, or responsibilities of Sonus pursuant to the Core Development Plan or Budget or pursuant to the CMC/Manufacturing Plan and Budget.

Section 5.02 ***Core Development***

(a) Each of Sonus and Schering agree to co-operate in the Core Development of the Product and to use Commercially Reasonable Efforts to bring the Product to market in the US. Sonus and Schering each agree to use Commercially Reasonable Efforts to execute and substantially perform the obligations assumed by each of them under the Core Development Plan and Budget. All Preclinical and Clinical Development, including all clinical trials other than the Pivotal Trial, shall be conducted by the Parties, as determined by the Steering Committee. All ISS Activities shall be conducted by Schering. The Pivotal Trial shall be conducted by Sonus under the supervision of the Steering Committee. Promptly following the Execution Date, Sonus shall transfer legal title to all data from completed studies of the Product to Schering, provided however, that (subject to Section 5.08(a)), Sonus shall assign and transfer to Schering all of Sonus' right, title and interest in and to, and sponsorship of, U.S. IND 60,980 for the Product at the time of first NDA Approval of the Product. The NDA will be developed and prepared for submission by Schering in collaboration with Sonus as provided in the Core Development Plan and Budget. Promptly following the conclusion of the Pivotal Trial, Sonus shall transfer legal title to all data from the Pivotal Trial to Schering.

(b) Core Development of the Product shall be governed by a Core Development Plan and Budget to be agreed upon by the Parties within three (3) months of the Execution Date, such Core Development Plan and Budget to be consistent with the Initial Development Plan and Budget attached hereto as Schedule I. The Core Development Plan and Budget shall be updated annually by the Steering Committee, and submitted by October 1 in each calendar year to the Parties for review and approval not later than sixty (60) days after such submission. The Core Development Plan and Budget may also be amended, supplemented and otherwise modified from time to time by the Steering Committee in accordance with this Agreement.

[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

The Core Development Plan and Budget shall provide a reasonably detailed written time-line for each step to be achieved with respect to the performance of Core Development, the estimated Core Development Costs and the description of the final Product.

Section 5.03 ***CMC/Manufacturing***

(a) Each of Sonus and Schering agree to co-operate in the CMC/Manufacturing of the Product and to use Commercially Reasonable Efforts to bring the Product to market in the US. Sonus and Schering each agree to use Commercially Reasonable Efforts to execute and substantially perform the obligations assumed by each of them under the CMC/Manufacturing Plan and Budget.

(b) CMC/Manufacturing of the Product shall be governed by a CMC/Manufacturing Plan and Budget to be agreed upon by the Parties within three (3) months of the Execution Date, such CMC/Manufacturing Plan and Budget to be consistent with the Initial Development Plan and Budget attached hereto as Schedule I. The CMC/Manufacturing Plan and Budget shall be updated annually by the Steering Committee, and submitted by October 1 in each calendar year to the Parties for review and approval not later than sixty (60) days after such submission. The CMC/Manufacturing Plan and Budget may also be amended, supplemented and otherwise modified from time to time by the Steering Committee in accordance with this Agreement. The CMC/Manufacturing Plan and Budget shall provide a reasonably detailed written time-line for each step to be achieved with respect to the performance of CMC/Manufacturing, the estimated CMC/Manufacturing Costs and the description of the final Product.

Section 5.04 ***Non-Core Development***

(a) If either Party wishes to pursue any Preclinical Development or Clinical Development for the purposes of obtaining Approval in the US or any ISS Activities in the US that are not included in the Core Development Plan, that Party will provide to the other Party and the Steering Committee written details of the proposed Preclinical Development or Clinical Development or ISS Activity and including a trial outline for any proposed Clinical Development and the following provisions shall apply:

(i) If the Party who has not proposed the activity has objective medical or ethical reasons to oppose such Development activity or can reasonably demonstrate that the performance or outcome of any such proposed Development activity could jeopardize the interests of such other Party in the Product, then within thirty (30) days of receipt of notice of such proposed Development, it shall provide to the Party proposing the Development activity and to the Steering Committee

written notice of such objection and the grounds for objection.

(ii) In the event that the proposing Party, notwithstanding the notice of objection provided by the other Party, wishes to pursue such Development activity, the Steering Committee shall determine whether such Development activity shall be permitted. No such Development activity shall be commenced unless or until the Steering Committee (or the senior managers of the Parties as applicable) have determined that it shall be allowed to proceed. If the Steering Committee resolves that the Development activity should be allowed to proceed, the Parties shall then agree, within a further thirty (30) days whether to add such Development activity to the Core Development Plan. If the Parties do not agree to so add the Development activity, then such Development activity shall be deemed to be Non-Core Development and the following provisions shall apply: (x) the Party who wishes to proceed with such Non-Core Development (the "Continuing

Party") shall be entitled to proceed with such Non-Core Development at its own cost and expense; and (y) if the Non-Core Development results in an NDA Approval, the other Party shall, within thirty (30) days of the date of such NDA Approval, pay to the Continuing Party a sum equal to A plus B, where A equals **[*]** of the Non-Core Development Costs incurred by the Continuing Party in the performance of the applicable Non-Core Development; and (B) equals **[*]** of A, provided however, that if Schering is the Continuing Party in the performance of Non-Core Development, Sonus may, within six (6) months of the commencement by Schering of the applicable Non-Core Development, provide notice to Schering of Sonus' intention to participate in such Development, in which case, on payment by Sonus of **[*]** of the Non-Core Development Costs incurred by Schering for the first six months of such Development together with interest at the rate set out in Section 8.03(b) of this Agreement, such Non-Core Development shall, with effect from the end of such initial six (6) month period become Core Development, and the provisions of Sections 5.02 and 5.09(a) shall apply.

Section 5.05 ***Other CMC/Manufacturing Activities.*** Any CMC/Manufacturing activities not included in the CMC/Manufacturing Plan and Budget may be performed by the Manufacturing Party at its own cost and expense.

Section 5.06 ***Development in ROW.*** Schering will use Commercially Reasonable efforts to obtain Approvals in all major commercial markets in the Territory as soon as practicable and shall be responsible at its sole cost and expense for the performance of all Preclinical and Clinical Development and all ISS Activities in the ROW.

Section 5.07 ***Performance of Development***

(a) Each Party agrees to perform its obligations set out in this Article 5 in compliance with Applicable Laws. Each Party shall have the right, at reasonable frequency and on reasonable advance notice to the other Party, during or following the conduct of Preclinical Development, Clinical Development or CMC/Manufacturing of the Product, to visit the site or sites at which such Preclinical Development, Clinical Development or CMC/Manufacturing has been or is being conducted, subject to any contractual restrictions imposed by any Third Party. During such visits the visiting Party shall have the right to examine all data, documents and records relating to the Product to determine whether the activities have been or are being conducted in compliance with the protocol or protocols in the Development Plan and Budget and in compliance with Applicable Laws. Recommendations of the visiting Party shall be given due consideration by the other Party.

(b) In the event that either Party fails to perform or ceases to perform its obligations set forth in this Article 5, and fails to commence such performance within a reasonable time of receipt of written notice from the other Party pursuant to Section 16.02(b), then (but without prejudice to any other rights of the other Party) the other Party shall have the right to perform, or cause one or more of its Affiliates to perform, such obligations. The reasonable expenses incurred by the performing Party in performing the obligations of the non-performing Party shall be recovered by the performing Party on a dollar-for-dollar basis. However, if the nonperforming Party is Sonus, Schering shall recover reasonable expenses incurred through reduction of the milestone payments and royalty payments next due to Sonus pursuant to Article III.

[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

The performing Party shall be entitled to reasonable cooperation and assistance from the non-performing Party, including, without limitation, assignment to the performing Party of sponsorship of Approval Applications if necessary to permit the exercise of the performing Party's rights hereunder.

Section 5.08 ***Approval Applications and Approvals***

(a) *Clinical Development.* Except in the case of the Pivotal Trial, Schering shall be responsible for preparing, filing and prosecuting all Approval Applications for permission to conduct Clinical Development in such countries of the Territory which require such applications to be filed and where Schering, in good faith and in the exercise of reasonable business judgment, determines it is commercially reasonable to do so. With respect to the US and any other country where Sonus has an Approval Application on file with a Governmental Authority, Sonus shall transfer such Approval Application to Schering promptly following the request of Schering, provided that, from and after the Execution Date, Schering shall have authority and control with respect to any such Approval Applications and, prior to transfer to Schering, all communications and interactions with Governmental Authorities by Sonus with respect to such Approval Applications shall be reviewed and approved in advance by Schering.

(b) *Cooperation.* The Parties shall consult and cooperate (including, in the case of Sonus, providing such commercially reasonable assistance as Schering shall reasonably request) in the preparation of each Approval Application and in obtaining and maintaining Approval Applications in the Territory, provided however, that, except with regard to the Pivotal Trial, prior to and following Approval of an Approval Application, Schering shall be solely responsible for interactions with Governmental Authorities throughout the Territory. Subject to the foregoing, Schering shall provide Sonus and Sonus shall provide Schering (until transfer of Approval Applications for permission to conduct Clinical Development and thereafter solely in respect of the Pivotal Trial) with reasonable advance notice of any scheduled meeting with the FDA relating to any Approval Application, and Sonus or Schering, as applicable, shall have the right to participate in any such meeting. In the event that any Governmental Agency threatens to or initiates an action to remove the Product from the market in any country of the Territory, Schering shall notify Sonus of such communication within three Business Days of receipt by Schering. As between the Parties, Schering shall be the legal and beneficial owner of all Approval Applications and Approvals in the Territory.

Section 5.09 ***Costs of Development***

(a) *Core Development Costs and CMC/Manufacturing Costs.* All Core Development Costs and CMC/Manufacturing Costs shall be shared equally by the Parties, including Development Costs incurred by Sonus as of the Execution Date in the performance of the Pivotal Trial, provided however, that such Development Costs incurred by Sonus in the performance of the Pivotal Trial will be shared solely to the extent that such costs are included in the Core Development Plan and Budget. Each Party shall calculate and maintain records of Core Development Costs and CMC/Manufacturing Costs incurred by it in accordance with procedures to be agreed upon by the Parties. Accounting by Schering for Core Development Costs and CMC/Manufacturing Costs shall be in accordance with IFRSs consistently applied. Accounting by Sonus shall be in accordance with US generally accepted accounting principles consistently applied. Each Party shall report quarterly to the other on Core Development Costs and CMC/Manufacturing Costs, with such reports to be submitted within thirty (30) days of the end of each calendar quarter. At the end of each calendar year, the Parties shall assess the Core Development Costs and CMC/Manufacturing Costs incurred

and documented by each Party. In the event that either Party disagrees with the assessment, then the Chief Financial Officer of Sonus and the Head of Corporate Accounting of Schering shall meet and attempt to resolve the disagreement. If the Chief Financial Officer and Head of Corporate Accounting are unable to resolve the disagreement, it shall then be resolved in the same manner as an Audit Disagreement pursuant to Section 8.03(d). Each Party shall also have the right to audit the Core Development Costs and the CMC/Manufacturing Costs and any Non-Core Development Costs reported by the other Party pursuant to Section 8.03(d). Each Party shall pay to the other Party the net amount of its share of Core Development Costs or CMC/Manufacturing Costs within sixty (60) days of its receipt of each report referred to in this Section 5.09(a).

(b) *Non-Core Development Costs.* Any Party who performs Non-Core Development shall calculate and maintain records of the Non-Core Development Costs incurred by it in accordance with procedures to be agreed upon by the Parties. Accounting by Schering for Non-Core Development Costs shall be in accordance with IFRSs consistently applied. Accounting by Sonus shall be in accordance with US generally accepted accounting principles consistently applied. Any Party who performs Non-Core Development shall report quarterly to the other on Non-Core Development Costs with such reports to be submitted within thirty (30) days of the end of each calendar quarter. At the end of each calendar year, the Parties shall assess the Non-Core Development Costs incurred and documented by each Party. In the event that either Party disagrees with the assessment, then the Chief Financial Officer of Sonus and the Head of Corporate Accounting of Schering shall meet and attempt to resolve the disagreement. If the Chief Financial Officer and Head of Corporate Accounting are unable to resolve the disagreement, it shall then be resolved in the same manner as an Audit Disagreement pursuant to Section 8.03(d). Each Party shall also have the right to audit the Non-Core Development Costs reported by the other Party pursuant to Section 8.03(d). Except as otherwise provided in Section 5.04, each Party shall be responsible for its Non-Core Development Costs.

(c) *Costs of Development FTEs.* Within three (3) months of the Execution Date, the Parties shall agree upon methods of calculating the costs of Development FTEs (on a function-by-function basis if appropriate), including, without limitation, the annual total of hours on which the calculation of Development FTEs is based and the annual cost of each Development FTE.

(d) *Engagement of Third Parties*

(i) In the course of its business, Sonus regularly uses Third Parties to perform certain Development activities. Subject to Section 5.09(d) (ii) below, Sonus may continue to do so during the course of this Agreement, provided, however, that Schering shall be notified in advance of the identity of the Third Party, and that Schering shall have the right to evaluate and approve of the Third Party (such approval not to be unreasonably withheld or delayed), and that the Third Party agrees that all results of the Third Party activities (including all intellectual property) will, as between Sonus and the Third Party, be vested, without limitation, encumbrance or restriction, in Sonus. For the avoidance of doubt, the Parties hereby agree that the provisions of the preceding sentence apply only to Third Party contracts entered into by Sonus on or after the Execution Date.

(ii) Sonus shall notify Schering in writing fifteen (15) days prior to entering into a material contract with a Third Party to perform any Development activities allocated to Sonus under the Core Development Plan and Budget or the CMC/Manufacturing Plan, unless such contract may be canceled or terminated by Sonus without penalty on sixty (60) days or less notice. During the fifteen (15) day period following such notice from Sonus, Schering shall have the right to

offer to perform itself such Development activities that Sonus proposed to contract to a Third Party. If Schering decides to offer to perform such Development activities, it shall notify Sonus in writing during such fifteen (15) day period and shall include with such notice the terms of its offer to perform such Development activities. Sonus shall have no obligation to accept such an offer, but shall consider any such offer in good faith and negotiate towards entering into an agreement with Schering if Schering's offer and capabilities are economically and operationally equivalent to those of such Third Party. All other things being equal, Sonus shall accept Schering's offer if it is no more expensive than such Third Party's offer, and if Schering commits to finish such activities in substantially equal or less time than agreed to by the Third Party identified by Sonus.

ARTICLE VI

COMMERCIALIZATION

Section 6.01 ***Marketing Plan.*** Schering, in cooperation with Sonus, shall in accordance with Schering's internal planning procedures, but in no event later than the date of submission of the NDA for the Product, prepare a marketing plan for the Product to support Product Launch in the Territory, which shall include, without limitation, a list of marketing studies to be conducted in connection with the Product, marketing strategies, plans for implementing marketing strategies, distribution strategies, product launch plans and budget for each commercially important geographic region included in the Territory (the "Marketing Plan"). Schering shall provide Sonus at least annually an updated Marketing Plan. The Marketing Plan may be amended from time to time as proposed by Schering. Sonus will have the opportunity to review and provide comments with respect to the Marketing Plan and any updates and amendments thereto, and will provide such comments to Schering within thirty (30) days following Sonus' receipt of each version of the Marketing Plan. Schering shall give good faith consideration to Sonus' comments regarding the Marketing Plan. The responsibilities and costs associated with developing and implementing the Marketing Plan shall be the sole responsibility of Schering.

Section 6.02 ***Schering's Promotion and Marketing Obligations.*** Schering agrees to use Commercially Reasonable Efforts to promote the sale, marketing and distribution of the Product in the Territory consistent with the Marketing Plan. Except as provided in Section 6.03 relating to the Co-Promotion rights of Sonus, Schering shall be solely responsible for all costs and expenses incurred in connection with the marketing, sales and distribution of the Product in the Territory. Schering shall promptly advise Sonus of any issues that materially and adversely affect Schering's ability to market the Product in the Territory. In such event, the Parties shall meet and in good faith discuss what actions should be taken in light of such issues. Schering agrees to mark all Product labeling and promotional materials as being developed by and under license from Sonus.

Section 6.03 ***Co-Promotion.*** Sonus shall have the option, in its discretion, to Co-Promote the Product in the Field in the United States. Sonus shall exercise its Co-Promotion right, if at all, by providing Schering at least ninety (90) days prior written notice, which written notice must be delivered on or before the submission of the first NDA to the FDA under this Agreement, Upon the election of Sonus to exercise its right of Co-Promotion of the Product in the United States, Schering and Sonus shall have co-exclusive responsibility for promoting sales of the Product in United States, subject to the terms and conditions of this Agreement. The Parties shall co-operate in connection with the Co-Promotion of the Product based upon the principle of maximizing profits from sales of the Product. In connection with such Co-Promotion, the marketing efforts of Sonus shall be consistent with the overall market strategy established by Schering. The Co-Promotion Agreement

shall cover at least the following topics: budget for the Co-Promotion activities of both Parties; the Parties' advertising and detailing responsibilities; the physician audience to which the Parties' respective sales representatives will target their detailing calls; and a process for auditing the Parties' respective detailing call efforts. In the event that Sonus elects to exercise its Co-Promotion right, the Parties shall share all costs of commercializing the Product in the United States and will share in all US Operating Profits: **[*]** Schering and **[*]** Sonus, and Schering shall not be required to pay any royalties to Sonus on Net Sales of the Product in the United States. By way of clarification, Schering shall be solely responsible for booking all sales of the Products in the United States and elsewhere in the Territory.

Section 6.04 ***Trademarks.*** Schering shall select and use its own trademarks, in connection with the promotion of the Product under this Agreement (the "Schering Marks"). Schering will own the Schering Marks and any domain names incorporating such trademarks used by Schering in connection with marketing and sale of the Products in the Territory, and all goodwill associated therewith. Sonus will not have, assert or acquire any right, title or interest in or to any of the Schering Marks or make any use of the Schering Marks, except that Sonus may reference the Schering Marks in connection with its general business activities related to the Product and except as otherwise agreed by the Parties. Schering shall be responsible for the costs of prosecuting, maintaining and enforcing any of the Schering Marks. If mutually agreed by the Parties, Schering may use the Sonus Marks in connection with its promotion of the Product in the Territory, subject to Section 2.03, and Sonus may use Schering Marks in connection with its Co-Promotion of the Product in the United States, in accordance with the Co-Promotion Agreement to be negotiated between the Parties pursuant to Section 6.03 above.

ARTICLE VII

MANUFACTURE AND SUPPLY

Section 7.01 ***Manufacture and Supply by Sonus.*** Until such time (if any) as Schering shall exercise its option to assume responsibility for manufacture and supply of Product pursuant to Section 7.05 below, Sonus shall be responsible for CMC/Manufacturing of Product (including management of Third Party contractors and suppliers) but subject to all other provisions of this Agreement. From the Execution Date of this Agreement, Sonus shall manufacture, or arrange for manufacture of Product and supply Product to Schering or to Schering's designee for use in connection with Development and for the Commercialization of the Product in each applicable country of the Territory. Sonus will not enter into any Third Party contract relating to the manufacture of the Product without Schering's consent, which shall not be unreasonably withheld or delayed. All CMC/Manufacturing plans, the implementation of such plans, and all changes to manufacturing plans and processes shall be subject to the approval of the Steering Committee. Regardless of whether Schering exercises its option to manufacture or have manufactured the Product pursuant to Section 7.05 below, Schering shall be responsible, at its own cost, for all capital expenditures incurred by Schering in scaling up manufacture of the Product or establishing new manufacturing facilities for the Product to the extent such activities are not included in the CMC/Manufacturing Plan and Budget.

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[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

Section 7.02 ***Manufacturing and Supply Agreement.*** Within three (3) months of the Execution Date, the Parties shall enter into a manufacturing and supply agreement to cover the supply of Product to Schering by Sonus hereunder, such agreement to include a Quality Assurance Agreement.

Section 7.03 ***Approvals for Manufacturing.*** Schering shall be responsible for preparing all Approval Applications to obtain, or causing a Third Party manufacturer to make all necessary filings to obtain, Approval for the manufacture of the Product as part of the Approval Application for the Product. At the reasonable request of Schering, Sonus will provide draft submissions for filing to Schering and will provide, or have provided to Schering, whatever other technical support and expertise Schering reasonably deems necessary to effectively obtain Approval for the manufacture of the Product as part of the Approval for the Product. Schering shall have authority and control with respect to all filings to obtain Approval for the manufacture of the Product. Subject to the foregoing, Schering shall provide Sonus and Sonus shall provide Schering with reasonable advance notice of any scheduled meeting with the FDA, EMEA or other Governmental Authority in a major regulatory jurisdiction relating to any filing to obtain Approval for the Product, and Sonus or Schering, as applicable, shall have the right to participate in any such meeting. Once Approval Applications have been submitted, Sonus shall not make or permit to be made any manufacturing process changes with respect to the Product unless such manufacturing process changes are approved in advance by Schering in writing.

Section 7.04 ***Pricing.*** Until such time, if any, as Schering shall exercise its option to assume responsibility for manufacture and supply of the Product pursuant to Section 7.05 of this Agreement, Sonus shall supply all of Schering's requirements of Product [*] together, after first Product Launch, with [*] as the Parties shall agree in the manufacturing and supply agreement to be negotiated pursuant to Section 7.02 above. Notwithstanding the foregoing, if Schering has not, within [*] of Product Launch in the US, exercised the option to manufacture or have manufactured provided for in Section 7.05 below, then, except where Schering's failure to exercise the option is due to a restriction in any Third Party contract entered into by Sonus prior to the Execution Date which would prevent Schering from assuming responsibility for manufacture of all requirements of the Product in the Territory, Schering and Sonus shall re-negotiate the manufacturing and supply agreement provided for in Section 7.02 to allow Sonus to charge [*] for the manufacturing and supply services provided by Sonus thereunder and not otherwise reimbursed by Schering.

Section 7.05 ***Schering Option.*** Notwithstanding anything to the contrary herein, Schering may, at any time, by delivery of written notice to Sonus, elect to become the Manufacturing Party hereunder in respect of the Product and to make or have made the Product. Subject to the terms of all relevant Third Party contracts related to manufacture of the Product, such election shall become effective on the date specified in such notice, whereupon Sonus will be deemed to have transferred and assigned to Schering (and will promptly transfer to Schering) all Information regarding Sonus Know-How and all Third Party contracts related to the manufacture of the Product, subject to the terms of all relevant Third Party contracts. In the event that Schering wishes to use property, plant and equipment of Sonus dedicated to the manufacture of the Product, Sonus shall sell such property, plant and equipment to Schering at fair market value. Anything herein to the contrary notwithstanding, nothing herein shall be deemed to constitute an assignment of any third Party contract that requires consent to assignment.

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[*] CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

ARTICLE VIII

INFORMATION AND REPORTS

Section 8.01 ***Information and Reports during Development and Commercialization.*** Schering and Sonus will disclose and make available (subject to any confidentiality agreements or requirements of law) to each other without charge all preclinical, clinical, regulatory, marketing, pricing, sales and other Information including copies of all preclinical and clinical reports held by Schering or Sonus directly concerning the Product within the Field at any time during the Term of this Agreement.

Each Party shall own and maintain its own database of clinical trial data accumulated from all clinical trials of the Product for which it was responsible, and of adverse drug event information for the Product. At the option of the requesting Party, such data shall be provided in a computer readable format by the providing Party to the extent available. Without limiting the foregoing, each Party shall supply to the other the Information required by the other Party and reasonably requested by it (either as a routine practice or as a specific request) for purposes of compliance with regulatory requirements. With respect to Information concerning Commercialization, Schering agrees to keep Sonus regularly informed on all such activities in accordance with the requirements of Article VI of this Agreement.

Section 8.02 ***Adverse Drug Event Reporting.***

(a) Following execution of this Agreement, the Parties will develop and adopt a Pharmacovigilance Agreement specifying the roles and responsibilities of both Parties for adverse event reporting to assure compliance with regulatory requirements in the Territory. Each Party shall advise the other Party, under the terms of the Pharmacovigilance Agreement, if it becomes aware of any potentially serious or unexpected adverse event (including adverse drug experiences, as defined in 21 C.F.R. § 314.80 or other applicable regulations) involving the Product. After the Product Launch, Schering shall have the sole responsibility for pharmacovigilance for marketed Product, including but not limited to: (i) monitoring such adverse events; and (ii) making any reports to the Governmental Authorities in the Territory in accordance with Schering's Standard Operating Procedures relating to adverse event reporting.

In the event either Party requires information regarding adverse events in connection with the preparation or filing of reports required to be filed by it in order to comply with Applicable Laws, including obligations to report adverse events to the Governmental Authorities, each Party agrees to provide such information to the other on a timely basis.

Section 8.03 ***Records of Revenues and Expenses.***

(a) Each Party will maintain complete and accurate records which are relevant to revenues, costs, expenses and payments on a country-by-country basis in the Territory under this Agreement and such records shall be open during reasonable business hours for a period of two (2) years from creation of individual records for examination at the other Party's expense and not more often than once each year by a firm of certified public accountants selected by the other Party, for the sole purpose of verifying for the inspecting Party the correctness of calculations and classifications of such revenues, costs, expenses or payments made under this Agreement. Each Party shall bear its own costs related to such audit; provided that, for any underpayments greater than five (5) percent by

the other Party, the other Party shall pay to the inspecting Party the amount of underpayment, interest as provided in Section 8.03(b) below and the inspecting Party's out-of-pocket expenses. For any underpayments of less than five (5) percent by the other Party found under this section, the other Party shall pay to the inspecting Party the amount of underpayment only. Any overpayments by the other Party will be refunded by the inspecting Party. Any records or accounting information received from the other Party shall be Confidential Information for the purposes of Section 10.01 Results of any such audit shall be provided to both Parties subject to the confidentiality obligations of Section 10.01.

(b) *Due Date; Interest.* Any payments due under this Agreement shall be due on such date as specified in this Agreement and, in the event such date is a day on which commercial banks are not authorized to conduct business in either the States of Washington or New Jersey or the city of Berlin, Federal Republic of Germany, then the next succeeding Business Day. Any failure by a Party to make such payment within ten (10) Business Days after the date when due shall obligate such Party to pay computed interest to the receiving Party at a rate per annum equal to the Prime Rate as publicly announced by the Bank of America on Reuters Screen "US PRIME" on the due date or the next Business Day computed on the basis of a 356/360 year, such interest to be due and payable upon tender of payment.

(c) *Payment to or Reports by Affiliates.* Any payment required under any provision of this Agreement to be made to either Party or any report required to be made by either Party to the other shall be made to or by an Affiliate of that Party if designated by that Party as the appropriate recipient or reporting entity, without relieving the other Party from responsibility for such payment or report.; provided however, that this Section shall not have any adverse tax, accounting, or cash flow impact to the other Party.

(d) *Audits; Disputes.* If there is any dispute between the Parties following any audit pursuant to Section 8.03(a) above, either Party may refer the issue (an "Audit Disagreement") to an independent certified public accountant for resolution. In the event an Audit Disagreement is submitted for resolution by either Party, the Parties shall comply with the following procedures:

(i) The Party submitting the Audit Disagreement for resolution shall provide written notice to the other that it is invoking the procedures of this Section.

(ii) Within thirty (30) days of giving such notice, the Parties shall jointly select a recognized independent international accounting form to act as an independent expert to resolve such Audit Disagreement.

(iii) The Audit Disagreement submitted for resolution shall be described by the Parties to the independent expert, which description may be in written or oral form, within ten (10) Business Days of the selection of such an independent expert.

(iv) The independent expert shall render a decision on the matter as soon as practicable.

(v) the decision of the independent expert shall be final and binding unless such Audit Disagreement involves alleged fraud, or breach of this Agreement or interpretation of any of the terms and conditions of this Agreement other than accounting terms and definitions.

(vi) All fees and expenses of the independent expert, including any Third Party support staff, or other costs incurred with respect to carrying out the procedures specified at the direction of the independent expert in connection with such Audit Disagreement, shall be borne by each Party in inverse proportion to the disputed amounts awarded to the Party by the independent expert through such decision. For example, Party A disputes $100, the independent expert awards Party A $60: Party A must pay forty (40) percent and Party B sixty (60) percent of the independent expert's costs.

ARTICLE IX

PATENTS AND TRADEMARKS

Section 9.01 ***Prosecution and Maintenance of Patents.*** Sonus shall, at Sonus' expense, be responsible for prosecuting and maintaining the Sonus Patent Rights in the countries in the Territory set forth on Exhibit B; provided however, that upon written request by Sonus, Schering shall, at no cost or expense to Schering, provide such assistance as may be reasonably necessary and as Schering is reasonably capable of providing to enable Sonus to comply with the administrative formalities necessary to maintain any Sonus Patent Rights. Schering may request that Sonus file patent applications in additional countries in the Territory if commercially practicable, at Schering's expense. Sonus shall keep Schering advised as to the status of the Sonus Patent Rights by providing Schering, in a timely manner prior to their due date, with copies of all official documents and correspondence relating to the prosecution, maintenance, and validity of the Sonus Patent Rights. Schering shall have twenty (20) Business Days after receipt to review and comment on such official documents and correspondence. Sonus shall give good faith consideration to Schering's comments regarding patent-related documents, provided however that the ultimate decision relating to patent-related documents shall remain with Sonus in its discretion, subject always to Section 9.04 and the other terms of this Agreement. The foregoing notwithstanding, Sonus shall not abandon prosecution of any patent application within the Sonus Patent Rights without first notifying Schering sixty (60) days prior to any bar date, of Sonus' intention and reason therefore, and providing Schering with reasonable opportunity to assume responsibility for prosecution, maintenance and associated costs of such patents and patent applications. In the event that Schering does agree to assume responsibility for the prosecution, maintenance and associated costs of any such patent application, then Sonus shall transfer to Schering, free of charge, its rights and ownership in such patent application, and such patent application and any patents arising therefrom shall no longer form part of the Sonus Patent Rights. Sonus shall use Commercially Reasonable Efforts to ensure

that any patent application filed outside of the US prior to a filing in the US will be in a form sufficient to establish the date of original filing as a priority date for the purposes of a subsequent filing in the US. Sonus shall use Commercially Reasonable Efforts to ensure that any patent application filed in the US prior to a filing outside the US will be in a form sufficient to establish the date of original filing as a priority date for the purpose of a subsequent filing in any contracting state of the Paris Convention.

Section 9.02 ***Maintenance of Marks.*** Sonus shall, at its sole expense, register and maintain the Sonus Marks in those countries in the Territory where the Parties have agreed the Sonus Marks will be used in connection with the promotion and sale of the Product by Schering; provided however, that upon written request by Sonus, Schering shall provide such assistance as may be reasonably necessary to enable Sonus to comply with the administrative formalities necessary to maintain any Sonus Marks.

Section 9.03 ***Patent and Technology Ownership.*** Each Party shall remain the sole owner or licensee, as applicable, of all technology, discoveries, patent applications, patents, know-how and inventions owned or controlled by such Party on the Execution Date and shall have no rights in or to technology, discoveries, patent applications, patents, know-how and inventions owned by the other Party except as specifically provided by this Agreement. The entire right and title in all technology arising out of work performed by the Parties in the course of conducting activities pursuant to this Agreement (i) conceived by employees or others acting solely on behalf of Sonus or its Affiliates shall be owned solely by Sonus (ii) conceived by employees or others acting solely on behalf of Schering or its Affiliates shall be owned solely by Schering, and (iii) conceived by employees or others acting jointly on behalf of Sonus and Schering, or their respective Affiliates, shall be owned jointly by Sonus and Schering, provided however, that neither Party may license rights in any technology which is jointly owned without the prior written consent of the other Party, except that Schering may license such rights as part of a permitted sublicense pursuant to Section 2.02 of this Agreement.

Section 9.04 ***Cooperation of the Parties.*** Each Party agrees to cooperate fully in the preparation, filing, and prosecution of any Patents under this Agreement. Such cooperation includes, but is not limited to:

(a) executing all papers and instruments, or requiring its employees or agents, to execute such papers and instruments, so as to effectuate the ownership of Patents set forth in Section 9.03 above and to enable the other Party to apply for and to prosecute patent applications in any country; and

(b) promptly informing the other Party of any matters coming to such Party's attention that may affect the preparation, filing, or prosecution of any such patent applications.

(c) promptly, and reasonably in advance of the intended date for submission of such application to a governmental patent authority, disclosing to the other Party any Patent application disclosing inventions made jointly by the Parties.

(d) cooperating with each other in regard to maximizing the duration of and extending the term of Patent coverage, including, without limitation, assembling and prosecuting one or more applications for Patent term extension in the US and any other countries where such extension is available.

Within three (3) months of the Execution Date, the Parties agree to establish a patent committee ("Patent Committee") comprised of intellectual property experts from Sonus and Schering for the purpose of providing a forum for the Parties to consult with each other on patent strategy and to agree on procedures for the filing and maintenance of Patents covering joint inventions of the Parties.

Section 9.05 ***New Patent Filings.***

(a) Each Party, at its own cost, shall prepare, file, prosecute and maintain Patents to cover inventions made during the Term solely by its own employees or consultants, and shall use reasonable efforts to file initially all such applications in the US or the appropriate forum under the circumstances. If a Party elects not to file, prosecute or maintain any such Patent in any country, the Party shall give the other Party notice thereof within a reasonable period prior to allowing such Patent to lapse, become abandoned or become unenforceable. The other Party, at its sole discretion and cost, may file, prosecute or maintain such

Patent in its own name, in which case the Party shall transfer, free of charge, its right and ownership in such Patent in the applicable country to the other Party.

(b) Schering shall have the right to file, prosecute and maintain Patents to cover inventions made jointly by personnel of Sonus and Schering or by consultants or other Third Parties providing services to Sonus and Schering jointly in the course of their collaboration under this Agreement (collectively "Joint Patents") in the name and on behalf of Schering and Sonus. The Parties shall bear equally all external costs and expenses related to the filing, prosecuting and maintenance of Joint Patents worldwide, provided however, that either Party may elect not to share in the costs and expenses related to the filing, prosecuting and maintenance of any such Joint Patent in any country, in which case the other Party may at its own cost file, prosecute or maintain such Patent in its own name in the applicable country, and the Party which does not share in the costs and expenses shall transfer, free of charge, its right and ownership in such Joint Patent in the applicable country to the other Party.

Section 9.06 ***Enforcement Rights.***

(a) *Notification of Infringement.* Each Party shall give prompt notice to the other of any Third Party act which comes to its attention that may infringe or threaten to infringe either the Sonus Technology, the Joint Patents or the Sonus Marks in the Territory, and shall provide such other Party with all available evidence of such infringement.

(b) *Enforcement in the Territory - Patents.* Schering shall have the right, but not the obligation, to institute, prosecute and control, at its own expense and by counsel of its own choice, any action or proceeding with respect to infringement of any Sonus Patents, Schering Patents or Joint Patents covering the manufacture, use, importation, sale or offer for sale of any Product being Developed or Commercialized in the Territory during the Term. Sonus shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If Schering fails to bring any such action or proceeding or otherwise take appropriate action to abate such infringement within a period of one hundred eighty (180) days of notice by Sonus to Schering requesting action, Sonus will have the right, but not the obligation, to bring and control, at its own expense and by counsel of its own choice, any such action or proceeding relating to Sonus Patents or Joint Patents. Schering shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If one Party brings any such action or proceeding, the other Party agrees to be joined as a party plaintiff if necessary to prosecute the action or proceeding and to give the first Party reasonable assistance and authority to file and prosecute the suit. Any damages or other monetary awards recovered pursuant to this Section 9.06(b) shall be allocated first to the costs and expenses of the Party bringing suit, then to the costs and expenses, if any, of the other Party. Any amounts remaining shall be distributed as follows: compensatory damages shall be treated as Net Sales in the country and calendar quarter received and punitive and exemplary damages shall be paid equally to Schering and Sonus.

(c) *Enforcement in the Territory - Sonus Marks.* Sonus shall have the right, but not the obligation, to institute, prosecute and control, at its own expense and by counsel of its own choice, any action or proceeding with respect to infringement of the Sonus Marks. Schering shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If Sonus fails to bring such action within a period of one hundred eighty (180) days of notice by

Schering requesting action, Schering shall have the right, but not the obligation, to bring and control, at its own expense and by counsel of its own choice, any such action or proceeding relating to the Sonus Marks to the extent that the Sonus Marks are used by Schering in the Commercialization of the Product. Sonus shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If one Party brings any such action or proceeding, the other Party agrees to be joined as a party plaintiff if necessary to prosecute the action or proceeding and to give the first Party reasonable assistance and authority to file and prosecute the suit. Any damages or other monetary awards recovered pursuant to this Section 9.06(c) shall be allocated first to the costs and expenses of the Party bring suit, then to the costs and expenses, if any, of the other Party. Any amounts remaining shall be paid equally to Sonus and Schering.

Section 9.07 ***Infringement Claimed By Third Parties.*** In the event a Third Party asserts that a patent, trademark or other intangible right owned by it is infringed by any Product in the Territory, Sonus and Schering will be jointly responsible for defending against any such assertions, including selection of counsel and development of strategy. The Parties shall share equally the cost and expense of defense, including attorneys fees but no settlement may be entered into without the written consent of both Parties, which shall not be unreasonably withheld or delayed. Subject to the preceding sentence, Sonus agrees to defend, indemnify and hold harmless Schering from and against all losses, damages, liabilities, costs and expenses incurred by Schering in connection with any judicial or administrative proceeding instituted by a Third Party against Schering based on the manufacture, use or sale by Schering of the Product. .The Parties agree that, if any Third Party is successful in any such claim, and Schering is ordered to make any payments to such Third Party in connection therewith, then (without prejudice to any other remedies available to Schering pursuant to this Agreement), any such payments may be offset or deducted from the payment obligations of Schering to Sonus under the Agreement.

ARTICLE X

CONFIDENTIALITY

Section 10.01 ***Confidentiality.*** During the Term and for a period of ten (10) years thereafter, each Party shall maintain all Confidential Information of the other Party as confidential and shall not disclose any such Confidential Information to any Third Party or use any such Confidential Information for any purpose, except (a) as expressly authorized by this Agreement, (b) as required by law, rule, regulation or court order (provided that the disclosing Party shall first notify the other Party and shall use Commercially Reasonable Efforts to obtain confidential treatment of any such information required to be disclosed), or (c) to its Affiliates and its employees, agents, consultants and other representatives ("Representatives") to accomplish the purposes of this Agreement, so long as such persons are under an obligation of confidentiality no less stringent than as set forth herein. Each Party may use such Confidential Information only to the extent required to accomplish the purposes of this Agreement. Each Party shall use at least the same standard of care as it uses to protect its own Confidential Information to ensure that it and its Affiliates and Representatives do not disclose or make any unauthorized use of the other Party's Confidential Information. Each Party shall be responsible for any breach of this Agreement by its Representatives. Each Party shall promptly notify the other Party upon discovery of any unauthorized use or disclosure of the other Party's Confidential Information,

Section 10.02 ***Disclosure of Agreement.*** Neither Party shall release to any Third Party or publish in any way any non-public information with respect to the terms of this Agreement without

the prior written consent of the other Party, which consent shall not be unreasonably withheld, except for the disclosure by a Party of the terms of this Agreement to lenders, investment bankers and other financial institutions of its choice solely for purposes of financing the business operations of such Party, provided such Party obtains a signed confidentiality agreement with any such financial institution with respect to such information on terms substantially similar to those contained in this Article X, and either Party, in its sole discretion, may disclose terms of this Agreement to potential permitted assignees, provided that they obtain a signed confidentiality agreement with respect to the information disclosed on terms substantially similar to those contained in this Article X. Nothing contained in this paragraph shall prohibit either Party from filing this Agreement as required by the rules and regulations of the Securities and Exchange Commission, national securities exchanges or the Nasdaq National Market or any Applicable Law, provided the disclosing Party discloses only the minimum information required to be disclosed in order to comply with such requirements, including requesting confidential treatment for appropriate provisions of this Agreement (after reasonable consultation with the other Party) and filing this Agreement in redacted form. Where materiality of disclosure requires a press release or other disclosure pertaining to this Agreement, the disclosing Party shall (without prejudice to the provisions of Section 17.12 below) give at least three (3) Business Days' advance notice to the other Party, unless otherwise required by Applicable Law.

Section 10.03 ***Use of Names.*** Neither Party shall use the name of the other Party in relation to this transaction in any written public announcement, press release or other public document without the written consent of such other Party, which consent shall not be unreasonably withheld or delayed, provided, however, that either Party may use the name of the other Party in any document filed with a Governmental Authority, including the FDA and the Securities and Exchange Commission, in which case Schering shall be referred to as "Schering AG, Germany". Sonus agrees not to use the name "Schering" in relation to this transaction in any press release, written public announcement or other public document without the prior written approval of Schering, which approval shall not be unreasonably withheld or delayed, unless otherwise required by Applicable Law. Nothing in this Section 10.03 shall restrict either Party from using the name of the other Party in any written public announcement, press release or other public document relating to any press release or statement permitted pursuant to Section 17.12.

ARTICLE XI

REPRESENTATIONS AND WARRANTIES

Section 11.01 ***Corporate Power.*** Each Party hereby represents and warrants that such Party is duly organized and validly existing under the laws of the state of its incorporation and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.

Section 11.02 ***Due Authorization.*** Each Party hereby represents and warrants that such Party is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder.

Section 11.03 ***Binding Obligation.*** Each Party hereby represents and warrants that this Agreement is a legal and valid obligation binding upon it and is enforceable in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization or other similar laws relating to or affecting the rights of creditors generally, and by general principles of equity. The execution, delivery and performance of this Agreement by such Party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by

which it may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having authority over it, subject to compliance with and filings under the HSR Act.

Section 11.04 ***Ability to Carry Out Obligations.*** Each Party hereby represents and warrants that there are no actions, suits or proceedings pending or, to its knowledge, threatened against it or its Affiliates that affect its ability to carry out its obligations under this Agreement.

Section 11.05 ***Compliance with Laws.*** Each Party hereby represents and warrants that its activities in connection with this Agreement will be carried out in compliance with any applicable federal, state or local laws, regulations or guidelines covering the relevant conduct.

Section 11.06 ***Sonus Representations.*** Sonus represents and warrants that as of the Execution Date:

(a) it is the sole owner of all right, title and interest in and to the Sonus Technology and the Sonus Marks, and that no such rights are licensed from a Third Party;

(b) except as it may have previously disclosed to Schering in writing, it has not received any notices of infringement or any written communications from a Third Party relating to a possible infringement with respect to the Product, and that it is not aware that the manufacture, use or sale of the Product infringes any Third Party patent rights;

(c) it has not granted any license under the Sonus Technology, nor has it granted any license to use the Sonus Marks, for the Product in the Territory for use in the Field to any Third Party and is under no obligation to grant any such license;

(d) it does not own or license any patents or patent applications not included in the Sonus Patents which would be infringed by the manufacture, use or sale of any Product or the practice of any methods or processes covered by the Sonus Technology by Schering or its Affiliates;

(e) to its knowledge, all patents included in the Sonus Patents are valid and in full force and effect and it is unaware of any publications or activities or any prior art or any fact, including without limitation, patents, articles, and public uses or sales, by it or others, which would or might invalidate any claim(s) of any patent or patent application included in the Sonus Patents;

(f) it has not received notice that any patent application within the Sonus Patent Rights is the subject of any pending interference, opposition, cancellation or other protest proceeding;

(g) Sonus has provided Schering with all material information and data relating to the Product and on-going clinical trials of the Product in Sonus' possession or control (excluding written attorney-client privileged documents), including, without limitation, all information concerning efficacy, side effects, injury, toxicity or sensitivity, reaction and incidents or severity thereof, associated with any clinical use, studies, investigations or tests with the Product (animal or human), whether or not determined to be attributable to the Product, and has not withheld any information that would make any information provided by Sonus misleading in any material respects;

(h) to its knowledge, neither it, nor any of its employees, officers, subcontractors or consultants who have rendered services relating to the Product (i) have been debarred or convicted

of a crime for which an entity or person could be debarred under 21 U.S.C. Section 335(a), or (ii) have been under indictment for a crime for which a person or entity could be debarred under 21 U.S.C. Section 335(a); and

(i) In the course of Developing the Product, to its knowledge has not conducted, and during the course of this Agreement it will not knowingly conduct, any Development activities in material violation of Applicable Laws;

(j) to its knowledge, it has obtained all right, title and interest in and to all rights to the Product and the Sonus Technology, free and clear of any Third Party rights, and of any liens, encumbrances or rights to repurchase;

(k) to its knowledge, no outstanding notice, citation, summons or order has been issued, no outstanding complaint has been filed, no outstanding penalty has been assessed and no investigation or review is pending or threatened by any government authority or other person with respect to any alleged violation by Sonus related to the Product or any law, ordinance, rule, regulation, code or order of any government authority.

ARTICLE XII

INDEMNIFICATION

Section 12.01 ***Schering Indemnified by Sonus.*** Sonus shall indemnify and hold Schering harmless from and against any Third Party liabilities or obligations, damages, losses, claims, encumbrances, costs or expenses (including reasonable attorneys' fees) (any or all of the foregoing herein referred to as "Loss") insofar as a Loss or actions in respect thereof, whether existing or occurring prior to, on or subsequent to the Execution Date, arises out of or is based upon (a) any misrepresentation or breach of any of the representations, warranties, covenants or agreements made by Sonus in this Agreement (b) Sonus manufacturing, marketing, sale, distribution or promotion of the Product or (c) the negligence or willful misconduct of Sonus, except Losses to the extent caused by Schering's negligence or willful misconduct, or for which Schering indemnifies Sonus pursuant to Section 12.02.

Section 12.02 ***Sonus Indemnified by Schering.*** Schering shall indemnify and hold harmless Sonus from and against any Loss insofar as such Loss or actions in respect thereof, whether existing or occurring prior to, on or subsequent to the date hereof, arises out of or is based upon (a) any misrepresentation or breach of any of the representations, warranties, covenants or agreements made by Schering in this Agreement or (b) Schering's manufacturing, marketing, sale, distribution or promotion of the Product or (c) the negligence or willful misconduct of Schering, except Losses to the extent caused by Sonus' negligence or willful misconduct, or for which Sonus indemnifies Schering pursuant to Section 12.01.

Section 12.03 ***Conditions to Indemnification.*** A person or entity that intends to claim indemnification under this Article XII (the "Indemnitee") shall promptly notify the other Party (the "Indemnitor") of any loss, claim, damage, liability or action in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee, whether or not such claim is rightfully brought; provided, however, that an Indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnitor if Indemnitor does not assume the defense, or if representation

of such Indemnitee by the counsel retained by the Indemnitor would be inappropriate due to differing interests between such Indemnitee and any other person represented by such counsel in such proceedings. The indemnity agreement in this Article XII shall not apply to amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of the Indemnitor, which consent shall not be withheld or delayed unreasonably. The failure to deliver notice to the Indemnitor within a reasonable time after the commencement of any such action, only to the extent prejudicial to its ability to defend such action, shall relieve such Indemnitor of liability to the Indemnitee under this Article XII, but the omission so to deliver notice to the Indemnitor will not relieve it of any liability that it may have to any Indemnitee otherwise than under this Article XII. The Indemnitee under this Article XII, its employees and agents, shall cooperate fully with the Indemnitor and its legal representatives in the investigations of any action, claim or liability covered by this indemnification. Any actions taken or payments made by an Indemnitor hereunder shall be without prejudice to

the Indemnitor's right to contest the Indemnitee's right to indemnification and subject to refund if the Indemnitor is ultimately held not to be obligated to indemnify the Indemnitee.

Section 12.04 ***Limitations.***

(a) *Limited Warranty.* THE WARRANTIES HEREIN ARE IN LIEU OF ALL WARRANTIES, EITHER EXPRESS OR IMPLIED, AND EXCEPT AS SET FORTH HEREIN, EACH PARTY EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, TITLE OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICES.

(b) *Limitation of Liability.* NEITHER PARTY SHALL HAVE ANY LIABILITY TO THE OTHER PARTY OR ITS AFFILIATES FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, EXEMPLARY, PUNITIVE OR INCIDENTAL DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE), WHETHER OR NOT A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing is not intended to limit the indemnification obligations of either Party for such damages claimed by a Third Party or to limit a Party's liability for breach of its obligations under Article X (Confidentiality).

ARTICLE XIII

ADDITIONAL COVENANTS

Section 13.01 ***Sales Forecasts.*** Commencing on the date of the initial Product Launch and continuing through the Term, Schering shall provide Sonus with an annual sales forecast for the Product in each country within the Territory, which sales forecast shall be updated quarterly. Product forecasts shall be considered good faith estimates of Product sales based on information available to Schering and shall not be binding on Schering.

Section 13.02 ***Noncompetition.*** During the Term, both Parties agree not to, directly or indirectly, through one or more Third Parties, market or sell to end users any competing products in the Territory, provided however, that if Schering has sublicensed the Product in a country in accordance with Section 2.02 of this Agreement, then the sale by Schering of a "competing product". shall not constitute a breach of this Section 13.02. A "competing product" means any cancer therapy

product that includes paclitaxel as its active ingredient for use in the treatment or prevention of cancer.

Section 13.03 ***Rights of First Negotiation.***

(a) *Schering Right.* If Sonus wishes, at any time during the Term, to grant a license to any Third Party with respect to Sonus' proprietary formulation of a camptothecin derivative using Sonus' TOCOSOL technology ("Camptothecin"), Sonus shall first provide Schering with written notice of its wish to grant such license to a Third Party together with a summary of key data relating to Camptothecin. If Schering, within four weeks of receipt of such written notice, confirms that it is interested in obtaining rights to Camptothecin and submits to Sonus a written term sheet proposing terms for such license, Sonus and Schering shall enter into good faith negotiations with respect to the licensing of Camptothecin on the terms proposed in the Schering term sheet. If, within three months of receipt by Schering of the original written notice from Sonus, the Parties have not agreed upon the terms of any licensing agreement with respect to Camptothecin, Sonus shall be free to negotiate and enter into a licensing agreement with any Third Party with respect to Camptothecin, provided however, that Sonus may not enter into such a licensing agreement with a Third Party on terms less favorable to Sonus (taken as a whole) than the terms proposed by Schering without first offering Schering the opportunity to enter into such license agreement on such terms less favorable to Sonus.

(b) *Sonus Right.* Schering shall, within three (3) years of the Execution Date, nominate to Sonus a product or compound owned or controlled by Schering that is at an equivalent stage of development, as of the Execution Date, as Camptothecin and that Schering intends to license to a Third Party (the "Schering Product"). Schering shall first provide Sonus with a summary of key data relating to the Schering Product. If Sonus, within four weeks of receipt of such written notice, confirms that it is interested in obtaining rights to the Schering Product and submits to Schering a written term sheet proposing terms for such license, Schering and Sonus shall enter into good faith negotiations with respect to the licensing of the Schering Product on the terms proposed in the Sonus term sheet. If, within three months of receipt by Sonus of the original written notice from Schering, the Parties have not agreed upon the terms of any licensing agreement with respect to the Schering Product, Schering shall be free to negotiate and enter into a licensing agreement with any Third Party with respect to the Schering Product, provided however, that Schering may not enter into such a licensing agreement with a Third Party on terms less favorable to Schering (taken as a whole) than the terms proposed by Sonus without first offering Sonus the opportunity to enter into such license agreement on such terms less favorable to Schering.

ARTICLE XIV

PRODUCT RECALL

Section 14.01 ***Product Recalls or Withdrawal.*** If at any time or from time to time any Governmental Authority of any country requests either Party or an Affiliate of either Party or a sublicensee of Schering to recall the Product, or if a voluntary recall is contemplated (a "Recall"), the Party to whom such request is made or the Party contemplating such Recall, as the case may be, shall immediately notify the other Party, it being understood and agreed that each Party shall have rights to initiate a recall if required by Applicable Laws. Any Recall in the Territory involving investigational clinical trial activities conducted by Sonus shall be carried out by Sonus in as expeditious a manner as reasonably possible to preserve the goodwill and

reputation of the Product and the goodwill and reputation of the Parties. Any other Recall in the Territory shall be carried out by Schering in as expeditious a manner as reasonably possible to preserve the goodwill and reputation of the Product and the goodwill and reputation of the Parties. Unless otherwise required by law, Schering shall in all events be responsible for conducting any Recalls in the Territory, market withdrawals or corrections with respect to the Product in consultation with Sonus. Schering or its designee shall maintain records of all sales and distribution of Product, as applicable, and customers sufficient to adequately administer a Recall, market withdrawal or correction for a period equal to the shelf-life of the Product plus one year after the date the record is created.

Section 14.02 ***Recall Costs.*** The cost and expense of a Recall shall be allocated as follows:

(a) if such Recall is a voluntary Recall or shall be due to tampering or other cause, other than a manufacturer's defect, but not due to the. negligence or misconduct of the Parties, then the Parties shall share equally the costs and expenses incurred by the Party conducting the Recall in connection with such Recall, including, without limitation, all Product credits and returns, freight and shipping costs and Product disposal expenses;

(b) if such Recall is due to the negligence, breach of contract or misconduct of Sonus, all such costs and expenses shall be borne and paid solely by Sonus; and

(c) if such Recall is due to the negligence, breach of contract or misconduct of Schering, all such costs and expenses shall be borne and paid solely by Schering.

Section 14.03 ***Notification of Threatened Action.*** Throughout the duration of this Agreement, each Party shall immediately notify the other Party of any information it receives regarding any threatened or pending action, inspection or communication by or from a concerned Governmental Authority which may affect the safety or efficacy claims of the Product or the continued marketing of the Product. Upon receipt of such information, the Parties shall consult with each other in an effort to arrive at a mutually acceptable procedure for taking appropriate action.

ARTICLE XV

INSURANCE

Section 15.01 ***Insurance.*** Each Party shall, at its sole cost and expense, obtain and keep in force comprehensive general liability insurance, including any applicable self-insurance coverage, product liability, clinical trial liability, and property and casualty insurance providing commercially reasonable coverage (at least US $10,000,000 coverage) for its activities under this Agreement and its equipment, premises and businesses to be maintained during the Term and for a period of at least five (5) years thereafter. The insurance policies of the Parties in the United States shall be with financially strong insurance carriers (or, in the case of Schering, self-insurance or insurance through a captive insurance company) and will be primary to any other insurance owned, secured or in place. Upon execution of this Agreement, each Party shall furnish the other with a certificate of insurance signed by an authorized representative of such Party's insurance underwriter evidencing the insurance coverage required by this Agreement.

ARTICLE XVI

TERM AND TERMINATION

Section 16.01 ***Term.***

(a) Except for the obligations under Sections 3.01(a) and Section 16.1(b), which shall be come effective upon execution of this Agreement by both Parties, this Agreement shall commence as of, and the effectiveness of the respective obligations of each party hereunder (including under Article III) is subject to the satisfaction or waiver of the condition that the waiting period (and any extension thereof) applicable to the this Agreement under the HSR Act shall have been terminated or shall have expired.

(b) Each party hereunder shall use its best efforts promptly as practicable to prepare and make the applicable filings under the HSR Act and to thereafter respond as promptly as practicable to any request for additional information or documentary material that may be made under the HSR Act.

(c) After becoming effective as provided above, unless terminated as provided herein, this Agreement shall continue in effect until such time as: (i) no royalties are payable under Section 3.02 hereunder to Sonus; and (ii) Sonus and Schering are no longer Co-Promoting the Product in the US, provided that the license granted pursuant to Section 3.02(e) shall survive such termination.

Section 16.02 ***Termination.***

(a) *Termination at Will.* Notwithstanding any other term or provision of this hereof expressly or impliedly to the contrary, Schering may terminate this Agreement in its entirety (or, in the case of Section 16.02(a)(iii) and Section 16.02(a)(iv) below, on a country-by-country basis), and be fully released of any obligations hereunder (except as is expressly provided for herein) as follows:

(i) upon thirty (30) days prior written notice at any time if Schering determines, in its reasonable judgment, that there are issues of Safety;

(ii) upon thirty (30) days prior written notice if the manufacturing process for the Product cannot be scaled to achieve CMC/Manufacturing within the timelines set out in the CMC/Manufacturing Plan and Budget, as revised from time to time by the Steering Committee;.

(iii) immediately if any Third Party receives an injunction (preliminary or permanent) restricting the manufacture, use or sale of the Product in any country on the grounds of Third Party patent infringement and such injunction continues in force for a period of three (3) months or longer;

(iv) upon thirty (30) days' written notice to Sonus, if, based upon assembled NDA submission data from, or the results of, the Pivotal Trial, Schering determines, using its reasonable judgment, that such results do not support the submission of the Product for NDA Approval; or

(v) at any time after NDA Approval, upon twelve (12) months' notice to Sonus, for any reason, during which time Schering shall remain responsible for all of its duties and obligations hereunder;

(b) *Termination for Material Breach.* Failure by Schering or Sonus to comply with any of the respective material obligations and conditions contained in this Agreement shall entitle the other Party to give the Party in default notice requiring it to cure such default. If such default is not cured within ninety (90) days after receipt of such notice, the notifying Party shall be entitled (without prejudice to any other rights conferred on it by this Agreement) to terminate this Agreement or, in the event of an uncured material breach by Sonus, effect the rights of Schering set forth in Section 16.03(c) by giving a notice to take effect immediately. Notwithstanding the foregoing, in the event of non-monetary default, if the default is not reasonably capable of being cured within the ninety (90) day cure period by the defaulting Party and such defaulting Party is making a good faith effort to cure such default, the notifying Party may not terminate this Agreement, provided, however, that the notifying Party may terminate this Agreement if such default is not cured within one hundred eighty (180) days of such original notice of default. The right of either Party to terminate this Agreement as hereinabove provided shall not be affected in any way by its waiver of, or failure to take action with respect to any previous default.

(c) *Termination for Insolvency.* In the event that one of the Parties hereto shall go into liquidation, or if a receiver or trustee be appointed for the property or estate of that Party and said receiver or trustee is not removed within sixty (60) days, or the Party makes an assignment for the benefit of creditors (collectively, a "Bankruptcy Event"), and whether any of the aforesaid Bankruptcy Events be the outcome of the voluntary act of that Party, or otherwise, the other Party shall be entitled to terminate this Agreement (or in the event Sonus suffers such Bankruptcy Event, Schering may effect its rights described in Section 16.03(c)) forthwith by giving a written notice to Sonus. Each Party agrees (to the extent it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim to take the benefit or advantage of, any stay or extension law or any other law wherever enacted, now or at any time hereafter in force, which would prohibit the termination of this Agreement or in any way modify the effects thereof as provided herein; and each Party (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the other Party, but will suffer and permit the execution of every

power as though no such law had been enacted.

Section 16.03 ***Effect of Termination.***

(a) *Effect of Termination by Schering under Section 16.02(a) or by Sonus under Section 16.02(b) or 16.02(c).* In the event that this Agreement is terminated by Schering in one or more countries or in its entirety in accordance with Section 16.02(a) hereof or in the event that this Agreement is terminated by Sonus in its entirety in accordance with Section 16.02(b) or 16.02(c) hereof, Schering will, with respect to each country for which the termination applies entirely: (i) deliver to Sonus the Sonus Know-How and assign to Sonus its rights in said Sonus Know-How, Sonus Marks and Sonus Patents, if any, in either case relating solely to the country that is the subject of the termination; (ii) not use the Sonus Know-How as long as it is to be held confidential pursuant to Section 10.01 hereof in such country; (iii) not infringe any of the Sonus Patents or Sonus Marks in such country; (iv) make all payments accrued under this Agreement with respect to such country prior to the effective termination date; (v) transfer all Approval Applications and Approvals related to such country to Sonus upon Sonus' written request for same; (vi) transfer to Sonus responsibility

for and control of ongoing work of Schering related to the Product in an expeditious and orderly manner with the costs for such work assumed by Sonus as of the date of notice; (vii) sell to Sonus, at any time within ninety (90) days of such termination, at Sonus' election, all or any portion of the inventory of the Product owned by Schering or its Affiliates which are intended for sale in such country at a price equal to Schering's or its Affiliates' fully burdened costs for such inventory. Such election shall be made by Sonus in writing and within thirty (30) days of such termination. If Sonus elects to purchase such Schering inventory, then Schering shall ship at Sonus' cost and direction such inventory to Sonus. Sonus shall pay for such inventory in advance of receipt of such inventory.

(b) *Election by Schering.* In the event of a Bankruptcy Event or a material default described in Section 16.02(b) and (c) by Sonus (which default is not cured as provided therein), Schering may elect, in lieu of terminating this Agreement, to declare the license granted pursuant to this Agreement to be irrevocable. From the date of receipt of notice of such election, Sonus shall have no further rights or obligations under this Agreement, except that Sonus may enforce any financial obligations of Schering pursuant to Article III of this Agreement, provided that any additional Development Costs incurred by Schering to Develop and Commercialize the Product (in the absence of Sonus' contribution as provided for in this Agreement) shall be credited against all amounts payable by Schering to Sonus pursuant to Article III.

(c) *General.* Except where expressly provided for otherwise in this Agreement, termination of this Agreement shall not relieve the Parties hereto of any liability including any obligation to make payments hereunder, which accrued hereunder prior to the Execution Date of such termination, nor preclude either Party from pursuing all rights and remedies it may have hereunder at law or in equity with respect to any breach of this Agreement nor prejudice any Party's right to obtain performance of any obligation. This section shall survive termination or expiry of the Agreement for any reason.

Section 16.04 ***Surviving Rights*.** The rights and obligations set forth in this Agreement shall extend beyond the term or termination of this Agreement only to the extent expressly provided for herein, or to the extent that the survival of such rights or obligations are necessary to permit their complete fulfillment or discharge.

Section 16.05 ***Return of Confidential Information upon Termination.*** Within thirty (30) days following the expiration or termination of this Agreement, each Party shall return to the other Party, or destroy, upon the written request of the other Party, any and all Confidential Information of the other Party in its possession and upon a Party's request, such destruction (or delivery) shall be confirmed in writing to such Party by a responsible officer of the other Party; provided, however, that each Party may keep one copy of such Confidential Information as necessary to comply with applicable law.

ARTICLE XVII

MISCELLANEOUS

Section 17.01 ***Assignment.*** Schering may assign any of its rights or obligations under this Agreement in any country to any of its Affiliates, provided that such assignment does not relieve Schering of its obligations hereunder or otherwise result in a novation, and may sublicense its rights hereunder as permitted under Section 2.02 of this Agreement. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or

otherwise transferred by either Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, either Party can sell, transfer or assign its rights under the Agreement to any Third Party as part of a sale of all or substantially all of the assets of such Party or in connection with a merger or consolidation; provided that such Third Party expressly agrees in writing to assume and perform all of the duties and obligations of such Party under this Agreement.. The rights and obligations of the Parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

Section 17.02 ***Force Majeure.*** Neither Party shall be held liable or responsible to the other Party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any term of this Agreement (other than non-payment) when such failure or delay is caused by or results from causes beyond the reasonable control of the affected Party, including, but not limited to, fire, floods, embargoes, war, acts of war (whether war be declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by the other Party.

Section 17.03 ***Governing Law.*** This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, except that no conflict of laws provision shall be applied to make the laws of any other jurisdiction applicable to this Agreement.

Section 17.04 ***Patent Marking.*** Schering agrees to mark all Product (or the container or label as appropriate) it sells or distributes pursuant to this Agreement in accordance with the applicable statute or regulations pertaining to intellectual property in the country or countries of manufacture and sale thereof.

Section 17.05 ***Waiver.*** Except as specifically provided for herein, the waiver from time to time by either of the Parties of any of their rights or their failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

Section 17.06 ***Severability.*** In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 17.07 ***Notices.*** All notices and other communications provided for hereunder shall be in writing and shall be mailed by first-class, registered or certified mail, postage paid, or delivered personally, or by overnight delivery service addressed as follows:

If to Sonus: Sonus Pharmaceuticals, Inc.
22026 20th Avenue, S.E.
Bothell, Washington 98021
Attention: President
Telephone:

Facsimile:

Copy to: K. C. Schaaf, Esq.
Stradling Yocca Carlson & Rauth
660 Newport Center Drive, Suite 1600

Newport Beach, CA 92660
Telephone: (949) 725-4000
Facsimile: (949) 725-4100

If to Schering: Schering Aktiengesellschaft
13342 Berlin
Germany

Attn: Head of Legal Department

Copy to: Berlex Pharmaceuticals, an Operating Unit of Berlex, Inc.
340 Changebridge Road
Montville, NJ 07045
Attn: Head of Oncology Global Business Unit

Copy to: Berlex Pharmaceuticals, an Operating Unit of Berlex, Inc.
340 Changebridge Road
Montville, NJ 07045

Attn: General Counsel

Either Party may by like notice specify or change an address to which notices and communications shall thereafter be sent. Notices sent by mail or overnight delivery service shall be effective upon receipt, and notices given personally shall be effective when delivered.

Section 17.08 ***Independent Contractors.*** It is expressly agreed that Sonus and Schering shall be independent contractors and that the relationship between the two Parties shall not constitute a partnership or agency of any kind. Neither Sonus nor Schering shall have the authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on the other Party, without the prior written consent of the other Party.

Section 17.09 ***Rules of Construction.*** The Parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the Party drafting such agreement or document.

Section 17.10 ***Entire Agreement; Amendment.*** This Agreement (including the Exhibits and Schedules attached hereto) sets forth all of the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto with respect to the subject matter hereof and supersedes and terminates all prior agreements and understandings between the Parties. There are no covenants, promises, agreements, warranties, representations conditions or understandings, either oral or written, between the Parties other than as set forth herein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the

Parties hereto unless reduced to writing and signed by the respective authorized officers of the Parties.

Section 17.11 ***Headings.*** The captions contained in this Agreement are not a part of this Agreement, but are merely guides or labels to assist in locating and reading the several articles hereof.

Section 17.12 ***Publicity.*** Schering and Sonus shall consult with each other before issuing any press release with respect to this Agreement or the transactions contemplated hereby (including, without limitation, relating to the activities or information included in any Development Plan), and neither shall issue any such press release or make any such public statement without the prior consent of the other, which consent shall not be unreasonably withheld; provided, however, (i) that a Party may, without the prior consent of the other Party, issue such press release or make such public statement as may upon the advice of counsel be required by law or the rules and regulations of the Nasdaq or any stock exchange, or under applicable securities laws, or any other Applicable Laws if it has used reasonable efforts to consult with the other Party prior thereto, and (ii) such consent shall be deemed to have been given if the recipient of the press release or public statement fails to respond to the other Party within forty-eight (48) hours after the recipient's receipt of such proposed press release or public statement delivered in accordance with the terms of Section 17.07. No such consent of the other Party shall be required to release information which has previously been made public.

Section 17.13 ***Counterparts.*** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 17.14 ***Bankruptcy Matters.*** All licenses granted under this Agreement are deemed to be, for purposes of Section 365(n) of the United States Bankruptcy Code (the "Bankruptcy Code"), licenses of right to "intellectual property" as defined in Section 101 of the Bankruptcy Code. The Parties agree that Schering may fully exercise all of its rights and elections under the Bankruptcy Code. The Parties further agree that, in the event Schering elects to retain its rights as a licensee under the Bankruptcy Code, Schering shall be entitled to complete access to the Sonus Technology and Approvals licensed to it hereunder and all embodiments of such Sonus Technology and Approvals, but only as necessary for the purposes of exploitation of the licenses granted under this Agreement. Such embodiments of Sonus Technology and Approvals shall be delivered to Schering upon written request of Schering.

Section 17.15 ***Further Assurances.*** Each Party agrees to execute, acknowledge and deliver such further instructions, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

Section 17.16 ***Affiliates.*** Each Party may perform its obligations hereunder personally or through one or more of its Affiliates. Neither Party shall permit any of its Affiliates to commit any act (including any act of omission) which such Party is prohibited hereunder from committing directly.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in duplicate by their duly authorized officers as of the Effective Date.

Sonus Pharmaceuticals, Inc.	**Schering Aktiengesellschaft**
By: /s/ Michael A. Martino	By: /s/ Hubertus Erlen
Name: Michael A. Martino	Name: Hubertus Erlen
Title: President & Chief Executive Officer	Title:
	By: /s/ Ulrich Koestlin
	Name: Ulrich Koestlin
	Title:

EXHIBIT A

Product Definition and Specification

EXHIBIT B

Patents and Patent Applications

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT (this "Agreement"), dated as of October 17, 2005 is made by and among Sonus Pharmaceuticals, Inc., a Delaware corporation, with headquarters located at 22026 20th Avenue S.E., Bothell, Washington 98021 (the "Company"), and Schering AG, a German corporation ("Schering AG"), and Schering Berlin Venture Corporation, a Delaware corporation ("SBVC", and collectively with Schering AG, the "Investor").

RECITALS:

A. The Company and Investor are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act and Rule 506 under Regulation D.

B. The Investor desires, upon the terms and conditions stated in this Agreement, to purchase 3,900,000 shares of the Company's Common Stock (the "Common Shares") and a warrant in the form of Exhibit A hereto, to purchase 975,000 shares of the Company's Common Stock (the "Warrant" and collectively with the Common Shares, the "Securities") for an aggregate purchase price of Fifteen Million Seven Hundred Ninety Nine Thousand Eight Hundred Seventy-Five Dollars ($15,799,875). The purchase price per share of the Common Shares is $4.02, which is equal to the per share closing sale price as reported on Nasdaq for the trading day immediately preceding the date of this Agreement, or, if this Agreement is entered into after 4:00 p.m. Eastern Standard Time, the day of this Agreement. The purchase price for the Warrant is $.125 multiplied by the number of shares of Common Stock exercisable under the Warrant (the "Warrant Shares").

C. Contemporaneously with the execution and delivery of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement under which the Company has agreed to provide certain registration rights under the Securities Act, the rules and regulations promulgated thereunder and applicable state securities laws.

D. The capitalized terms used herein and not otherwise defined have the meanings given them in Article IX hereof.

In consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Investor hereby agrees as follows:

ARTICLE I
PURCHASE AND SALE OF SECURITIES

1.1 Purchase and Sale of Securities. On the Closing Date, subject to the terms of this Agreement and the satisfaction or waiver of the conditions set forth in Articles VI and VII hereof, the Company will issue and sell to (A) SBVC, and SBVC will purchase directly from the Company, 3,900,000 Common Shares, to be registered in the name of SBVC, and (B) Schering AG, and Schering AG will purchase directly from the Company, the Warrant, to be registered in the name of Schering AG.

1.2 Payment. At the Closing, Investor will pay the purchase price for the Securities, by wire transfer of immediately available funds in accordance with the wire instructions set forth on

Exhibit B hereto. The Company shall deliver to Investor a certificate representing the Common Shares and a certificate representing the Warrant so purchased by Investor on the Closing Date against delivery of the purchase price as described above.

1.3 Closing Date. Subject to the satisfaction or waiver of the conditions set forth in Articles VI and VII hereof, the Closing will take place at 8 a.m. Pacific Standard Time on October 17, 2005, or at such other date or time agreed upon by the parties to this Agreement (the "Closing Date"). The Closing will be held at the offices of Stradling Yocca Carlson & Rauth or at such other place as the parties agree.

ARTICLE II
INVESTOR'S REPRESENTATIONS AND WARRANTIES

Investor represents and warrants to the Company that:

2.1 Investment Purpose. Investor is purchasing Securities for its own account and not with a present view toward the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the Securities Act, provided, however, that by making the representation herein, the Investor does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption from registration under the Securities Act, subject to the restrictions on transfer set forth in the Registration Rights Agreement.

2.2 Accredited Investor. Investor is an "accredited investor" as such term is defined in Regulation D promulgated under the Securities Act.

2.3 Reliance on Exemptions. Investor understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and Investor's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Investor set forth herein in order to determine the availability of such exemptions and the eligibility of Investor to acquire the Securities.

2.4 Information. Investor has received and read the SEC Documents. Investor and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company, and materials relating to the offer and sale of the Securities, that have been requested by Investor or its advisors, if any. Investor and its advisors, if any, have been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigation conducted by Investor or any of its advisors or representatives modify, amend or affect Investor's right to rely on the Company's representations and warranties contained in Article III below. Investor acknowledges and understands that its investment in the Securities involves a significant degree of risk, including the risks reflected in the SEC Documents.

2.5 Governmental Review. Investor understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities or an investment therein.

2.6 Transfer or Resale. Investor understands that:

(a) except as provided in the Registration Rights Agreement, the Securities have not been and are not being registered under the Securities Act or any applicable state securities laws and, consequently, Investor will not be afforded the protection of Section 11 of the Securities Act, and Investor may have to bear the risk of

owning the Securities for an indefinite period of time because the Securities may not be transferred unless (i) the resale of the Securities is registered pursuant to an effective registration statement under the Securities Act; (ii) Investor has delivered to the Company an opinion of counsel (in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration; (iii) the Securities are sold or transferred pursuant to Rule 144; or (iv) the Securities are sold or transferred to an affiliate (as defined in Rule 144) of Investor;

(b) any sale of the Securities made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and, if Rule 144 is not applicable, any resale of the Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the SEC thereunder; and

(c) except as set forth in the Registration Rights Agreement, neither the Company nor any other person is under any obligation to register the Securities under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

2.7 Legends. Investor understands that until (a) the Securities may be sold by Investor under Rule 144(k) or (b) such time as the resale of the Securities has been registered under the Securities Act as contemplated by the Registration Rights Agreement, the certificates representing the Securities will bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS, OR UNLESS OFFERED, SOLD OR TRANSFERRED PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

The legend set forth above will be removed and the Company will issue a certificate without the legend to the holder of any certificate upon which it is stamped, in accordance with the terms of Article V hereof.

2.8 Authorization; Enforcement. This Agreement, the Registration Rights Agreement and the Warrant have been duly and validly authorized, executed and delivered on behalf of Investor and are valid and binding agreements of Investor enforceable in accordance with their terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and the application of general principles of equity.

2.9 Residency. Investor is a resident of (or, if an entity, has its principal place of business in) the jurisdiction set forth immediately below Investor's name on the signature page hereto.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Investor that:

3.1 Organization and Qualification. The Company is duly incorporated, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. The Company is duly qualified to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified or in good standing would not have a Material Adverse Effect.

3.2 Authorization; Enforcement. (a) The Company has all requisite corporate power and authority to enter into and to perform its obligations under this Agreement, the Registration Rights Agreement and the Warrant, to consummate the transactions contemplated hereby and thereby and to issue the Securities in accordance with the terms hereof and thereof; (b) the execution, delivery and performance of this Agreement, the Registration Rights Agreement and the Warrant by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation the issuance of the Securities) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board or Directors, or its shareholders is required; (c) this Agreement, the Registration Rights Agreement and the Warrant have been duly executed by the Company; and (d) each of this Agreement, the Registration Rights Agreement and the Warrant constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, or moratorium or similar laws affecting the rights of creditors generally and the application of general principles of equity.

3.3 Capitalization. As of the date hereof, the authorized capital stock of the Company consists of (a) 75,000,000 shares of Common Stock, par value $.001 per share, of which 26,301,142 shares are issued and outstanding, 2,916,783 shares are reserved for issuance upon exercise of stock options outstanding under the Company's employee and director stock option plans, 1,341,677 shares are reserved for grants of rights to purchase under the Company's employee and director stock option plans, 39,650 shares are reserved for issuance pursuant to the Company's employee stock purchase plan and 401(k) plan and 3,929,052 shares are reserved for issuance under warrants issued by the Company on June 15, 2001, January 18, 2002, July 28, 2003, and August 15, 2005, and (b) 5,000,000 shares of preferred stock, par value $.001 per share, 500,000 of which shares are designated Series A Junior Participating Preferred Stock, par value $.001 per share, none of which is issued and outstanding. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and nonassessable. No shares of capital stock of the Company, including the Securities issuable pursuant to this Agreement, are subject to preemptive rights or any other similar rights of the stockholders of the Company or any liens or encumbrances imposed through the actions or failure to act of the Company. Except as disclosed in this Section 3.3 and except for the transactions contemplated hereby, (i) there are no outstanding options, warrants, scrip,

rights to subscribe for, puts, calls, rights of first refusal or preemptive or other similar rights, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights directly or indirectly convertible into, exercisable for, or exchangeable for any shares of capital stock of the Company, or arrangements by which the Company is or may become bound to issue additional shares of capital stock of the Company; (ii) there are no agreements or arrangements (other than the Registration Rights Agreement, the separate Registration Rights Agreements entered into on June 15, 2001, January 18, 2002, July 28, 2003, May 7, 2004 and August 15, 2005 and the Purchase Warrants dated June 15, 2001) under which the Company is obligated to register the sale of any of its securities under the Securities Act and (iii) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Securities (other than the exercise price adjustments pursuant to the warrants to purchase an aggregate of 385,800 shares of Common Stock, issued by the Company on January 18, 2002 and the contingent obligation to issue additional warrants to purchase an aggregate of 2,325,936 shares pursuant to the Securities Purchase Agreement dated August 15, 2005). The Company has furnished to Investor true and correct copies of the Company's Certificate of Incorporation, as amended, as in effect on the date hereof, the Company's Bylaws as in effect on the date hereof and the terms of all securities convertible into or exercisable for Common Stock of the Company and the material rights of the holders thereof in respect thereto.

3.4 Issuance of Securities. The Securities are duly authorized and, upon issuance in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, free from all taxes, liens, claims, encumbrances and charges with respect to the issue thereof, will not be subject to preemptive rights or other similar rights of stockholders of the Company, and will not impose personal liability on the holders thereof. The Company has reserved a sufficient number of shares of Common

Stock for issuance upon exercise of the Warrant, and upon payment of the exercise price and exercise of the Warrant in accordance with its terms, the Warrant Shares will be validly issued, fully paid and non-assessable, free from all taxes, liens, claims, encumbrances and charges with respect to the issue thereof, will not be subject to preemptive rights or other similar rights of stockholders of the Company and will not impose personal liability on the holders thereof.

3.5 No Conflicts; No Violation.

(a) The execution, delivery and performance of this Agreement, the Registration Rights Agreement and the Warrant by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Securities) will not (i) conflict with or result in a violation of any provision of its Certificate of Incorporation or Bylaws or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment (including without limitation, the triggering of any anti-dilution provision), acceleration or cancellation of, any agreement, indenture, patent, patent license, or instrument to which the Company is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including U.S. federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or by which any property or asset of the Company is bound or affected (except for such conflicts, breaches, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect).

(b) The Company is not in violation of its Certificate of Incorporation, Bylaws or other organizational documents and the Company is not in default (and no event has occurred which with notice or lapse of time or both could put the Company in default) under any agreement, indenture or instrument to which the Company is a party or by which any property or assets of the Company is bound or affected, except for possible defaults as would not, individually or in the aggregate, have a Material Adverse Effect.

(c) The Company is not conducting its business in violation of any law, ordinance or regulation of any governmental entity, the failure to comply with which would, individually or in the aggregate, have a Material Adverse Effect.

(d) Except as specifically contemplated by this Agreement and as required under the Securities Act and any applicable state securities laws or any listing agreement with any securities exchange or automated quotation system, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement, the Registration Rights Agreement or the Warrant, in each case in accordance with the terms hereof or thereof, or to issue and sell the Securities in accordance with the terms hereof. All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of Nasdaq.

3.6 SEC Documents, Financial Statements. Since June 30, 2002, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits) incorporated by reference therein, being hereinafter referred to herein as the "SEC Documents"). The Company has delivered to Investor, or Investor has had access to, true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the SEC Documents complied in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the financial statements included in the SEC Documents, the Company has no liabilities, contingent or otherwise, other than liabilities incurred in the ordinary course of business subsequent to June 30, 2005, and liabilities of the type not required under generally accepted accounting principles to be reflected in such financial statements. Such

liabilities incurred subsequent to June 30, 2005, are not, in the aggregate, material to the financial condition or operating results of the Company.

3.7 Absence of Certain Changes. Except as disclosed in the SEC Documents, since June 30, 2005, there has been no material adverse change in the assets, liabilities, business, properties, operations, financial condition, prospects or results of operations of the Company, and the Company has not (i) varied its business plan or practices, in any material respect, from past practices, (ii) entered into any material financing, joint venture, license or similar arrangements or (iii) suffered or permitted to be incurred any liability or obligation against any of its properties or assets that would limit or restrict its ability to perform its obligations hereunder.

3.8 Absence of Litigation. Except as disclosed in the SEC Documents, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body, (i) to the knowledge of the Company, threatened against or affecting the Company or any of its officers or directors acting as such that could, individually or in the aggregate, have a Material Adverse Effect, or (ii) pending against or affecting the Company or any of its officers or directors acting as such.

3.9 Intellectual Property Rights. The Company owns or possesses the licenses or rights to use all patents, patent applications, patent rights, inventions, know-how, trade secrets, trademarks, trademark applications, service marks, service names, trade names and copyrights necessary to enable it to conduct its business as now operated or as currently proposed to be operated (the "Intellectual Property"). Except as set forth in the SEC Documents, there are no material outstanding options, licenses or agreements relating to the Intellectual Property, nor is the Company bound by or a party to any material options, licenses or agreements relating to the patents, patent applications, patent rights, inventions, know-how, trade secrets, trademarks, trademark applications, service marks, service names, trade names or copyrights of any other person or entity. Except as disclosed in the SEC Documents, there is no claim or action or proceeding pending or, to the Company's knowledge, threatened that challenges the right of the Company with respect to any Intellectual Property. Except as set forth in the SEC Documents, to the knowledge of the Company, the Company's Intellectual Property does not infringe any intellectual property rights of any other person which, if the subject of an unfavorable decision, ruling or finding would have a Material Adverse Effect.

3.10 Tax Status. The Company has timely made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has timely paid all taxes and other governmental assessments and charges, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith, and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. To the knowledge of the Company, there are no unpaid taxes claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. None of the Company's tax returns is presently being audited by any taxing authority.

3.11 Environmental Laws. The Company (i) is in compliance with all applicable foreign federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) has received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct its business and (iii) is in compliance with all terms and conditions of any such permit, license or approval where, in each of the three foregoing clauses, the failure to so comply would have, individually or in the aggregate, a Material Adverse Effect.

3.12 No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments relating to this Agreement or the transactions contemplated hereby.

3.13 Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company is engaged.

3.14 Employment Matters. The Company is in compliance with all federal, state, local and foreign laws and regulations respecting employment and employment practices, terms and conditions of employment and wages and hours, except where failure to be in compliance would not have a Material Adverse Effect. The Company is not bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or, to the Company's knowledge, has sought to represent any of the employees, representatives or agents of the Company. There is no strike or other labor dispute involving the Company pending, or to the Company's knowledge, threatened nor is the Company aware of any labor organization activity involving its employees. The Company is not aware that any officer or key employee, or that any group of officers or key employees, intends to terminate their employment with the Company, nor does the Company have a present intention to terminate the employment of any of the foregoing.

3.15 Employee Benefit Plans. Except as set forth in the SEC Documents, the Company does not have any Employee Benefit Plans, as such term is defined in the Employee Retirement Security Act of 1974.

3.16 Investment Company Status. The Company is not and upon consummation of the sale of the Securities will not be an "investment company," a company controlled by an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

3.17 No Subsidiaries. Except for Sonus Pharma, Limited, a wholly owned subsidiary of the Company organized under the laws of the United Kingdom, the Company does not presently own or control, directly or indirectly, any interest in any other corporation, association, joint venture, partnership or other business entity and the Company is not a direct or indirect participant in any joint venture or partnership.

3.18 No Conflict of Interest. The Company is not indebted, directly or indirectly, to any of its officers or directors or to their respective spouses or children, in any amount whatsoever other than in connection with expenses or advances of expenses incurred in the ordinary course of business or relocation expenses of employees. None of the Company's officers, directors or employees, or any members of their immediate families, are directly, or indirectly, indebted to the Company or, to

the best of the Company's knowledge, have any direct or indirect ownership interest in any entity with which the Company is affiliated or with which the Company has a business relationship, or any entity which competes with the Company, except that officers, directors, employees and/or stockholders of the Company may own stock in (but not exceeding five percent (5%) of the outstanding capital stock of) any publicly traded company that may compete with the Company. To the best of the Company's knowledge, none of the Company's officers, directors or employees or any members of their immediate families are, directly or indirectly, interested in any material contract with the Company. The Company is not a guarantor or indemnitor of any indebtedness of any other person or entity.

3.19 Nasdaq Notification. The Company has notified Nasdaq of the issuance and listing of the Common Shares and Warrant Shares on Nasdaq and the Common Shares and Warrant Shares have been approved for quotation on Nasdaq, upon official notice of issuance.

3.20 Reporting Status; Eligibility to Use Form S-3. The Company's Common Stock is registered under Section 12g of the Exchange Act. The Company currently meets the "registrant eligibility" requirements set forth in the general instructions to Form S-3 to enable the registration of the Registrable Securities, as defined in the Registration Rights Agreement.

3.21 No Manipulation of Stock. The Company has not taken and will not, in violation of applicable law, take, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Securities.

3.22 Collaboration and License Agreement. The representations and warranties made by the Company in Article X of that certain Collaboration and License Agreement dated as of the date hereof (the "License Agreement"), are incorporated herein by this reference and made to Investor as though fully set forth herein.

3.23 Representations Complete. The representations and warranties made by the Company in this Agreement, the statements made in any certificates furnished by the Company pursuant to this Agreement, and the statements made by the Company in any documents mailed, delivered or furnished to Investor in connection with this Agreement, taken as a whole, do not contain and will not contain, as of their respective dates and as of the Closing Date, any untrue statement of a material fact, nor do they omit or will they omit, as of their respective dates or as of the Closing Date, to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

ARTICLE IV
COVENANTS

4.1 Best Efforts. Each party will use its best efforts to satisfy in a timely fashion each of the conditions to be satisfied by it under Articles VI and VII of this Agreement. The Company shall use its best efforts to comply with each of its covenants in this Agreement, the Registration Rights Agreement and the Warrant, unless the use of best efforts conflicts with the standard of conduct set forth in any such covenant, in which case such other standard of conduct shall control.

4.2 Form D; Blue Sky Laws. The Company will timely file a Notice of Sale of Securities on Form D with respect to the Securities, as required under Regulation D. The Company will, on or before the Closing Date, take such action as it reasonably determines to be necessary to qualify the Securities for sale to Investor under this Agreement under applicable securities (or "blue sky") laws of the states of the United States (or to obtain an exemption from such qualification).

4.3 Continued Eligibility to Use Form S-3. Throughout the Registration Period (as defined in the Registration Rights Agreement), the Company will timely file all reports, schedules, forms, statements and other documents required to be filed by it with the SEC under the reporting requirements of the Exchange Act, and the Company will not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination. The Company will take all reasonably necessary action to continue to meet the "registrant eligibility" requirements set forth in the general instructions to Form S-3 to enable the registration of the Registrable Securities as defined in the Registration Rights Agreement.

4.4 Expenses. The Company and Investor are liable for, and will pay, its own expenses incurred in connection with the negotiation, preparation, execution and delivery of this Agreement and the other agreements to be executed in connection herewith, including, without limitation, attorneys' and consultants' fees and expenses.

4.5 Financial Information. As long as Investor owns any of the Securities or Warrant Shares, the financial statements of the Company will be prepared in accordance with United States generally accepted accounting principles, consistently applied, and will fairly present in all material respects the consolidated financial position of the Company and results of its operations and cash flows as of, and for the periods covered by, such financial statements (subject, in the case of unaudited statements, to normal year-end audit adjustments).

4.6 Compliance with Law. As long as Investor owns any of the Securities or Warrant Shares, the Company will conduct its business in compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting business, including, without limitation, all applicable local, state and federal environmental laws and regulations, the failure to comply, individually or in the aggregate, with which would have a Material Adverse Effect.

4.7 Sales by Investor. Investor will sell any Securities sold by it in compliance with applicable prospectus delivery requirements, if any, or otherwise in compliance with the requirements for an exemption from registration under the Securities Act and the rules and regulations promulgated thereunder and the restrictions on sales or transfers set forth in the Registration Rights Agreement. Investor will not make any sale, transfer or other disposition of the Securities in violation of federal or state securities laws.

ARTICLE V
TRANSFER AGENT INSTRUCTIONS; REMOVAL OF LEGENDS

5.1 Issuance of Certificates. The Company will, or will instruct its transfer agent to, issue certificates, registered in the name of Investor or its nominee, for the Securities and, promptly upon exercise of any portion of the Warrant Shares. All such certificates will bear the restrictive legend described in Section 2.7, except as otherwise specified in this Article V. The Company will

not give to its transfer agent any instruction other than as described in this Article V and stop transfer instructions to give effect to Section 2.7 hereof (prior to registration of the Securities under the Securities Act). Nothing in this Section will affect in any way Investor's obligations to comply with all applicable prospectus delivery requirements, if any, upon resale of the Common Shares and/or Warrant Shares.

5.2 Unrestricted Securities. If, unless otherwise required by applicable state securities laws, (a) the Securities or Warrant Shares represented by a certificate have been registered under an effective registration statement filed under the Securities Act, (b) a holder of Securities or Warrant Shares provides the Company and its transfer agent with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Securities or Warrant Shares may be made without registration under the Securities Act and such sale either has occurred or may occur without restriction on the manner of such sale or transfer, (c) such holder provides the Company and its transfer agent with reasonable assurances that such Securities or Warrant Shares can be sold under Rule 144, or (d) the Common Shares represented by a certificate can be sold without restriction as to the number of securities sold under Rule 144(k), the Company will permit the transfer of the Securities or Warrant Shares, and the Company's transfer agent will issue one or more certificates, free from any restrictive legend, in such name and in such denominations as specified by such holder. Notwithstanding anything herein to the contrary, the Securities or Warrant Shares may be pledged as collateral in connection with a bona fide margin account or other lending arrangement; provided, that such pledge will not alter the provisions of this Article V with respect to the removal of restrictive legends.

5.3 Enforcement of Provision. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to Investor by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Article V will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that Investor will be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer of the Securities and/or Warrant Shares, as applicable, without the necessity of showing economic loss and without any bond or other security being required.

ARTICLE VI
CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL

The obligation of the Company to issue and sell the Securities to Investor at the Closing is subject to the satisfaction by such Investor, on or before the Closing Date, of each of the following conditions. These conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

6.1 Investor will have executed this Agreement, the Registration Rights Agreement, the Warrant and the License Agreement and will have delivered those agreements to the Company.

6.2 Investor will have delivered the purchase price for the Securities to the Company in accordance with this Agreement.

6.3 The representations and warranties of Investor must be true and correct in all material respects as of the Closing Date as though made at that time (except for representations and warranties

that speak as of a specific date, which representations and warranties must be correct as of such date), and Investor will have performed and complied in all material respects with the covenants and conditions required by this Agreement to be performed or complied with by Investor at or prior to the Closing.

6.4 No statute, rule, regulation, executive order, decree, ruling or injunction will have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement, the Registration Rights Agreement or the Warrant.

ARTICLE VII
CONDITIONS TO THE INVESTOR'S OBLIGATION TO PURCHASE

The obligation of Investor hereunder to purchase the Securities from the Company at the Closing is subject to the satisfaction, on or before the Closing Date, of each

of the following conditions. These conditions are for Investor's benefit and may be waived by Investor at any time in its sole discretion:

7.1 The Company will have executed this Agreement, the Registration Rights Agreement, the Warrant and the License Agreement and will have delivered those Agreements to Investor.

7.2 Investor shall have received an opinion of counsel from Stradling Yocca Carlson & Rauth, counsel to the Company, reasonably acceptable to Investor and its counsel.

7.3 Each of the representations and warranties of the Company qualified by materiality must be true and correct in all respects as of the Closing as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties must be true and correct as of such date) and each of the representations and warranties of the Company not qualified by materiality must be true and correct in all material respects as of the Closing as though made at that time (except for representations and warranties that speak as of a specific date, which representations and warranties must be true and correct as of such date) and the Company must have performed and complied in all material respects with the covenants and conditions required by this Agreement to be performed or complied with by the Company at or prior to the Closing. Investor must have received a certificate or certificates dated as of the Closing Date and executed by the Chief Executive Officer or the Chief Financial Officer of the Company certifying as to the matters in contained in this Section 7.3 and as to such other matters as may be reasonably requested by such Investor, including, but not limited to, the Company's Certificate of Incorporation, Bylaws, Board of Directors' resolutions relating to the transactions contemplated hereby and the incumbency and signatures of each of the officers of the Company who may execute on behalf of the Company any document delivered at the Closing.

7.4 No litigation, statute, rule, regulation, executive order, decree, ruling or injunction will have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions

contemplated by this Agreement, the Registration Rights Agreement or the Warrant and which could, individually or in the aggregate, have a Material Adverse Effect.

7.5 Trading and listing of the Common Stock on Nasdaq must not have been suspended by the SEC or Nasdaq.

7.6 Investor shall have received certificates representing the Common Shares and the Warrant.

ARTICLE VIII
INDEMNIFICATION

In consideration of Investor's execution and delivery of this Agreement and its acquisition of the Securities hereunder, and in addition to all of the Company's other obligations under this Agreement, the Registration Rights Agreement and the Warrant, the Company will defend, protect, indemnify and hold harmless Investor and each other holder of the Securities and all of their stockholders, officers, directors, employees and direct or indirect investors and any of the foregoing person's agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "Indemnitees") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (regardless of whether any such Indemnitee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by an Indemnitee as a result of, or arising out of, or relating to (a) any breach of any representation or warranty made by the Company herein or in any other certificate, instrument or document contemplated hereby or thereby, (b) any breach of any covenant, agreement or obligation of the Company contained herein or in any other certificate, instrument or document contemplated hereby or thereby or (c) any cause of action, suit or claim brought or made against such Indemnitee and arising out of or resulting from the execution, delivery, performance, breach or enforcement of this Agreement, the Registration Rights Agreement or the Warrant by the Company. To the extent that the foregoing undertaking by the Company is unenforceable for any reason, the Company will make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities that is permissible under applicable law.

The Indemnitees shall have the right to employ separate counsel in any such proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnitees unless: (i) the Company has agreed in writing to pay such fees and expenses; (ii) the Company shall have failed to promptly assume the defense of such proceeding and to employ counsel reasonably satisfactory to such Indemnitees in any such proceeding; or (iii) the named parties to any such proceeding (including any impleaded parties) include both such Indemnitees and the Company, and such Indemnitees shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnitees and the Company (in which case, if such Indemnitees notify the Company in writing that they elect to employ separate counsel at the expense of the Company, the Company shall not have the right to assume the defense thereof and such counsel shall be at the reasonable expense of the Company; provided, however, that in no event shall the Company be responsible for the fees and expenses of more than one separate counsel). The Company shall not be liable for any settlement of any such proceeding effected without its written consent, which consent shall not be unreasonably withheld. The Company shall not, without the prior written consent of a majority of the Indemnitees, effect any settlement of any pending

proceeding in respect of which Indemnitees are a party, unless such settlement includes an unconditional release of such Indemnitees from all liabilities that are the subject matter of such proceeding. Subject to the foregoing, all fees and expenses (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend any such proceeding in a manner inconsistent with this Article VIII) of the Indemnitees shall be paid to the Indemnitees as incurred, within ten (10) business days of written notice thereof to the Company, which notice shall be delivered no more frequently than on a monthly basis; provided, that the Indemnitees shall reimburse the Company for any and all such fees and expenses to the extent it is finally judicially determined that such Indemnitees are not entitled to indemnification hereunder.

ARTICLE IX
DEFINITIONS

9.1 "Closing" means the closing of the purchase and sale of the Securities under this Agreement.

9.2 "Closing Date" has the meaning set forth in Section 1.3.

9.3 "Common Shares" has the meaning set forth in the Recitals.

9.4 "Common Stock" means the common stock, par value $.001 per share, of the Company.

9.5 "Company" means Sonus Pharmaceuticals, Inc.

9.6 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

9.7 "Indemnified Liabilities" has the meaning set forth in Article VIII.

9.8 "Indemnitees" has the meaning set forth in Article VIII.

9.9 "Investor" has the meaning set forth in the preamble of this Agreement.

9.10 "License Agreement" has the meaning set forth in Section 3.22.

9.11 "Material Adverse Effect" means a material adverse effect on (a) the business, operations, prospects, assets or financial condition of the Company or (b) the ability of the Company to perform its obligations pursuant to the transactions contemplated by this Agreement or under the agreements or instruments to be entered into or filed in connection herewith, including the Registration Rights Agreement and the Warrant.

9.12 "Nasdaq" means the Nasdaq National Market System.

9.13 "Registration Rights Agreement" means the Registration Rights Agreement, dated as of the date of this Agreement and among the parties to this Agreement, in the form attached hereto as Exhibit C.

9.14 "Regulation D" means Regulation D as promulgated under by the SEC under the Securities Act.

9.15 "Rule 144" and "Rule 144(k)" mean Rule 144 and Rule 144(k), respectively, promulgated under the Securities Act, or any successor rule.

9.16 "SEC" means the United States Securities and Exchange Commission.

9.17 "SEC Documents" has the meaning set forth in Section 3.6.

9.18 "Securities" has the meaning set forth in the Recitals.

9.19 "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute.

9.20 "Warrant" and "Warrant Shares" have the meanings set forth in the Recitals.

ARTICLE X
GOVERNING LAW; MISCELLANEOUS

10.1 Governing Law; Jurisdiction; Jury Trial Waiver. This Agreement will be governed by and interpreted in accordance with the laws of the State of New York without regard to the principles of conflict of laws. The parties hereto hereby submit to the exclusive jurisdiction of the United States federal and state courts located in the State of New York with respect to any dispute arising under this Agreement, the agreements entered into in connection herewith or the transactions contemplated hereby or thereby. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT THAT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY.

10.2 Counterparts; Signatures by Facsimile. This Agreement may be executed in two or more counterparts, all of which are considered one and the same agreement and will become effective when counterparts have been signed by each party and delivered to the other parties. This Agreement, once executed by a party, may be delivered to the other parties hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

10.3 Headings. The headings of this Agreement are for convenience of reference only, are not part of this Agreement and do not affect its interpretation.

10.4 Severability. If any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision will be deemed modified in order to conform with such statute or rule of law. Any provision hereof that may prove invalid or unenforceable under any law will not affect the validity or enforceability of any other provision hereof.

10.5 Entire Agreement; Amendments. This Agreement, the Registration Rights Agreement and the Warrant (including all schedules and exhibits thereto) and the Warrant constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof. No provision of this Agreement may be

waived or amended other than by an instrument in writing signed by the party to be charged with enforcement.

10.6 Notices. Any notices required or permitted to be given under the terms of this Agreement must be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service) or by facsimile and will be effective three business days after being placed in the mail, if mailed by regular U.S. mail, or upon receipt, if delivered personally, by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications are:

If to the Company:

Chief Financial Officer
Sonus Pharmaceuticals, Inc.
22026 20th Avenue S.E.
Bothell, Washington 98021
Fax: (425) 489-0626

With copies to:

K.C. Schaaf, Esq.
Stradling Yocca Carlson & Rauth
660 Newport Center Drive, Suite 1600
Newport Beach, California 92660
Fax: (949) 725-4100

If to Investor: To the address set forth immediately below Investor's name on the signature pages hereto.

With copies to:

Schering AG
Legal Department
170-178 Muellerstrasse
D-13342 Berlin, Germany
Fax: +49-(0)30-468-14086

Each party will provide written notice to the other parties of any change in its address in accordance with the notice provisions hereof.

10.7 Successors and Assigns. This Agreement is binding upon and inures to the benefit of the parties and their successors and assigns. The Company will not assign this Agreement or any rights or obligations hereunder without the prior written consent of Investor, and Investor may not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Company. Notwithstanding the foregoing, Investor may assign all or part of its rights and obligations hereunder to any of its "affiliates," as that term is defined under the Securities Act, without the consent of the Company so long as the affiliate is an accredited investor (within the meaning of Regulation D under the Securities Act) and agrees in writing to be bound by this Agreement. This provision does not limit Investor's right to transfer the Securities pursuant to the terms of this Agreement or to assign Investor's rights hereunder to any such transferee pursuant to the terms of this Agreement.

10.8 Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and, except as contemplated in Section 2.10, is not for the benefit of, nor may any provision hereof be enforced by, any other person.

10.9 Survival. The representations and warranties of the Company and the agreements and covenants set forth herein will survive the Closing hereunder for a period of twelve (12) months. The Company makes no representations or warranties in any oral or written information provided to Investor, other than the representations and warranties included herein.

10.10 Further Assurances. Each party will do and perform, or cause to be done and performed, all such further acts and things, and will execute and deliver all other agreements, certificates, instruments and documents, as another party 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.

10.11 No Strict Construction. The language used in this Agreement is deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

10.12 Equitable Relief. The Company recognizes that, if it fails to perform or discharge any of its obligations under this Agreement, any remedy at law may prove to be inadequate relief to Investor. The Company therefore agrees that Investor is entitled to seek temporary and permanent injunctive relief in any such case.

IN WITNESS WHEREOF, the undersigned Investor and the Company have caused this Securities Purchase Agreement to be duly executed as of the date first above written.

COMPANY:

SONUS PHARMACEUTICALS, INC.

By: /s/ Michael A. Martino
Name: Michael A. Martino
Title: President and CEO

INVESTOR:

SCHERING AG

By: /s/ Hubertus Erlen
Name: Hubertus Erlen
Title:

By: /s/ Ulrich Koestlin
Name: Ulrich Koestlin
Title:

Address: 170-178
Muellerstrasse
D-13342
Berlin,
Germany
Fax: +49-(0)30-
468-11411
Attn: Head of
Finance

SCHERING BERLIN VENTURE CORPORATION

By: /s/ Lutz Lingnau
Name: Lutz Lingnau

Title: _____

Address: 340 Changebridge Road Montville, NJ 07045

Exhibit A

Warrant

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, EXCHANGED, HYPOTHECATED OR TRANSFERRED IN ANY MANNER EXCEPT PURSUANT TO A REGISTRATION OR AN EXEMPTION FROM SUCH REGISTRATION.

PURCHASE WARRANT

Issued to:

Schering AG

Exercisable to Purchase

975,000 Shares of Common Stock

of

SONUS PHARMACEUTICALS, INC.

Void after October 17, 2010

This is to certify that, for the value described herein and subject to the terms and conditions set forth below, the Warrantholder is entitled to purchase, and the Company promises and agrees to sell and issue to the Warrantholder, at any time on or after October 17, 2005 (the "Effective Date"), pursuant to Section 3 hereof, up to 975,000 shares of the Company's Common Stock at the Exercise Price.

This Warrant certificate is issued subject to the following terms and conditions:

1. Definitions of Certain Terms. Except as may be otherwise clearly required by the context, the following terms have the following meanings:

(a) "Common Stock" means the common stock, $0.001 par value, of the Company.

(b) "Company" means Sonus Pharmaceuticals, Inc., a Delaware corporation.

(c) "Effective Date" has the meaning set forth in the preamble to this Agreement.

(d) "Exercise Period" means the period of time commencing on the Effective Date and ending at 5 p.m. Pacific Standard Time on the fifth anniversary of the Effective Date.

(e) "Exercise Price" means the price at which the Warrantholder may purchase one Share upon exercise of Warrants as determined from time to time pursuant to the provisions hereof. The initial Exercise Price is $4.42 per Share, which is equal to 110% of the purchase price per share of Common Stock paid by Warrantholder under the Securities Purchase Agreement.

(f) "Registration Rights Agreement" means the Registration Rights Agreement dated as of October 17, 2005 between the Company and the Investor referenced therein.

(g) "Securities Act" means the Securities Act of 1933, as amended.

(h) "Securities Purchase Agreement" means the Securities Purchase Agreement dated as of October 17, 2005 between the Company and the Investor referenced therein.

(i) "Share" or "Shares" refers to one or more shares of Common Stock issuable on exercise of the Warrant.

(j) "Warrant" means the warrant evidenced by this certificate or any certificate obtained upon transfer or partial exercise of the Warrant evidenced by any such certificate.

(k) "Warrantholder" means a record holder of the Warrant or Shares. The initial Warrantholder is Schering AG.

2. Purchase of Warrant. Concurrently with the issuance hereof, the Warrantholder shall pay to the Company as consideration for the Warrant the sum of $0.125 per Share issuable upon exercise of the Warrant, or $121,875 in the aggregate.

3. Exercise of Warrants.

(a) All or any part of the Warrant may be exercised during the Exercise Period by surrendering the Warrant, together with appropriate instructions, duly executed by the Warrantholder or by its duly authorized attorney, and delivery of payment in full by the Warrantholder, in lawful money of the United States, of the Exercise Price payable with respect to the Shares being purchased at the office of the Company, 22026 20th Avenue S.E., Bothell, Washington, 98021, Attention: President, or at such other office or agency as the Company may designate. The date on which such instructions and the Exercise Price are received by the Company shall be the date of exercise. Upon receipt of notice of exercise and the Exercise Price, the Company shall immediately instruct its transfer agent to prepare certificates for the Shares to be received by the Warrantholder and shall use commercially reasonable efforts to cause such certificates to be prepared and delivered to the Warrantholder in accordance with the Warrantholder's instructions within three business days after the date of exercise. If the Warrantholder shall provide the Company with an opinion of counsel to the effect that the legend set forth on the face of this Warrant is not required, such certificates shall not bear a legend with respect to the Securities Act.

(b) If fewer than all the Shares purchasable under the Warrant are purchased, the Company will, upon such partial exercise, execute and deliver to the Warrantholder a new Warrant certificate (dated the date hereof), in form and tenor similar to this Warrant certificate, evidencing that portion of the Warrant not exercised. The Shares to be obtained on exercise of the Warrant will be deemed to have been issued, and any person exercising the Warrant will be deemed to have become a holder of record of those Shares, as of the date of the payment of the Exercise Price.

4. Adjustments in Certain Events. The number, class, and price of the Shares for which this Warrant is exercisable are subject to adjustment from time to time upon the happening of certain events as follows:

(a) If the outstanding shares of the Company's Common Stock are divided into a greater number of shares or a dividend in stock is paid on the Common Stock, the number of Shares for which the Warrant is then exercisable will be proportionately increased and the Exercise Price will be proportionately reduced; and, conversely, if the outstanding shares of Common Stock are combined into a smaller number of shares of Common Stock, the number of Shares for which the Warrant is then exercisable will be proportionately reduced and the Exercise Price will be proportionately increased. The increases and reductions provided for in this subsection 4(a) will be made with the intent and, as nearly as practicable, the effect that neither the percentage of the total equity of the Company obtainable on exercise of the Warrants nor the price payable for such percentage upon such exercise will be affected by any event described in this subsection 4(a).

(b) In case of any change in the Common Stock through merger, consolidation, reclassification, reorganization, partial or complete liquidation, purchase of substantially all the assets of the Company, or other change in the capital structure of the Company, then, as a condition of such change, lawful and adequate provision will be made so that the holder of this Warrant will have the right thereafter to receive upon the exercise of the Warrant the kind and amount of shares of stock or other securities or property to which he would have been entitled if, immediately prior to such event, he had held the number of Shares obtainable upon the exercise of the Warrant. In any such case, appropriate adjustment will be made in the application of the provisions set forth herein with respect to the rights and interest thereafter of the Warrantholder, to the end that the provisions set forth herein will thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the exercise of the Warrant. The Company will not permit any change in its capital structure to occur unless the issuer of the shares of stock or other securities to be received by the holder of this Warrant, if not the Company, agrees to be bound by and comply with the provisions of this Warrant.

(c) When any adjustment is required to be made in the number of Shares or other securities or property purchasable upon exercise of the Warrant, the Company will promptly determine the new number of such Shares or other securities or property purchasable upon exercise of the Warrant and (i) prepare and retain on file a statement describing in reasonable detail the method used in arriving at the new number of such Shares or other securities or property purchasable upon exercise of the Warrant and (ii) cause a copy of such statement to be mailed to the Warrantholder within thirty (30) days after the date of the event giving rise to the adjustment.

(d) No fractional shares of Common Stock or other securities will be issued in connection with the exercise of the Warrant, but the Company will pay, in lieu of fractional shares, a cash payment therefor on the basis of the mean between the bid and asked prices of the Common Stock in the over-the-counter market or the closing price on a national securities exchange on the day immediately prior to exercise.

(e) If securities of the Company or securities of any subsidiary of the Company are distributed pro rata to holders of Common Stock, such number of such securities will be distributed to the Warrantholder or his assignee upon exercise of this Warrant as the Warrantholder or assignee would have been entitled to if the portion of the Warrant evidenced by this Warrant certificate had been exercised prior to the record date for such distribution. The provisions with respect to adjustment of the Common Stock provided in this Section 4 will also apply to the securities to which the Warrantholder or his assignee is entitled under this subsection 4(e).

(f) In the event (i) the Company establishes a record date to determine the holders of any class of securities who are entitled to receive any dividend or other distribution or (ii) there occurs any change in the Common Stock through merger, consolidation, reclassification, reorganization, partial or complete liquidation, purchase of substantially all of the assets of the Company or other change in the capital structure of the Company, the Company shall give to the holder hereof a notice specifying (a) the date of such record date for the purpose of such dividend or distribution and a description of such dividend or distribution, (b) the date on which any such merger, consolidation,

reclassification, reorganization, sale, liquidation or other change in the capital structure of the Company is expected to become effective, and (c) the time, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such merger, consolidation, reclassification, reorganization, sale, liquidation or other change in the capital structure of the Company. Such written notice shall be given to the holder of this Warrant at least twenty (20) days prior to the date specified in such notice on which any such action is to be taken.

5. Reservation of Shares. The Company agrees that the number of shares of Common Stock or other securities sufficient to provide for the exercise of the Warrant upon the basis set forth above will at all times during the term of the Warrant be reserved for exercise. If at any time the Company does not have a sufficient number of shares of Common Stock or other securities authorized to provide for the exercise of the Warrant, the Company shall take such actions as may be reasonably necessary to increase the number of authorized shares of Common Stock or other securities to provide for exercise of the Warrant.

6. Validity of Shares. All Shares or other securities delivered upon the exercise of the Warrant will be duly and validly issued in accordance with their terms, and, in the case of capital stock, will, when issued and delivered in accordance with their terms against payment therefor as provided in the Warrant, be fully paid and nonassessable, and the Company will pay all documentary and transfer taxes, if any, in respect of the original issuance thereof upon exercise of the Warrant.

7. Restrictions on Transfer. This Warrant and the Shares may not be sold, transferred, assigned or hypothecated except as permitted pursuant to Section 2.6 of the Securities Purchase Agreement and subject to the restrictions on transfer in the Registration Rights Agreement. The Warrant may be divided or combined, upon request to the Company by the Warrantholder, into a certificate or certificates evidencing the same aggregate number of Warrants.

8. No Rights as a Stockholder. Except as otherwise provided herein, the Warrantholder will not, by virtue of ownership of the Warrant, be entitled to any rights of a stockholder of the Company but will, upon written request to the Company, be entitled to receive such quarterly or annual reports as the Company distributes to its stockholders.

9. Notice. Any notices required or permitted to be given under the terms of this Warrant must be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service) or by facsimile and will be effective five (5) days after being placed in the mail, if mailed by regular U.S. mail, or upon receipt, if delivered personally, by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications are:

If to the Company:

Chief Financial Officer
Sonus Pharmaceuticals, Inc.
22026 20th Avenue S.E.
Bothell, Washington 98021
fax: (425) 489-0626

If to a Warrantholder: to the address set forth immediately below the Warrantholder's name on the signature pages hereto.

With copies to:

Schering AG
Legal Department
170-178 Muellerstrasse
D-13342 Berlin, Germany
Fax: +49-(0)30-468-14086

Each party will provide written notice to the other parties of any change in its address.

10. Applicable Law. This Warrant will be governed by and construed in accordance with the laws of the State of New York, without reference to conflict of laws principles thereunder.

11. Entire Agreement. This Warrant, the exhibits and schedules hereto, and the documents referred to herein, constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings, whether oral or written, between the parties hereto with respect to the subject matter hereof.

12. Waiver; Consent. This Warrant may not be changed, amended, terminated, augmented, rescinded or discharged (other than by performance), in whole or in part, except by a writing executed by the parties hereto, and no waiver of any of the provisions or conditions of this Warrant or any of the rights of a party hereto shall be effective or binding unless such waiver shall be in writing and signed by the party claimed to have given or consented thereto.

13. No Impairment. The Company will not, by amendment of its Charter or by any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder of this Warrant against impairment.

14. Remedies. The Company stipulates that the remedies at law of the Warrantholder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not adequate and may be enforced by a decree for the specific performance of any agreement

contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

15. Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and the balance shall be enforceable in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant effective as of the date set forth below.

Dated as of October 17, 2005

SONUS PHARMACEUTICALS, INC.

By: _____
Name: _____
Title: _____

Agreed and Accepted as of October 17, 2005

SCHERING AG

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

NOTICE OF EXERCISE

To: SONUS PHARMACEUTICALS, INC.

The undersigned hereby elects to purchase shares of Common Stock (the "Shares") of Sonus Pharmaceuticals, Inc., a Delaware corporation (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price pursuant to the terms of the Warrant.

Please issue certificates representing the Common Stock purchased hereunder in the names and in the denominations indicated below.

Please issue a new Warrant for the unexercised portion of the attached Warrant, if any, in the name of the undersigned.

Dated: _____ _____

No. Warrant Shares: _____ Name: _____

Print Name of
Stockholder: _____ Title: _____

Exhibit B

Wire Transfer Instructions

Exhibit C

Registration Rights Agreement

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT, dated as of October 17, 2005 (this "Agreement"), is made by and among Sonus Pharmaceuticals, Inc., a Delaware corporation, with headquarters located at 22026 20th Avenue S.E., Bothell, Washington 98021 (the "Company"), and Schering AG, a German corporation ("Schering AG"), and Schering Berlin Venture Corporation, a Delaware corporation ("SBVC", and collectively with Schering AG, the "Investor").

RECITALS:

A. In connection with the Securities Purchase Agreement dated October 17, 2005 between the Investor and the Company (the "Purchase Agreement"), the Company has agreed, upon the terms and subject to the conditions of the Purchase Agreement, to issue and sell to the Investor 3,900,000 shares of the Company's Common Stock (the "Common Shares") and a warrant to purchase up to 975,000 shares of the Company's Common Stock, subject to adjustment (the "Warrant" and collectively with the Common Shares, the "Securities").

B. In order to induce Investor to execute and deliver the Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act and applicable state securities laws with respect to the Securities.

In consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Investor hereby agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used and not otherwise defined herein have the respective meanings given them set forth in the Purchase Agreement. In addition, as used in this Agreement, the following terms have the following meanings:

1.1 "Closing Date" means the date on which the purchase of the Securities is consummated pursuant to the Purchase Agreement.

1.2 "Common Shares" means the shares of Common Stock sold pursuant to the Purchase Agreement.

1.3 "Investor" means Investor and any of its transferees or assignees who agree to become bound by the provisions of this Agreement in accordance with Article IX hereof.

1.4 "Registrable Securities" means the Common Shares and the Warrant Shares, and any shares of capital stock issued or issuable from time to time (with any adjustments) in exchange for or otherwise with respect to the Common Shares or the Warrant Shares (including shares issued pursuant to Section 2.2 hereof).

1.5 "Registration Period" means the period between the date of this Agreement and the earlier of (i) the date on which (x) all of the Registrable Securities have been sold by the Investor pursuant to the Registration Statement and (y) are freely tradable under the Securities Act (except that this clause (y) shall not apply with respect to Shares sold to affiliates) and no further Registrable Securities may be issued in the future, (ii) the second anniversary of the last date on which Warrant Shares are purchased for cash under the Warrant, or (iii) the date on which all the Registrable Securities may be immediately sold by the Investor without registration and without restriction as to the number of Registrable Securities to be sold, pursuant to Rule 144 or otherwise.

1.6 "Registration Statement" means a Registration Statement of the Company filed under the Securities Act.

1.7 The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or statements in compliance with the Securities Act and pursuant to Rule 415 and the declaration or ordering of effectiveness of such Registration Statement by the SEC.

1.8 "Rule 415" means Rule 415 under the Securities Act, or any successor Rule providing for offering securities on a continuous basis, and applicable rules and regulations thereunder.

1.9 "Securities" means the Common Shares and the Warrant sold pursuant to the Purchase Agreement.

1.10 "Warrant" means the warrant to purchase shares of the Company's Common Stock sold pursuant to the Purchase Agreement.

1.11 "Warrant Shares" means the shares of the Company's Common Stock that may be purchased upon exercise of the Warrant.

ARTICLE II
REGISTRATION

2.1 Demand Registration. If at anytime prior to the expiration of the Registration Period and after the six month anniversary of this Agreement, any Registrable Securities shall not have been registered by the Company pursuant to Section 2.3 hereof, then Investor shall have the right by delivery of written notice to the Company, to request that the Company effect a registration on Form S-3 covering the resale of the Registrable Securities not previously registered pursuant to Section 2.3; provided, however, that the Company shall not be obligated to effect any such registration if (i) Investor proposes to sell less than all of the Registrable Securities held by Investor at an aggregate price to the public of less than $5,000,000, (ii) during the period starting with the date thirty (30) days prior to the Company's good faith estimate of the date of filing of, and ending on a date ninety (90) days after the effective date of, a Company-initiated registration; provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective, (iii) in the event that the Company has, within the six (6) month period preceding the date of such request, already effected a registration on Form S-3 for Investor pursuant to this Section 2.1, or (iv) (A) in the good faith judgment of the Board of Directors of the Company, such registration would be seriously detrimental to the Company and the Board of Directors of the Company concludes, as a result, that it is essential to defer the filing of such registration statement at such time,

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and (B) the Company shall furnish to Investor a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company for such registration statement to be filed in the near future and that it is, therefore, essential to defer the filing of such registration statement, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of Investor, and, provided further, that the Company shall not defer its obligation in this manner more than once in any twelve-month period. The date on which the Company receives such notice is referred to herein as the "Demand Date." In the event that Form S-3 is unavailable and/or inappropriate for such a registration of all the Registrable Securities, the Company shall use such other form or forms as are available and appropriate for such a registration, subject to the consent of the Investor, which shall not be unreasonably

withheld.

2.2 Filing and Effectiveness of the Registration Statement. The Company will use its best efforts to file with the SEC a Registration Statement registering all of the Registrable Securities requested by Investor pursuant to Section 2.1 for resale within 20 days after the Demand Date and to cause the Registration Statement to be declared effective by the SEC as soon as practicable after filing, and in any event no later than the 90th day after the Demand Date (the "Required Effective Date"). However, so long as the Company filed the applicable Registration Statement within 20 days after the Demand Date, (a) if the SEC takes the position that registration of the resale of the Registrable Securities by Investor is not available under applicable laws, rules and regulation and that the Company must register the offering of the Registrable Securities as a primary offering by the Company, or (b) if a Registration Statement receives SEC review, then the Required Effective Date will be the 120th day after the Demand Date. In the case of an SEC response described in clause (a), the Company will, within 40 business days after the date the Company receives such SEC response, file a Registration Statement as a primary offering. The Company's best efforts will include, but not be limited to, promptly responding to all comments received from the staff of the SEC. If the Company receives notification from the SEC that any Registration Statement will receive no action or review from the SEC, then the Company will file with the SEC a request for acceleration in accordance with Rule 461 promulgated under the Securities Act and cause such Registration Statement to become effective within five business days after such SEC notification. Once a Registration Statement is declared effective by the SEC, the Company will cause such Registration Statement to remain effective throughout the Registration Period, except as permitted under Section 3.

2.3 Piggyback Registrations.

(a) If, at any time prior to the expiration of the Registration Period, (i) a Registration Statement contemplated in Section 2.1 above is not declared effective with respect to all of the Registrable Securities to which it applies and the Company decides to register any of its securities for its own account or for the account of others, or (ii) even if a Registration Statement contemplated in Section 2.1 above is declared effective, if the Company decides to register shares of Common Stock in an underwritten offering for its own account, then the Company will promptly give Investor written notice thereof and will use its best efforts to include in such registration all or any part of the Registrable Securities requested by Investor to be included therein (excluding any Registrable Securities previously included in a Registration Statement which has been declared effective and has not been withdrawn, unless the Company registration is an underwritten offering). This requirement does not apply to Company registrations on Form S-4 or S-8 or their equivalents relating to equity securities to be issued solely in connection with an acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit

plans. Investor must give its request for registration under this paragraph to the Company in writing within 15 days after receipt from the Company of notice of such pending registration. If the registration for which the Company gives notice is a public offering involving an underwriting, the Company will so advise Investor as part of the above-described written notice. In that event, if the managing underwriter(s) of the public offering impose a limitation on the number of shares of Common Stock that may be included in the Registration Statement because, in such underwriter(s)' judgment, such limitation would be necessary to effect an orderly public distribution, then the Company will be obligated to include only such limited portion, if any, of the Registrable Securities with respect to which Investor has requested inclusion hereunder. Any exclusion of Registrable Securities will be made pro rata among all holders of the Company's securities seeking to include shares of Common Stock in proportion to the number of shares of Common Stock sought to be included by those holders. However, the Company will not exclude any Registrable Securities unless the Company has first excluded all outstanding securities the holders of which are not entitled by right to inclusion of such securities in such Registration Statement or are not entitled pro rata inclusion with the Registrable Securities. No registration rights that limit or subordinate the rights of Investor to register the Registrable Securities will be granted by the Company until one or more registration statements covering all of the Registrable Securities have become effective.

(b) No right to registration of Registrable Securities under this Section 2.3 limits in any way the registration required under Section 2.1 above. The obligations of the Company under this Section 2.3 expire upon the earlier of (i) the effectiveness of the Registration Statement filed pursuant to Section 2.1 above covering all of the Registrable Securities, (ii) after the Company has afforded the opportunity for Investor to exercise registration rights under this Section 2.3 for two registrations (provided, however, that if Investor has had any Registrable Securities excluded from any Registration Statement in accordance with this Section 2.3, Investor may include in any additional Registration Statement filed by the Company the Registrable Securities so excluded), (iii) when all of the Registrable Securities held by any Investor may be sold by Investor under Rule 144 without being subject to any volume restrictions, or (iv) the second anniversary of the last date on which Warrant Shares are purchased for cash under any then outstanding portion of the Warrant.

2.4 Eligibility to use Form S-3. The Company represents and warrants that it meets the requirements for the use of Form S-3 for registration of the sale by the Investor of the Registrable Securities. The Company will file all reports required to be filed by the Company with the SEC in a timely manner so as to preserve its eligibility for the use of Form S-3.

ARTICLE III
ADDITIONAL OBLIGATIONS OF THE COMPANY

3.1 Continued Effectiveness of Registration Statement. Subject to the limitations set forth in Section 3.6, the Company will keep the Registration Statement covering the Registrable Securities effective under Rule 415 at all times during the Registration Period. In the event that the number of shares available under a Registration Statement filed pursuant to this Agreement is insufficient to cover all of the Registrable Securities issued, the Company will (if permitted) amend the Registration Statement or file a new Registration Statement (on the short form available therefor, if applicable), or both, so as to cover all of the Registrable Securities. The Company will file such amendment or new Registration Statement as soon as practicable, but in no event later than 20 business days after the necessity therefor arises (based upon the market price of the Common Stock and other relevant factors on which the Company reasonably elects to rely). The Company will use its best efforts to cause such amendment or new Registration Statement to become effective as soon

as is practicable after the filing thereof, but in no event later than 90 days after the date on which the Company reasonably first determines the need therefor.

3.2 Accuracy of Registration Statement. Any Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) filed by the Company covering Registrable Securities will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading. The Company will prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to permit sales pursuant to the Registration Statement at all times during the Registration Period, and, during such period, will comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until the termination of the Registration Period, or if earlier, until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement.

3.3 Furnishing Documentation. The Company will furnish to Investor, or to its legal counsel, (a) promptly after such document is filed with the SEC, one copy of any Registration Statement filed pursuant to this Agreement and any amendments thereto, each preliminary prospectus and final prospectus and each amendment or supplement thereto; and (b) a number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto, and such other documents as the Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by the Investor. The Company will promptly notify by facsimile or email Investor of the effectiveness of the Registration Statement and any post-effective amendment.

3.4 Additional Obligations. The Company will use its best efforts to (a) register and qualify the Registrable Securities covered by a Registration Statement under such other securities or blue sky laws of such jurisdictions as Investor reasonably requests, (b) prepare and file in those jurisdictions any amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain their effectiveness during the Registration Period, (c) take any other actions necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (d) take any other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions. Notwithstanding the foregoing, the Company is not required, in connection with such obligations, to (i) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3.4, (ii) subject itself to general taxation in any such jurisdiction, (iii) file a general consent to service of process in any such jurisdiction, (iv) provide any undertakings that cause material expense or material burden to the Company, or (v) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

3.5 Underwritten Offerings. If Investor selects underwriters reasonably acceptable to the Company for such offering, the Company will enter into and perform its obligations under an underwriting agreement in usual and customary form including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering.

3.6 Suspension of Registration.

(a) The Company will notify (by telephone and also by facsimile and reputable overnight courier) Investor of the happening of any event of which the Company has knowledge as a result of which the prospectus included in the 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, in light of the circumstances under which they were made, not misleading. The Company will make such notification as promptly as practicable (but in no event more than two business days) after the Company becomes aware of the event, will promptly (but in no event more than ten business days) prepare and file a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and will deliver a number of copies of such supplement or amendment to each Investor as Investor may reasonably request.

(b) Notwithstanding the obligations under Section 3.6(a), if in the good faith judgment of the Company, following consultation with legal counsel, it would be detrimental to the Company and its stockholders for resales of Registrable Securities to be made pursuant to the Registration Statement due to the existence of a material development or potential material development involving the Company which the Company would be obligated to disclose in the Registration Statement, but which disclosure would be premature or otherwise inadvisable at such time or would reasonably be expected to have a material adverse effect upon the Company and its stockholders, the Company will have the right to suspend the use of the Registration Statement for a period of not more than thirty (30) days, provided, however, that the Company may so defer or suspend the use of the Registration Statement no more than one time in any twelve-month period.

(c) Subject to the Company's rights under this Section 3, the Company will use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement and, if such an order is issued, will use its best efforts to obtain the withdrawal of such order at the earliest possible time and to notify Investor (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(d) Notwithstanding anything to the contrary contained herein or in the Purchase Agreement, if the use of the Registration Statement is suspended by the Company, the Company will promptly (but in no event more than two business days) give notice of the suspension to Investor, and will promptly (but in no event more than two business days) notify Investor as soon as the use of the Registration Statement may be resumed. Notwithstanding anything to the contrary contained herein or in the Purchase Agreement, the Company will cause the Transfer Agent to deliver unlegended shares of Common Stock to a transferee of Investor in accordance with the terms of the Purchase Agreement in connection with any sale of Registrable Securities with respect to which Investor has entered into a contract for sale prior to receipt of notice of such suspension and for which Investor has not yet settled, unless otherwise prohibited by law.

3.7 Review by Investor. The Company will permit a single firm of legal counsel, designated by Investor ("Investor's Counsel"), to review the Registration Statement and all amendments and supplements thereto (as well as all requests for acceleration or effectiveness thereof) a reasonable amount of time (not to exceed three (3) days) prior to their filing with the SEC, and will not file any document in a form to which such counsel reasonably objects, unless otherwise required by law in the opinion of the Company's counsel. The sections of any such Registration Statement including information with respect to Investor, Investor's beneficial ownership of securities of the Company or Investor's intended method of disposition of Registrable Securities must conform to the information provided to the Company by Investor or Investor's Counsel.

3.8 Comfort Letter; Legal Opinion. At the request of Investor and on the date that Registrable Securities are delivered to an underwriter for sale in connection with the Registration Statement, the Company will furnish to Investor and the underwriters (i) a letter, dated such date, from the Company's independent certified public accountants, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters; and (ii) an opinion, dated such date, from counsel representing the Company for purposes of the Registration Statement, in form and substance as is customarily given in an underwritten public offering, addressed to the underwriters and Investor.

3.9 Due Diligence; Confidentiality.

(a) The Company will make available for inspection by Investor any underwriter participating in any disposition pursuant to the Registration Statement, and any attorney, accountant or other agent retained by any Investor or underwriter (collectively, the "Inspectors"), all pertinent financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records"), as each Inspector reasonably deems necessary to enable the Inspector to exercise its due diligence responsibility. The Company will cause its officers, directors and employees to supply all information that any Inspector may reasonably request for purposes of performing such due diligence.

(b) Each Inspector will hold in confidence, and will not make any disclosure (except to an Investor) of, any Records or other information that the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement, (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, (iii) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement (to the knowledge of the relevant Inspector), (iv) the Records or other information was developed independently by an Inspector without breach of this Agreement, (v) the information was known to the Inspector before receipt of such information from the Company, or (vi) the information was disclosed to the Inspector by a third party without restriction. The Company is not required to disclose any confidential information in the Records to any Inspector unless and until such Inspector has entered into a confidentiality agreement (in form and substance reasonably satisfactory to the Company) with the Company with respect thereto, substantially in the substance of this Section 3.9(b). Each Investor will, upon learning that disclosure of Records containing confidential information is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at the Company's expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein will be deemed to limit the Investor's ability to sell Registrable Securities in a manner that is otherwise consistent with applicable laws and regulations.

(c) The Company will hold in confidence, and will not make any disclosure of, information concerning Investor provided to the Company under this

Agreement unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) information has been made generally available to the public other than by disclosure in violation of this Agreement or any other agreement, (v) the information was disclosed to the Company by a third party without restriction or

(vi) Investor consents to the form and content of any such disclosure. If the Company learns that disclosure of such information concerning Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, the Company will give prompt notice to Investor prior to making such disclosure and allow Investor, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

3.10 Listing. The Company will (i) cause all of the Registrable Securities covered by each Registration Statement to be listed on each national securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) to the extent the securities of the same class or series are not then listed on a national securities exchange, secure the designation and quotation of all of the Registrable Securities covered by each Registration Statement on Nasdaq.

3.11 Transfer Agent; Registrar. The Company will provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

3.12 Share Certificates. The Company will cooperate with Investor and with the managing underwriter(s), if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Registrable Securities to be offered pursuant to a Registration Statement and will enable such certificates to be in such denominations or amounts as the case may be, and registered in such names as the Investor or the managing underwriter(s), if any, may reasonably request, all in accordance with Article V of the Purchase Agreement.

3.13 Plan of Distribution. At the request of Investor, the Company will promptly prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement, and the prospectus used in connection with the Registration Statement, as may be necessary in order to change the plan of distribution set forth in such Registration Statement.

3.14 Securities Laws Compliance. The Company will comply with all applicable laws related to any Registration Statement relating to the offer and sale of Registrable Securities and with all applicable rules and regulations of governmental authorities in connection therewith (including, without limitation, the Securities Act, the Exchange Act and the rules and regulations promulgated by the SEC).

3.15 Further Assurances. The Company will take all other reasonable actions as any Investor or the underwriters, if any, may reasonably request to expedite and facilitate disposition by Investor of the Registrable Securities pursuant to the Registration Statement.

ARTICLE IV
OBLIGATIONS OF THE INVESTOR

4.1 Investor Information. As a condition to the obligations of the Company to complete any registration pursuant to this Agreement with respect to the Registrable Securities of Investor, Investor will furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as is reasonably required by the Company to effect the registration of the Registrable Securities. At least 10 business days prior to the first anticipated filing date of a Registration Statement for any registration under this Agreement, the Company will notify Investor of the information the Company requires from that Investor if the Investor elects to have any of its Registrable Securities included in the Registration Statement. Such information, including, without limitation, the Investor Questionnaire attached hereto as Annex A, shall be delivered to the Company within five business days of such request. If, within three business days prior to the filing date, the Company has not received the requested information from an Investor, then the Company shall call the Investor to notify Investor orally that the Company may exclude Investor's Registrable Securities and the Company may file the Registration Statement without including Registrable Securities of Investor.

4.2 Further Assurances. Investor will cooperate with the Company, as reasonably requested by the Company, in connection with the preparation and filing of any Registration Statement hereunder, unless Investor has notified the Company in writing of Investor's election to exclude all of Investor's Registrable Securities from the Registration Statement.

4.3 Suspension of Sales. Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.6, Investor will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until it receives copies of the supplemented or amended prospectus contemplated by Section 3.6. If so directed by the Company, Investor will deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in the Investor's possession (other than a limited number of file copies) of the prospectus covering such Registrable Securities that is current at the time of receipt of such notice.

ARTICLE V
EXPENSES OF REGISTRATION

The Company will bear all expenses, other than underwriting discounts and commissions, and transfer taxes, if any, incurred in connection with registrations, filings or qualifications pursuant to Articles II and III of this Agreement, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one firm of legal counsel selected by the Investor pursuant to Section 3.7 hereof not to exceed an aggregate of $10,000.

ARTICLE VI
INDEMNIFICATION

In the event that any Registrable Securities are included in a Registration Statement under this Agreement:

6.1 To the extent permitted by law, the Company will indemnify, defend and hold harmless Investor, and agents, employees, attorneys, accountants, underwriters (as defined in the Securities Act) for Investor and any directors or officers of Investor or such underwriter and any person who controls Investor or such

underwriter within the meaning of the Securities Act or the Exchange Act (each, an "Investor Indemnified Person") against any losses, claims, damages, expenses or liabilities (collectively, and together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened in respect thereof, "Claims") to which any of them become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Claims arise out of or are based upon any of the following statements, omissions or violations in a Registration Statement filed pursuant to this Agreement, any post-effective amendment thereof or any prospectus included therein: (a) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any post-effective amendment thereof or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (b) any untrue statement or alleged untrue statement of a material fact contained in the prospectus or any preliminary prospectus (as it may be amended or supplemented) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (c) any violation or alleged violation by the Company of the Securities Act, the Exchange Act or any other law, including without limitation any state securities law or any rule or regulation thereunder (the matters in the foregoing clauses (a) through (c) being, collectively, "Violations"). Subject to the restrictions set forth in Section 6.4 with respect to the number of legal counsel, the Company will reimburse Investor and each such attorney, accountant, underwriter or controlling person and each such other Investor Indemnified Person, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6.1 (i) does not apply to a Claim by an Investor Indemnified Person arising out of or based upon a Violation that occurs in reliance upon and in conformity with information furnished in writing to the Company by Investor Indemnified Person expressly for use in the Registration Statement or any such amendment thereof or supplement thereto, if such prospectus or supplement thereto was timely made available by the Company pursuant to Section 3.3 hereof; and (ii) does not apply to amounts paid in settlement of any Claim if such settlement is made without the prior written consent of the Company, which consent will not be unreasonably withheld. This indemnity obligation will remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Persons and will survive the transfer of the Registrable Securities by the Investor under Article IX of this Agreement.

6.2 In connection with any Registration Statement in which Investor is participating, absent any negligence or intentional misconduct of the Company, Investor will indemnify and hold harmless, to the same extent and in the same manner set forth in Section 6.1 above, the Company, each of its directors, each of its officers who signs the Registration Statement, each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder within the meaning of the Securities Act or the Exchange Act (each a "Company Indemnified Person") against any Claim to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by Investor expressly for use in such Registration Statement. Subject to the restrictions set

forth in Section 6.4 with respect to the number of legal counsel, Investor will promptly reimburse each Company Indemnified Person for any legal or other expenses (promptly as such expenses are incurred and due and payable) reasonably incurred by them in connection with investigating or defending any such Claim. However, the indemnity agreement contained in this Section 6.2 does not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of Investor, which consent will not be unreasonably withheld, and no Investor will be liable under this Agreement (including this Section 6.2 and Article VII) for the amount of any Claim that exceeds the net proceeds actually received by Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement. This indemnity will remain in full force and effect regardless of any investigation made by or on behalf of a Company Indemnified Party and will survive the transfer of the Registrable Securities by the Investor under Article IX of this Agreement.

6.3 If any proceeding shall be brought or asserted against any person entitled to indemnity under Sections 6.1 or 6.2 hereof (an "Indemnified Party"), such Indemnified Party promptly shall notify the person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all reasonable fees and expenses incurred in connection with defense thereof; provided, however, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

6.4 An Indemnified Party shall have the right to employ separate counsel in any such proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Indemnified Parties unless: (i) the Indemnifying Party has agreed in writing to pay such fees and expenses; (ii) the Indemnifying Party shall have failed promptly to assume the defense of such proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such proceeding; or (iii) the named parties to any such proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the reasonable expense of the Indemnifying Party; provided, however, that in no event shall the Indemnifying Party be responsible for the fees and expenses of more than one separate counsel). The Indemnifying Party shall not be liable for any settlement of any such proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on Claims that are the subject matter of such proceeding.

6.5 Subject to the foregoing, all reasonable fees and expenses of the Indemnified Party (including fees and expenses to the extent incurred in connection with investigating or preparing to defend such proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten (10) Business Days of written notice thereof to the Indemnifying Party, which notice shall be delivered no more frequently than on a monthly basis

(regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

ARTICLE VII
CONTRIBUTION

To the extent that any indemnification provided for herein is prohibited or limited by law, the indemnifying party will make the maximum contribution with respect to any amounts for which it would otherwise be liable under Article VI to the fullest extent permitted by law. However, (a) no contribution will be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Article VI (without giving effect to any prohibition or limitation or indemnification under applicable law), (b) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation, and (c) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Registrable Securities will be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

ARTICLE VIII
EXCHANGE ACT REPORTING

In order to make available to the Investor the benefits of Rule 144 or any similar rule or regulation of the SEC that may at any time permit Investor to sell securities of the Company to the public without registration, the Company will:

(a) File with the SEC in a timely manner, and make and keep available, all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements (it being understood that nothing herein limits the Company's obligations under Section 4.3 of the Purchase Agreement) and file and make available of such reports and other documents as required for the applicable provisions of Rule 144; and

(b) Furnish to Investor, so long as Investor holds Registrable Securities, promptly upon the Investor's request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents filed by the Company with the SEC and (iii) such other information as may be reasonably requested to permit the Investor to sell such securities pursuant to Rule 144 without registration.

ARTICLE IX
ASSIGNMENT OF REGISTRATION RIGHTS

The rights of Investor hereunder, including the right to have the Company register Registrable Securities pursuant to this Agreement, may be assigned by Investor to transferees or assignees of all or any portion of the Registrable Securities, but only if (a) Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement

is furnished to the Company within a reasonable time after such assignment, (b) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being transferred or assigned, (c) after such transfer or assignment, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, (d) at or before the time the Company received the written notice contemplated by clause (b) of this sentence, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein, (e) such transfer is made in accordance with the applicable requirements of the Purchase Agreement, and (f) the transferee is an "accredited investor" as that term is defined in Rule 501 of Regulation D.

ARTICLE X
AMENDMENT OF REGISTRATION RIGHTS

This Agreement may be amended and the obligations hereunder may be waived (either generally or in a particular instance, and either retroactively or prospectively) only with the written consent of the Company and Investor. Any amendment or waiver effected in accordance with this Article X is binding upon each Investor and the Company.

ARTICLE XI
RESTRICTIVE PROVISIONS

11.1 Lock-Up Agreement.

(a) Investor hereby agrees that it will not (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Registrable Securities or securities convertible into or exchangeable or exercisable for any Registrable Securities, (ii) enter into a transaction which would have the same effect, (iii) enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Registrable Securities, whether any such aforementioned transaction is to be settled by delivery of the Registrable Securities or such other securities, in cash or otherwise, or (iv) publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement (unless, without in any way limiting the restrictions in clauses (i) through (iii) above, in the reasonable judgment of Investor, such disclosure is required under Schedule 13D under the Exchange Act, or by other legal or regulatory requirement).

(b) The restrictions set forth in Article XI, Section 11.1(a) shall lapse on the six (6) month anniversary of the Closing Date.

11.2 Standstill Agreement. For a period commencing with the date of this Agreement and ending on the earlier of (i) the date two (2) years after the date of this Agreement or (ii) the Termination Date (as defined below) (the "Standstill Period"), Investor shall not, without the prior written consent of the Company or the Company's Board of Directors: (a) acquire, offer to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, voting securities or direct or indirect rights to acquire any voting securities (A) during such time that Investor beneficially owns (for purposes of Section 13(d) of the Exchange Act) five percent (5%) or more of the voting power of the Company, or (B) which when added to the Shares then owned by Investor and its subsidiaries, would result in Investor and its subsidiaries beneficially owning (for purposes of Section 13(d) of the Exchange Act) of more than five percent (5%) of the voting power of the Company; (b) make, or in

any way participate, directly or indirectly, in any "solicitation" of "proxies" to vote (as such terms are used in the Exchange Act), or seek to advise or influence any person or entity with respect to the voting of any voting securities of the Company; (c) make any public announcement with respect to, or submit a proposal for, or offer of (with or without conditions) any merger, business combination, recapitalization, restructuring or other extraordinary transaction involving the Company or any of its securities or material assets; (d) form, join or in any way participate in a "group" as defined in Section 13(d)(3) of the Exchange Act in connection with any of the foregoing; (e) otherwise act or seek to control or influence the management, Board of Directors or policies of the Company; (f) take any action that could reasonably be expected to require the Company to make a public announcement regarding the possibility of any of the events described in clauses (a) through (e) above; or (g) publicly request the Company, directly or indirectly, to amend or waive any provision of this paragraph. For the purposes of this paragraph, the "Termination Date" shall mean the earliest of (i) the date on which the Company (A) enters into a definitive agreement with an unaffiliated third party or parties to merge, consolidate or otherwise combine, with such third party or parties in a transaction where the holders of the Company's outstanding shares immediately prior to such merger or consolidation would hold, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of the combined or surviving entity immediately after such merger or consolidation, or to sell substantially all of the Company's business or assets or securities representing a majority of the then outstanding voting power of the Company's securities, or (B) makes a public announcement that it is negotiating a transaction with an unaffiliated third party or parties covered by the foregoing clause (A), or (ii) the date a third party or group (as defined above) (X) acquires beneficial ownership of voting securities (including those convertible or exchangeable into such voting securities) of the Company representing fifteen percent (15%) or more of the then outstanding voting securities of the Company; or (Y) announces or commences a tender or exchange offer to acquire voting securities of the Company which, if successful, would result in such person or group owning, when combined with any other voting securities of the Company owned by such person or group, fifteen percent (15%) or more of the then outstanding voting securities of the Company.

11.3 Underwritten Offerings. Investor agrees that in the event the Company proposes to file a Registration Statement for an underwritten public offering of its securities, upon the request of the underwriters managing such public offering, provided Investor beneficially owns five percent (5%) or more of the Company's Common Stock as of the date of such request, Investor will execute a customary lock-up agreement, whereby Investor shall agree not to sell or otherwise dispose the Registrable Shares without the prior written consent of the underwriters for a period not to exceed ninety (90) days from the effective date of the Registration Statement.

ARTICLE XII
MISCELLANEOUS

12.1 Conflicting Instructions. A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company will act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

12.2 Notices. Any notices required or permitted to be given under the terms of this Agreement will be given as set forth in the Purchase Agreement.

12.3 Waiver. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, does not operate as a waiver thereof.

12.4 Governing Law. This Agreement will be governed by and interpreted in accordance with the laws of the State of New York without regard to the principles of conflict of laws. The parties hereto hereby submit to the exclusive jurisdiction of the United States federal and state courts located in the State of New York with respect to any dispute arising under this Agreement, the agreements entered into in connection herewith or the transactions contemplated hereby or thereby. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT THAT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY.

12.5 Severability. If any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision will be deemed modified in order to conform with such statute or rule of law. Any provision hereof that may prove invalid or unenforceable under any law will not affect the validity or enforceability of any other provision hereof.

12.6 Entire Agreement. This Agreement and the Purchase Agreement (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof.

12.7 Successors and Assigns. Subject to the requirements of Article IX hereof, this Agreement inures to the benefit of and is binding upon the successors and assigns of each of the parties hereto. Notwithstanding anything to the contrary herein, including, without limitation, Article IX, the rights of an Investor hereunder are assignable to and exercisable by a bona fide pledgee of the Registrable Securities in connection with an Investor's margin or brokerage accounts.

12.8 Headings. The headings of this Agreement are for convenience of reference only, are not part of this Agreement and do not affect its interpretation.

12.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which is deemed an original but all of which constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission, and facsimile signatures are binding on the parties hereto.

12.10 Further Assurances. Each party will do and perform, or cause to be done and performed, all such further acts and things, and will execute and deliver all other agreements, certificates, instruments and documents, as another party 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.

12.11 Consents. Unless otherwise provided in this Agreement, all consents and other determinations to be made by the Investor pursuant to this Agreement will be made by the Investor holding a majority in interest of the Registrable Securities.

12.12 No Strict Construction. The language used in this Agreement is deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

IN WITNESS WHEREOF, the undersigned Investor and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

COMPANY:

SONUS PHARMACEUTICALS, INC.

By: /s/ Michael A. Martino
Name: Michael A. Martino
Title: President and CEO

INVESTOR:

SCHERING AG

By: /s/ Hubertus Erlen
Name: Hubertus Erlen
Title:

By: /s/ Ulrich Koestlin
Name: Ulrich Koestlin

Title: _____

SCHERING BERLIN VENTURE CORPORATION

By: /s/ Lutz Lingnau
Name: Lutz Lingnau
Title: _____

ANNEX A

Sonus Pharmaceuticals, Inc.

Selling Securityholder Notice and Questionnaire

The undersigned beneficial owner of common stock, $.001 par value per share (the "Common Stock"), of Sonus Pharmaceuticals, Inc. (the "Company"), (the "Registrable Securities") understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (the "Registration Statement") for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement, dated as of October 17, 2005 (the "Registration Rights Agreement"), among the Company and the Investor named therein. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

Certain legal consequences arise from being named as a selling securityholder in the Registration Statement and the related prospectus. Accordingly, holders and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Registration Statement and the related prospectus.

NOTICE

The undersigned beneficial owner (the "Selling Securityholder") of Registrable Securities hereby elects to include the Registrable Securities owned by it and listed below in Item 3 (unless otherwise specified under such Item 3) in the Registration Statement.

The undersigned hereby provides the following information to the Company and represents and warrants that such information is accurate:

QUESTIONNAIRE

1. Name.

(a) Full Legal Name of Selling Securityholder

(b) Full Legal Name of Registered Holder (if not the same as (a) above) through which Registrable Securities Listed in Item 3 below are held:

(c) Full Legal Name of Natural Control Person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the securities covered by the questionnaire):

2. Address for Notices to Selling Securityholder:

Telephone:
Fax:
Contact Person:

3. Beneficial Ownership of Registrable Securities:

(a) Type and Amount of Registrable Securities beneficially owned:

4. Broker-Dealer Status:

(a) Are you a broker-dealer?

Yes ☐ No ☐

Note: If yes, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

(b) Are you an affiliate of a broker-dealer?

Yes ☐ No ☐

(c) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?

Yes ☐ No ☐

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

5. Beneficial Ownership of Other Securities of the Company Owned by the Selling Securityholder.

Except as set forth below in this Item 5, the undersigned is not the beneficial or registered owner of any securities of the Company other than the Registrable Securities listed above in Item 3.

(a) Type and Amount of Other Securities beneficially owned by the Selling Securityholder:

6. Relationships with the Company:

Except as set forth below, neither the undersigned nor any of its affiliates, officers, directors or principal equity holders (owners of 5% of more of the equity securities of the undersigned) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof at any time while the Registration Statement remains effective.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Items 1 through 6 and the inclusion of such information in the Registration Statement and the related prospectus. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated: _____ Beneficial Owner: _____

By: _____
Name:
Title:

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-80623, No. 333-36093, No. 333-56933, No. 333-87897, No. 333-49892, and No. 333-56704) pertaining to the Sonus Pharmaceuticals, Inc., Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan-1991, 1995 Stock Option Plan for Directors, Employee Stock Purchase Plan, 1999 Nonqualified Stock Incentive Plan, 2000 Stock Incentive Plan and 401(k) Profit Sharing Plan and Trust and in the Registration Statements (Form S-3 No. 333-115876, No. 333-64966, No. 333-82414, No. 333-107987, No. 333-123763, and No. 333-128030) pertaining to the registration for resale of shares of common stock of Sonus Pharmaceuticals, Inc. and in the related Prospectuses of our reports dated March 14, 2006, with respect to the financial statements of Sonus Pharmaceuticals, Inc., Sonus Pharmaceuticals, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Sonus Pharmaceuticals, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Seattle, Washington
March 14, 2006

EXHIBIT 31.1

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

I, Michael A. Martino, certify that:

1. I have reviewed this annual report on Form 10-K of Sonus Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/ Michael A. Martino
Michael A. Martino
President and Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

I, Alan Fuhrman, certify that:

1. I have reviewed this annual report on Form 10-K of Sonus Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and U.S.C. Section 1350

I, Michael A. Martino, President and Chief Executive Officer of Sonus Pharmaceuticals, Inc. (the "Company"), certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2006

/s/ Michael A. Martino
Michael A. Martino
President and Chief Executive Officer

EXHIBIT 32.2

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and U.S.C. Section 1350

I, Alan Fuhrman, Senior Vice President and Chief Financial Officer of Sonus Pharmaceuticals, Inc. (the "Company"), certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2006

/s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President and Chief
Financial Officer