SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

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 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 [X] 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. [ ]

As of March 4, 2002 the aggregate market value of the registrant's Common Stock held by non-affiliates of the Registrant was $73,086,102 based on the closing sales price of $5.45 per share of the Common Stock as of such date, as reported by The Nasdaq National Market. As of March 4, 2002, 13,636,499 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 2002 Annual Meeting of Stockholders to be held on April 23, 2002 are incorporated by reference in Items 10, 11, 12, and 13 of Part III hereof.

TABLE OF CONTENTS

Sonus Pharmaceuticals, Inc.
Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Sonus Pharmaceuticals is a company focused on the development of therapeutic drugs utilizing our proprietary drug delivery technology. Based on our expertise in emulsion formulations, we have developed the TOCOSOL™ drug delivery technology platform to formulate injectable drugs that are poorly soluble in water. Using our TOCOSOL technology, we are focusing our research and development efforts on a cancer therapy product, TOCOSOL Paclitaxel (S-8184), and we are also evaluating a variety of other drug candidates in areas that target cancer, diabetes, bacterial infections and cardiovascular diseases. See "Products Under Development" section below for further discussion of our products.

TOCOSOL Drug Delivery Technology

We have developed the initial application of our TOCOSOL drug delivery technology to formulate injectable therapeutic drugs that are poorly soluble in water with the goal of developing products that can be administered more easily to patients, with fewer side effects and equivalent or higher efficacy. In addition to drugs that are poorly soluble in water, the TOCOSOL technology may also be used in future applications to formulate oral dosage forms of hydrophilic (water based) drugs to improve the therapeutic utility. The TOCOSOL technology uses vitamin E oil (tocopherol) to deliver the drugs and tocopherol-based surfactants to control the size of the drug delivery particles and to make the particles more compatible with the human body. Our strategy for the application of the TOCOSOL drug delivery technology is:

- To develop proprietary new formulations of currently marketed drugs that are generic or which are coming off patent protection;
- To collaborate with other pharmaceutical companies to provide drug delivery solutions for their new or existing drug substances that have known formulation challenges or which need life cycle extensions; and
- To continually develop novel and enhanced components of the technology to expand the applicability to new therapeutic uses and dosage forms, such as oral and topical applications.

Products Under Development

Investigational New Drug Application Products

TOCOSOL Paclitaxel (S-8184). The first application of our TOCOSOL drug delivery technology is an injectable paclitaxel emulsion formulation, TOCOSOL Paclitaxel. Paclitaxel is the active ingredient in the world's leading cancer drug, Taxol®, which is approved in the U.S. for the treatment of breast, ovarian and non-small cell lung tumors. We filed an Investigational New Drug Application, or IND, with the U.S. Food and Drug Administration in September 2000 and initiated a Phase 1 human clinical study in December 2000. To date, we have enrolled patients with a wide variety of cancers as well as mesothelioma and leiomyoma. We are encouraged by preliminary results that suggest that TOCOSOL Paclitaxel may provide safety and convenience advantages for both patients and physicians including a reduction in side effects, a reduction or elimination of steroid premedications and a reduction in the administration time using a ready-to-use formulation in a single, quick injection administered in less than 15 minutes compared to the three-hour infusion of existing formulations of paclitaxel. Based on our Phase 1 study to date, we also believe there may be potential efficacy benefits of TOCOSOL Paclitaxel that may result from higher concentrations of the drug delivered to the tumor and higher sustained dose density within the tumor. However, the Phase 1 study is primarily designed to evaluate safety and clinical pharmacology, not efficacy, and there can be no assurance that Phase 2 studies will demonstrate higher efficacy than currently marketed products.

The Phase 1 study is designed to determine the maximum tolerated dose for heavily pretreated patients (patients who have had three or more chemotherapy treatments prior to the study) and from minimally pretreated patients (who have had two or fewer prior chemotherapy treatments). We expect to complete the Phase 1 study by mid-2002. In addition, we are initiating Phase 2 studies, targeting non small cell lung, ovarian, bladder and colorectal cancers in patients that have not previously had taxane chemotherapy treatments. Due to the prevalence of taxane therapy in the United States and Europe for these cancers, these studies are being initiated in countries where taxanes are not generally available to patients. We expect the first patients in these Phase 2 studies will be enrolled by the end of the first quarter of 2002 with enrollment continuing through mid 2003. We also plan to initiate Phase 1 pharmacokinetic studies in late 2002.

Data from the Phase 1 study on TOCOSOL Paclitaxel was presented at the American Association for Cancer Research International Conference in October 2001 and at the Chemotherapy Foundation Symposium in November 2001. Data from the Phase 1 study to date indicate that TOCOSOL Paclitaxel can be delivered in less than 15-minute bolus dose compared to the three-hour infusion required with Taxol. In tests measuring levels of paclitaxel in blood, a bolus injection of TOCOSOL Paclitaxel resulted in higher peak drug concentrations, higher total drug exposure and slower clearance times compared with published literature for a three-hour infusion of Taxol.

As of January 2002, we had enrolled 25 patients in the Phase 1 study. Of these patients, 17 are evaluable. The first 6 patients enrolled at doses from 25 mg/m^2 to 125 mg/m^2 did not respond (continued progressive disease). Of the next 11 patients enrolled at doses from 125 mg/m^2 to 225 mg/m^2, 8 had responses as follows: two with a partial response (reduction in tumor area > 50%), two with a minor response (reduction in tumor area $\leq$ 50%) and four with a stable disease (no increase in tumor size). Response Evaluation Criteria in Solid Tumors (RECIST) were used for response evaluation.

Dose escalation in the Phase 1 study is continuing, and the maximum tolerated dose of TOCOSOL Paclitaxel and its associated dose limiting toxicity is still to be determined. Side effects seen to date include transient Grade 4 neutropenia (a decrease in white cell count) in two patients and transient Grade 3 febrile neutropenia in one patient. There has been no severe (Grade 3 or greater) neuropathy, which is a numbness or tingling usually in the hands or feet.

Formulation Development and Preclinical Products

Consistent with our strategy to develop a pipeline of proprietary new formulations of drug candidates, we are evaluating a variety of therapeutic drug formulations utilizing our TOCOSOL drug delivery technology. As of January 2002, we had formulations under investigation in areas that target cancer, diabetes, bacterial infections, and cardiovascular diseases. In addition to injectable dosage forms, we are also seeing preliminary evidence supporting oral administration using the TOCOSOL technology platform in certain of these compounds. Our objective is to file two Investigational New Drug (IND) applications by the end of 2002. Our investigation and research and development efforts on these are preliminary and we cannot give any assurance that any of these compounds will be successful or that IND ‘s will be filed.

TOCOSOL Amiodarone (S-2646). Consistent with our strategy to apply our TOCOSOL drug delivery technology to intravenous marketed drugs that are generic and/or have patents expiring, TOCOSOL Amiodarone is a reformulation of an intravenous cardiac drug, amiodarone, that is marketed for the treatment of acute ventricular arrhythmias, and specifically unstable ventricular tachycardia, which is a rapid, uncontrolled and life-threatening heart rhythm. The currently marketed form of the drug may have side effects, namely hypotension (low blood pressure) and venous irritation, that may limit the drug's effectiveness when administered in emergency situations outside the hospital. TOCOSOL Amiodarone is being tested to determine whether the application of our TOCOSOL drug delivery technology will lower the toxicity of the resulting formulation, which could allow faster administration of the crucial, initial therapeutic dose of the drug in emergency medical situations. Preclinical studies are on-going and we continue to explore potential collaborations for this product.

Fluorocarbon Gas Emulsion (S-9156). We are also undertaking limited development efforts for a synthetic oxygen delivery product, S-9156, for use in therapeutic applications. This product utilizes stabilized fluorocarbon gas microbubbles for transporting oxygen to the body's tissues. In preclinical studies, S-9156 was shown to carry large volumes of oxygen adequate to sustain life at doses that are many times lower than liquid fluorocarbon products that are currently under development by others. Preclinical studies with S-9156 are on-going and we plan to pursue a business development collaboration for this product in 2002. We do not plan to undertake clinical studies for this product unless we can enter into a collaboration with a third party who would fund the studies.

Market Overview

Our products are for the most part in early stages of development and it is difficult to evaluate the potential markets for these products as the areas of potential application are diverse and specific applications are yet to be determined. Overall, we operate in the drug delivery market sector. The drug delivery market was reported to be nearly $40 billion in 2000. Of that, nearly 75% is dedicated to the development of oral and injectable dosage forms. Drug delivery technology serves an increasingly important need in pharmaceutical development. The major pharmaceutical companies face an extremely competitive market, are under increasing pressure to introduce new products, and are facing loss of patent protection for a significant number of major revenue-producing drugs in their portfolios. New drug delivery technologies provide opportunities for overcoming formulation challenges with promising active pharmaceutical ingredients, for establishing product differentiation, for extending product life cycles, and for providing additional patent protection for key products.

Our lead product, TOCOSOL Paclitaxel, is a cancer therapy product. It is currently being studied in a Phase 1 clinical trial and initiation of Phase 2 clinical studies is expected in early 2002. 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 556,000 Americans are expected to die of cancer in 2002. Since 1990, approximately 16 million new cases have been diagnosed and about 5 million lives have been lost to cancer. The National Institutes of Health estimated the direct medical cost of cancer to be $56 billion in 2001.

Cancer is characterized by rapid, uncontrolled cell division resulting in the growth of an abnormal mass of cells generally referred to as a tumor. Cancerous tumors can arise in almost any tissue or organ and cancer cells, if not eradicated, spread, or metastasize, throughout the body. As these tumors grow, they cause damage to the surrounding tissue and organs and potentially even death if left untreated. Cancer is believed to occur as a result of a number of hereditary and environmental factors.

Despite the resources spent on cancer and the many advances that have been made to date, current treatments for many tumors are often inadequate and improved cancer treatment drugs are still needed. Current treatments for cancer include surgery, radiation, chemotherapy and immunotherapy. Surgery and radiation therapy treat cancer at its source but are limited by the location of the tumor as certain tissues cannot be removed surgically and/or are too sensitive to tolerate radiation. Moreover, cancers frequently spread prior to detection, and surgery and radiation may not control metastases. Chemotherapy typically causes damage to normal tissue as the drugs used are toxic by nature and are not able to selectively target the cancerous cells. A further limitation is the evolution of chemotherapy resistant cancer cells.

Manufacturing

We are currently conducting development studies and analytical testing at our facilities in Bothell, Washington as part of our ongoing research and development. We utilize the University of Iowa as the Food & Drug Administration (FDA)-certified institution to manufacture TOCOSOL Paclitaxel and other products under current Good Manufacturing Practice (GMP) requirements for our use in preclinical and clinical studies. In the event that we receive FDA approval for one or more of our products, we anticipate that we would either contract with one or more third parties to manufacture our products or invest in the scale-up of our own manufacturing facility. We are currently engaged in discussions with potential manufacturing partners for TOCOSOL Paclitaxel and our objective is to finalize a manufacturing source in 2002. The key ingredient for this product is paclitaxel. We have entered into a supply agreement with Indena SpA for the supply of GMP grade paclitaxel.

Research and Development

We currently conduct research and development activities at our facilities. We also engage in certain research, preclinical studies and clinical development efforts at universities and other institutions. Our primary research and development efforts are currently directed at the development and application of the TOCOSOL Drug Delivery Technology Platform with respect to TOCOSOL Paclitaxel and other compounds currently under development.

We incurred expenses of approximately $5.2 million, $3.7 million and $6.3 million on research and development in fiscal 2001, 2000 and 1999, respectively. 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 diagnostic or therapeutic use, mandatory procedures and safety standards established by the FDA in the U.S. and comparable agencies in other countries must be followed.

The standard process required by the FDA before a pharmaceutical agent may be marketed in the U.S. includes the following steps:

(i) Preclinical studies including laboratory evaluation and animal studies to test for initial safety and efficacy;

(ii) Submission to the FDA of an Investigational New Drug Application, or IND, which must become effective before human clinical trials may commence;

(iii) Adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug in its intended application;

(iv) Submission to the FDA of a New Drug Application, or NDA, which application is not automatically accepted by the FDA for consideration; and

(v) FDA approval of the NDA prior to any commercial sale or shipment of the drug.

In addition to obtaining FDA approval for each product, each domestic drug-manufacturing establishment must be registered or licensed by the FDA for each product that is manufactured at that facility. U.S. manufacturing establishments are subject to inspections by the FDA and by other Federal, state and local agencies and must comply with Good Manufacturing Practices, or GMP, requirements applicable to the production of pharmaceutical drug products.

Preclinical studies include laboratory evaluation of product chemistry and animal studies to assess the potential safety and efficacy of the product and its formulation. The results of the preclinical studies are

submitted to the FDA as part of an IND, and unless the FDA objects, the IND will become effective 30 days following its receipt by the FDA.

Clinical trials involve the administration of the drug to healthy volunteers and/or to patients 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 the FDA as part of the IND. Each clinical study is approved and monitored by an independent Institutional Review Board or Ethics Committee at each clinical site who will consider, among other things, ethical factors, informed consents, the safety of human subjects and the possible liability of the institution conducting a clinical 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 safety and clinical pharmacology such as metabolism. Phase 2 involves detailed evaluation of safety and efficacy of the drug in patients with the disease or condition being studied. Phase 3 trials consist of larger scale evaluation of safety and efficacy and usually require greater patient numbers and multiple clinical trial sites, depending on the clinical indications for which marketing approval is sought.

The process of completing clinical testing and obtaining FDA approval for a new product is likely to take a number of years and require the expenditure of substantial resources. The FDA may grant an unconditional approval of a drug for a particular indication or may grant approval conditioned on further post-marketing testing. The FDA also may conclude that the submission is not adequate to support an approval and may require further clinical and preclinical testing, re-submission of the NDA, and further review. Even after initial FDA approval has been obtained, further studies may be required to provide additional data on safety or to gain approval for the use of a product for clinical indications other than those for which the product was approved initially. Also, the FDA may require post-market testing and surveillance programs to monitor the drug’s efficacy and side effects.

Marketing of pharmaceutical products outside of the U.S. are subject to regulatory requirements that vary widely from country to country. In the European Union, the general trend has been towards coordination of the common standards for clinical testing of new drugs. 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. varies widely. The time required to obtain regulatory approval from comparable 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 present and possible future local, state, federal and other jurisdiction regulations.

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. Several other companies are developing paclitaxel reformulations with a goal of delivering a more effective and tolerable therapy than the approved product, Taxol, or its generic equivalent. Companies that have paclitaxel reformulations in clinical trials include American Biosciences, Inc., Cell Therapeutics, Inc., Enzon, Inc., NeoPharm, Inc., and Protarga, Inc. Some of these products are further in development than TOCOSOL Paclitaxel and may achieve regulatory approval before TOCOSOL Paclitaxel. We expect that competition will be based on safety, efficacy, ease of administration, breadth of approved indications, reimbursement, and physician and patient acceptance.

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.

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 drug delivery technology;
- 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.

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 many of our inventions, we are also seeking patent protection in other countries in order to protect our proprietary rights to inventions. 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 patents, defend patents and protect trade secrets. As of February 2002, we have filed 18 patent applications in the U.S. pertaining to our TOCOSOL drug delivery technology as well as counterpart filings in Europe and key countries in Asia and Latin America. As of February 2002, all of these patent applications are currently in process and have not been issued by the United States or foreign Patent and Trademark Offices, although we have received notice of allowable claims. 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 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 or administrative proceedings 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. A significant portion of our drug delivery products is based upon extending the effective patent life of existing products through the use of our proprietary technology. See "Legal Proceedings" and "Certain Factors That May Affect Our Business and Future Results — *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 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. See "Legal Proceedings" and "Certain Factors That May Affect Our Business and Future Results — *Our commercial success will depend in part on not infringing patents issued to competitors."*

We have obtained a registered trademark for our corporate name and our TOCOSOL trademark in the U.S. and certain other countries. 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. 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.

In connection with the refocusing of our corporate strategy away from ultrasound contrast agent products, we entered into an agreement with Nycomed Amersham (now known as Amersham Biosciences) in August 2001 whereby we assigned substantially all of our ultrasound contrast intellectual property assets to Amersham for $6.5 million. As part of the agreement, we also assigned to Amersham our interest in the ultrasound contrast patent license agreement entered into with Chugai Pharmaceuticals Co. Ltd. (Chugai) in January 2001. In addition, as part of the agreement, Amersham granted us an exclusive license back to use the patents sold to Amersham for certain biomedical purposes.

Product Liability

The clinical testing, manufacturing and marketing of our products may expose us to product liability claims. We maintain liability insurance for possible claims arising from the use of our products in clinical trials with limits of $5.0 million per claim and in the aggregate. 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 are approved by the FDA, 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, 2002, we had 34 employees, 21 engaged in research and development, regulatory, clinical and manufacturing activities, and 13 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.

Certain Factors That May Affect Our Business and Future Results

This report contains forward looking statements which are based upon management's current beliefs and judgment. These statements and our business are subject to a number of risks and uncertainties, some of which are discussed below. Other risks are presented elsewhere in this report. You should consider the all risks carefully in addition to the other information contained in this report before purchasing shares of our common stock. If any of the following risks actually 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.

If we fail to develop 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 drug delivery products. Our drug delivery technology, TOCOSOL, is a new 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 TOCOSOL Paclitaxel or any of our other current products under development or any future product will be safe or efficacious.

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. While it is our strategy to develop additional products under our drug delivery technology by entering into feasibility study agreements with companies who own active compounds, there can be no assurance that we will enter into any feasibility studies. Moreover, there can be no assurance that these feasibility studies will result in development or license agreements. Without feasibility studies or development or license agreements, we may need to scale back or terminate our efforts to develop other products using our drug delivery technology.

We have a history of operating losses, 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. We reported net income of $542,000 for the year ended December 31, 2001, incurred a net loss of $2.1 million for the year ended December 31, 2000 and net income of $435,000 for the year ended December 31, 1999. As of December 31, 2001, our accumulated deficit totaled $28.7 million. We anticipate that our operating losses will continue as we further invest in research and development for our products. We will not generate any product revenues unless and until we receive regulatory approval which will not occur in the near future. Even if we generate significant product 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:

- The timing and costs of clinical trials and regulatory approvals;
- Entering into new collaborative or product license agreements;
- The timing of payments, if any, under collaborative partner agreements; and
- Costs related to obtaining, defending and enforcing patents.

Governmental regulatory requirements are lengthy and expensive and failure to obtain necessary approvals will prevent us or our collaborators 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 file an application with 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 drug delivery products are subject to significant uncertainty because they are in the early stages of development and are subject to regulatory approval. We have filed an Investigational New Drug Application, or IND, with the FDA and initiated a Phase I human clinical study for the first application of our TOCOSOL Paclitaxel drug delivery technology. We expect to complete the initial Phase I study with TOCOSOL Paclitaxel in mid-2002 and initiate Phase 2 studies in early 2002. There can be no assurance that the clinical studies will demonstrate that TOCOSOL Paclitaxel will be safe or efficacious or that we will file a new drug application. We are also currently engaged in pre-clinical testing of a formulation of our TOCOSOL drug delivery product for cardiovascular treatment and our oxygen delivery product. The results of pre-clinical 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 affect on our business, financial condition and results of operations. We cannot predict if or when any of our products under development will be commercialized.

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

We are dependent, or 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. If we are unable to establish these arrangements with third parties, if they are terminated or the collaborations are not successful, we will be required to identify alternative partners to fund or perform research, clinical development, manufacturing, marketing, sales and/or distribution, which could 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 any potential partner 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.

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.

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

Our development efforts to date have consumed and will continue to require substantial amounts of cash, and we have generated only limited revenues from payments received from our contractual agreements and from the assignment of substantially all of our ultrasound contrast intellectual property. Based on our current operating plan, including planned clinical trials and other product development costs, we estimate that existing cash and marketable securities, will be sufficient to meet our cash requirements through 2003. However, we will need substantial additional capital to complete the development of TOCOSOL Paclitaxel and to meet our other cash requirements in the future. Our future capital requirements depend on many factors including:

- Our ability to obtain and retain funding from third parties under contractual agreements;
- Our progress on research and development programs and clinical trials;
- The time and costs required to gain regulatory approvals;
- The costs of manufacturing our products;
- The costs of marketing and distributing our products, if approved;
- The costs of filing, prosecuting and enforcing patents, patent applications, patent claims and trademarks;
- The status of competing products; and
- The market acceptance and third-party reimbursement of our products, if approved.

Any future 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, we may have to reduce our expenditures, scale back our development of new products or license to others products that we otherwise would seek to commercialize ourselves.

The healthcare industry is extremely competitive, and if we fail to compete effectively, it would negatively impact our business.

The healthcare industry in general is characterized by extensive research efforts and rapid technological change. 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 in these fields will be based primarily on:

- Efficacy;
- Safety;
- Ease of administration;
- Breadth of approved indications; and
- Physician, healthcare payer and patient acceptance.

Several other companies are developing paclitaxel reformulations with a goal of delivering a more effective and tolerable therapy than the approved product, Taxol, or its generic equivalents. Companies that have paclitaxel reformulations in clinical trials include American Biosciences, Inc., Cell Therapeutics, Inc., Enzon, Inc., NeoPharm, Inc., and Protarga, Inc. Some of these products are further in development than TOCOSOL Paclitaxel and may achieve regulatory approval before TOCOSOL Paclitaxel. We expect that competition will be based on safety, efficacy, ease of administration, breadth of approved indications, reimbursement, and physician and patient acceptance.

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 medical products. Accordingly, these competitors may succeed in obtaining FDA approval for their products more rapidly than us. 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 delivery and oxygen delivery products. Currently, Indena is our primary supplier of paclitaxel, the main 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. We currently do not have a commercial manufacturing supplier of TOCOSOL Paclitaxel. We are engaged in discussions with potential manufacturing partners and our objective is to enter into a manufacturing supply agreement in 2002. There is no assurance, however, that we will be successful in entering into any such relationship. 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. If we are not able to identify and qualify contract manufacturers, we may not be able to produce the required amount of our products for research and development and clinical trials. Failure to retain qualified suppliers and manufacturers will delay our research and development efforts as well as the time it takes to commercialize our products, which could materially adversely affect our business, financial condition and results of operations.

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 February 2002, we had 18 patent applications filed in the United States pertaining to our TOCOSOL drug delivery technology as well as counterpart filings in Europe 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 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.

The success of our products will depend on the acceptance of our products by third party payers.

Our ability to successfully commercialize products that we develop will depend, in part, upon the extent to which reimbursement of the cost of such products will be available from domestic and international health administration authorities, private health insurers and other payer organizations. Third party payers are increasingly challenging the price of medical and pharmaceutical products and services or restricting the use of certain procedures in an attempt to limit costs. Further, significant uncertainty exists as to the reimbursement status of newly approved healthcare products, and there can be no assurance that adequate third party coverage will be available.

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. 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. We do not have employment contracts with any of our key personnel and we do not maintain insurance policies that would compensate us for the loss of their services. 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.

Failure to satisfy Nasdaq National Market Listing requirements may result in our 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 net tangible assets of at least $4.0 million, a minimum bid price of $1.00 per share, and a market value of our public float of at least $5.0 million. Effective November 1, 2002, we must maintain stockholders' equity of at least $10.0 million or market capitalization of at least $50.0 million for continued inclusion on The Nasdaq National Market. 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 is delisted from The Nasdaq National Market, trading of our common stock, if any, would be conducted in the over-the-counter market in the so-called "pink sheets" or, if available, the NASD's "Electronic Bulletin Board." As a result, stockholders could find it more difficult to dispose of, or to obtain accurate quotations as to the value of, our common stock, and the trading price per share could be reduced.

The value of our common stock could change significantly over a short period of time.

The market price of our common stock has fluctuated significantly. In the first quarter of 2001, the price of our common stock closed as high as $2.84 per share and as low as $.58 per share. In the second quarter of 2001, the price of our common stock closed as high as $3.68 per share and as low as $.94 per share. In the third quarter of 2001, the price of our common stock closed as high as $4.50 per share and as low as $2.85 per share. In the fourth quarter of 2001, our common stock closed as high as $8.31 per share and as low as $3.75 per share. The market price of our common stock may continue to fluctuate significantly and these fluctuations may be unrelated to operating performance. Announcements by us or our perceived competitors concerning clinical trial results, technological innovations, new products, proposed governmental regulations or actions, developments or disputes relating to patents or other proprietary rights, and other factors that affect the market generally could significantly impact our business and the market price of our common stock.

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 expiration date is July 2007 and includes an option to extend the term of the lease for three years. We believe that this facility will be adequate to meet our projected needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

In July 2000, DuPont Pharmaceuticals Company and certain Dupont-related entities filed a complaint in the United States District Court for the District of Massachusetts against us and certain Nycomed Amersham-related entities. Under a prior agreement with Nycomed, Nycomed has the right to enforce the patents in the field of non-perfluoropentane ultrasound contrast agents on behalf of Nycomed and us, at Nycomed's expense. This litigation was dismissed pursuant to a settlement agreement in November 2001 with no obligation of the Company or consideration paid to the Company.

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, 2001.

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 February 7, 2002, there were 148 stockholders of record and approximately 6,700 beneficial stockholders of our Common Stock. The high and low sales prices of our common stock as reported by Nasdaq for the eight quarters ended December 31, 2001 are as follows:

	High	Low
2001		
First Quarter	$ 3.25	$0.53
Second Quarter	3.80	0.94
Third Quarter	4.60	2.60
Fourth Quarter	8.80	3.40
2000		
First Quarter	$11.25	$2.42
Second Quarter	4.75	2.50
Third Quarter	4.75	3.16
Fourth Quarter	4.00	0.41

On January 18, 2002, we sold 1,929,000 shares of our common stock and warrants to purchase up to 385,800 shares of our common stock at an exercise price of $9.40 per share under the terms of a Securities Purchase Agreement to accredited investors in conformity with rule 506 under Regulation D and under Section 4 (2) of the Securities Act for an aggregate purchase price of approximately $13.6 million, resulting in net proceeds to the Company of approximately $12.5 million. The Company and the investors concurrently entered into a Registration Rights Agreement under which the Company has undertaken to register such 2,314,800 shares under the Securities Act within a time frame specified in the Registration Rights Agreement.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands, except per share data)				
Statements of Operations Data:					
Revenues	$ 8,749	$ 408	$12,050	$ 5,100	$18,900
Operating expenses	$ 8,532	$ 7,641	$12,088	$ 17,012	$18,763
Net income (loss)	$ 542	$(2,147)	$ 435	$(11,173)	$ 1,011
Net income (loss) per share:					
Basic	$ 0.05	$ (0.23)	$ 0.05	$ (1.30)	$ 0.12
Diluted	$ 0.05	$ (0.23)	$ 0.05	$ (1.30)	$ 0.11
Shares used in calculation of net income (loss) per share					
Basic	10,288	9,146	8,836	8,622	8,565
Diluted	11,048	9,146	8,969	8,622	9,580

	December 31,				
	2001	2000	1999	1998	1997
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$15,124	$ 8,462	$11,804	$11,955	$21,571
Total assets	$15,864	$14,310	$18,089	$18,818	$28,946
Long-term liabilities	$ —	$ —	$ —	$ 2,049	$ 939
Stockholders' equity	$14,665	$ 8,509	$10,048	$ 7,495	$18,505

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:

- Progress and results of clinical trials;
- Anticipated Investigational New Drug filings and future clinical trials;
- Market acceptance of our products and the potential size of these markets;
- Our anticipated future capital requirements and the terms of any capital financing;
- Timing and amount of future contractual payments, product revenues and operating expenses; and
- Anticipated outcome or financial impact of potential legal matters.

While these forward-looking statements made by us are based on our current beliefs and judgement, 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 purchasing shares of our common stock. If any of the risks listed below 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:

- Dependence on the development and commercialization of products;
- History of operating losses and uncertainty of future financial results;
- Uncertainty of governmental regulatory requirements and lengthy approval process;
- Dependence on third parties for funding, clinical development, manufacturing and distribution;
- Uncertainty of U.S. or international legislative or administrative actions;
- Future capital requirements and uncertainty of additional funding;
- Competition and risk of technological obsolescence;
- Limited manufacturing experience and dependence on a limited number of contract manufacturers and suppliers;
- Ability to obtain and defend patents and protect trade secrets;
- Limitations on third-party reimbursement for medical and pharmaceutical products;
- Dependence on key employees;
- Continued listing on the Nasdaq National Market; and
- Volatility in the value of our common stock.

See *"Business — Certain Factors That May Affect Our Business and Future Results."*

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 our Company currently has and possible sources of additional funding for future capital requirements.

Business Overview

We are a company focused on the development of therapeutic drugs utilizing our proprietary drug delivery technology. Based on our core competence in emulsion formulations, we have developed the TOCOSOL™ drug delivery technology platform to formulate injectable drugs that are poorly soluble in water. Using our TOCOSOL technology, we are focusing our research and development efforts on a cancer therapy product, TOCOSOL Paclitaxel (S-8184), and we are also evaluating a variety of other drug candidates in areas that target cancer, diabetes, bacterial infections and cardiovascular disease.

Results of Operations

Our results of operations have varied and will continue to vary significantly and depend on, among other factors:

- Timing of payments under contractual and license agreements;
- Entering into additional contractual agreements;
- Timing and costs of clinical trials, legal matters and expenses related to product development; and
- Timing of regulatory approvals.

Years Ended December 31, 2001 and December 31, 2000

Our revenues are primarily derived from payments received under contractual and license agreements with third parties. Revenues for the year ended December 31, 2001 were $8.7 million compared to $408,000 in the prior year. The increase over the prior year was primarily the result of the assignment of substantially all of our ultrasound contrast intellectual property to Nycomed for $6.5 million and payments received under our license agreement with Chugai of $2.0 million. Revenues in 2002 will be dependent on our ability to enter into new collaborative agreements or licensing arrangements with third parties.

Research and development (R&D) expenses were $5.2 million for the year ended December 31, 2001 compared to $3.7 million in the prior year. The increase from the prior year was primarily related to the further development and Phase 1 study of TOCOSOL Paclitaxel and the related increase in spending on clinical trials as well as increases in headcount costs associated with the expansion of our R&D group. The prior year also includes a one-time favorable gain on the termination of an ultrasound contrast manufacturing and supply agreement of $1.3 million.

General and administrative expenses were $3.3 million for the year ended December 31, 2001 compared with $3.9 million in the prior year. The decrease from the prior year was due primarily to the reduction of legal costs as a result of the favorable patent litigation settlement in May 2000.

Total operating expenses in 2002 are expected to increase from 2001 levels to an approximate average of $1.1 million per month as we expand into Phase 2 trials for our TOCOSOL Paclitaxel product, develop additional compounds for Phase 1 trials and continue to expand our headcount to address the advancement of our technology and product development activities. We estimate that R&D spending will comprise approximately 75% of the average $1.1 million per month we anticipate spending in 2002. A significant portion of the R&D spending will

be devoted to further development of TOCOSOL Paclitaxel including the completion of the Phase 1 study and commencement of the Phase 2 clinical program. 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, changes in FDA requirements, increased material costs and other factors.

Interest income, net of interest expense, was $526,000 for the year ended December 31, 2001 compared with $658,000 for the prior year. The decrease in net interest income was primarily due to lower interest rates during 2001 over the same period in 2000.

International withholding taxes of $200,000 were paid on licensing payments received from Chugai.

Years Ended December 31, 2000 and December 31, 1999

Revenues were $408,000 for the year ended December 31, 2000 compared with $12.1 million in the prior year. Revenues during 2000 were derived from royalties received under our patent license agreement with Nycomed and from payments received under drug feasibility study agreements. Revenue received in 1999 consisted of the initial license fee payment of $10.0 million under our patent license agreement with Nycomed and $2.1 million from Abbott Laboratories under a prior agreement.

Research and development expenses were $3.7 million for the year ended December 31, 2000 compared with $6.3 million in the prior year. The decrease from the prior year was due to a reduction in clinical trials and associated development activity for our proposed ultrasound contrast agent as a result of our decision to discontinue further development of this product. In addition, we terminated an ultrasound contrast manufacturing and supply agreement which resulted in a one-time favorable adjustment in research and development expenses of $1.3 million in 2000.

General and administrative expenses were $3.9 million for the year ended December 31, 2000 compared with $5.8 million in the prior year. The decrease from the prior year was primarily due to a reduction in legal costs as a result of the favorable patent litigation settlement in May 2000 and also due to an overall lower level of administrative expenses resulting from various expense reductions achieved in 2000.

Other income in 2000 represents payments received in the second quarter of $4.25 million from patent litigation and insurance settlements. As part of the patent litigation settlement, we received a payment of $2.5 million from Nycomed pursuant to our patent license agreement with Nycomed. In addition, we reached an agreement on a pre-existing insurance coverage dispute and we received a settlement payment of $1.75 million.

Interest income, net of interest expense, was $658,000 for the year ended December 31, 2000 compared with $472,000 for the prior year. The increase in net interest income was primarily due to higher levels of invested cash in 2001.

Liquidity and Capital Resources

We have historically financed operations with payments under contractual agreements with third parties and proceeds from equity financings. In June 2001, we completed a private placement equity financing that raised approximately $4.5 million in net proceeds through the sale of 1.7 million shares of common stock. In January 2002, we completed a private placement that raised approximately $12.5 million in net proceeds through the sale of 1.9 million shares of common stock.

At December 31, 2001, we had cash, cash equivalents and marketable securities of $15.1 million compared to $8.5 million at December 31, 2000. The increase was primarily due to the $4.5 million of net proceeds from the private placement of common stock, $6.5 million from our agreement with Nycomed, $2.0 million from our agreement with Chugai and $1.0 million in proceeds from the exercise of stock options. These increases in cash were partially offset by operating expenses of $8.5 million. In addition, as noted above, in January 2002 we raised an additional $12.5 million in net proceeds from a private placement of common stock.

We had a bank loan agreement which provided for a $5.0 million revolving line of credit facility, bearing interest at the prime rate plus 1.0% per annum. We elected not to renew this bank loan agreement and it expired in August 2001.

We expect that our cash needs will increase in future periods due to development costs associated with our TOCOSOL drug delivery products. Based on our current operating plan, including planned clinical trials and other product development costs, we estimate that existing cash and marketable securities including the additional capital raised in January 2002 will be sufficient to meet our cash requirements through 2003 based on an assumed net cash burn rate of approximately $1.1 million per month. However, we will need additional funding to complete our clinical trials and regulatory approval of TOCOSOL Paclitaxel and to fund other product development activities. Accordingly, we intend to seek additional funding through available means, which may include debt and/or equity financing or funding under additional third party collaborative agreements. Our future capital requirements depend on many factors including:

- The progress of our research and development programs and clinical trials;
- The time and costs required to complete clinical trials and obtain regulatory approvals;
- The ability to raise additional funds through private placement equity financing;
- The ability to attract and retain new collaborative agreement partners;
- The ability to obtain funding under contractual and licensing agreements; and
- The costs of filing, prosecuting, enforcing and defending patents, patent applications, patent claims and trademarks.

We cannot give assurance that additional financing will be available on acceptable terms, if at all. Any equity financing would likely result in dilution to our existing stockholders and debt financing, if available, may include restrictive covenants. If we are unable to raise additional financing, we may be required to curtail or delay the development of our products and new product research and development, which could seriously harm our business.

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, 2001, 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.

Critical Accounting Policies and Estimates

The preparation of the financial statements requires management to make estimates and assumptions. On an on-going basis, management evaluates its estimates and judgements including those related to revenue recognition and research and development costs. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgements and estimates used in the preparation of its financial statements.

- *Revenue Recognition*. Since inception, the Company has generated revenues from collaborative agreements, licensing fees and from the assignment of developed and patented technology. Revenue is recorded as earned based on the performance requirements of the contract, generally as the services are performed. The Company recognizes revenue from non-refundable, up front license fees and proceeds from the assignment of technology when delivery has occurred and no future obligations exist. Royalties from licensees are based on third-party sales and recorded as earned in accordance with contract terms,

when third-party results are reliably measured and collection is reasonably assured. Payments received for which the earnings process is not complete are classified as deferred revenue.

- *Research and Development Costs*. These items including personnel costs, supplies, depreciation and other indirect research and development 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.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141,*Business Combinations* (SFAS 141), which provides a comprehensive standard of accounting for business combinations. SFAS 141 is effective for all business combinations after June 30, 2001.

In June 2001 the FASB issued Statement of Financial Accounting Standards No. 142,*Goodwill and Other Intangible Assets* (SFAS 142), which requires a change in accounting for goodwill and certain other intangible assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt SFAS 142 as of January 1, 2002 and does not expect that adoption of SFAS 142 will have any impact on the Company's results of operations or financial position, as the Company has no goodwill or other intangible assets.

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 144,*Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which addresses financial accounting and reporting for impairment or disposal of long-lived assets and supersedes SFAS 121. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt SFAS 144 as of January 1, 2002 and does not expect that the adoption of SFAS 144 will have a significant impact on the Company's results of operations or financial position.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Response to this item is included in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Market Risk"

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

None.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors
Sonus Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Sonus Pharmaceuticals, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Seattle, Washington
January 18, 2002

Sonus Pharmaceuticals, Inc.

Balance Sheets

	December 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 455,073	$ 1,696,610
Marketable securities	14,668,841	6,765,854
Compensating cash balance under bank line of credit	—	5,000,000
Other current assets	343,057	345,696
Total current assets	15,466,971	13,808,160
Equipment, furniture and leasehold improvements, net	396,711	501,660
Total assets	$ 15,863,682	$ 14,309,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank line of credit	$ —	$ 5,000,000
Accounts payable and accrued expenses	1,198,552	800,343
Total current liabilities	1,198,552	5,800,343
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value:		
5,000,000 shares authorized; no shares outstanding	—	—
Common stock, $001 par value:		
30,000,000 shares authorized; 11,650,797 and 9,603,520 shares issued and outstanding in 2001 and 2000, respectively	43,302,286	38,077,469
Stockholder receivable	—	(350,000)
Accumulated deficit	(28,676,864)	(29,219,041)
Accumulated other comprehensive income	39,708	1,049
Total stockholders' equity	14,665,130	8,509,477
Total liabilities and stockholders' equity	$ 15,863,682	$ 14,309,820

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Operations

	Year Ended December 31,		
	2001	2000	1999
Revenues:			
Contract and licensing revenue	$ 8,748,538	$ 408,407	$12,050,000
Operating expenses:			
Research and development	5,221,303	3,694,477	6,305,871
General and administrative	3,310,888	3,946,672	5,781,764
Total operating expenses	8,532,191	7,641,149	12,087,635
Operating income (loss)	216,347	(7,232,742)	(37,635)
Other income (expense):			
Interest income	539,688	692,424	568,959
Interest expense	(13,858)	(34,058)	(96,654)
Other income	—	4,250,000	—
Total other income, net	525,830	4,908,366	472,305
Income (loss) before income taxes	742,177	(2,324,376)	434,670
Income tax expense (benefit)	200,000	(176,939)	—
Net income (loss)	$ 542,177	$(2,147,437)	$ 434,670
Net income (loss) per share:			
Basic	$ 0.05	$ (0.23)	$ 0.05
Diluted	$ 0.05	$ (0.23)	$ 0.05
Shares used in calculation of net income (loss) per share:			
Basic	10,288,085	9,146,374	8,836,406
Diluted	11,047,944	9,146,374	8,969,404

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Stockholders' Equity

	Common Stock					
	Shares	Amount	Stockholder Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 1999	8,632,225	$35,009,368	$ —	$(27,506,274)	$ (8,408)	$ 7,494,686
Comprehensive income (loss):						
Net loss	—	—	—	434,670	—	434,670
Unrealized losses on investments	—	—	—	—	(15,453)	(15,453)
Comprehensive loss						419,217
Issuance of common stock	357,747	2,133,597	—	—	—	2,133,597
Balance at December 31, 1999	8,989,972	37,142,965	—	(27,071,604)	(23,861)	10,047,500
Comprehensive income (loss):						
Net income	—	—	—	(2,147,437)	—	(2,147,437)
Unrealized gains on investments	—	—	—	—	24,910	24,910
Comprehensive income						(2,122,527)
Issuance of common stock	613,548	934,504	(350,000)	—	—	584,504
Balance at December 31, 2000	9,603,520	38,077,469	(350,000)	(29,219,041)	1,049	8,509,477
Comprehensive income (loss):						
Net income	—	—	—	542,177	—	542,177
Unrealized gains on investments	—	—	—	—	38,659	38,659
Comprehensive income						580,836
Collection of stockholder receivable	—	—	350,000	—	—	350,000
Stock compensation expense	—	50,217	—	—	—	50,217
Issuance of common stock (net of offering costs of $478,380)	2,047,277	5,174,600	—	—	—	5,174,600
Balance at December 31, 2001	11,650,797	$43,302,286	$ —	$(28,676,864)	$ 39,708	$14,665,130

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Statements of Cash Flows

	Year Ended December 31,		
	2001	2000	1999
Operating activities:			
Net income (loss)	$ 542,177	$ (2,147,437)	$ 434,670
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	286,891	385,594	627,171
Noncash stock compensation expense	50,217	—	—
Gain on sale of equipment	—	(20,419)	—
Amortization of net discount on marketable securities	(28,789)	(28,056)	(34,852)
Realized (gains) losses on marketable securities	(2,010)	—	4,976
Changes in operating assets and liabilities:			
Other current assets	2,639	77,154	(3,832)
Accounts payable and accrued expenses	398,209	(2,240,927)	(1,139,594)
Net cash provided by (used in) in operating activities	1,249,334	(3,974,091)	(111,461)
Investing activities:			
Purchases of capital equipment	(188,182)	(38,666)	(44,515)
Proceeds from sale of equipment	6,240	33,265	—
Purchases of marketable securities	(23,666,993)	(8,643,350)	(20,758,859)
Proceeds from sales of marketable securities	3,477,792	499,995	14,564,759
Proceeds from maturities of marketable securities	12,355,672	12,340,759	7,049,147
Net cash (used in) provided by investing activities	(8,015,471)	4,192,003	810,532
Financing activities:			
Proceeds from bank line of credit	5,000,000	20,000,000	20,000,000
Repayment of bank line of credit	(10,000,000)	(20,000,000)	(20,000,000)
Compensating cash balance under bank line of credit	5,000,000	—	—
Increase in long-term debt	—	—	30,783
Repayment of capital lease obligations	—	—	(93,178)
Proceeds from issuance of common stock	4,533,931	—	—
Proceeds from collection of stockholder receivable	350,000	—	—
Proceeds from exercise of stock options	640,669	584,504	53,592
Net cash provided by (used in) financing activities	5,524,600	584,504	(8,803)
Change in cash and cash equivalents for the year	(1,241,537)	802,416	690,268
Cash and cash equivalents at beginning of year	1,696,610	894,194	203,926
Cash and cash equivalents at end of year	455,073	1,696,610	894,194
Marketable securities at end of year	14,668,841	6,765,854	10,910,292
Total cash, cash equivalents and marketable securities	$ 15,123,914	$ 8,462,464	$ 11,804,486
Supplemental cash flow information:			
Interest paid	$ 18,958	$ 33,958	$ 43,069
Income taxes paid	$ 200,000	$ —	$ —
Supplemental disclosure of non-cash financing activity:			
Issuance of common stock in exchange for notes receivable	$ —	$ 350,000	$ —
Conversion of long-term debt to common stock	$ —	$ —	$ 2,080,005

See accompanying notes.

Sonus Pharmaceuticals, Inc.

Notes to Financial Statements

1. Description of Business and Summary of Accounting Policies

Business Overview

Sonus Pharmaceuticals, Inc. (the Company) is a company focused on the development of therapeutic drugs utilizing its proprietary drug delivery technology. Based on the Company's core competence in emulsion formulations, it has developed the TOCOSOL™ drug delivery technology platform to formulate injectable drugs that are poorly soluble in water. Using the TOCOSOL technology, the Company is currently focusing its research and development efforts on a cancer therapy product, TOCOSOL Paclitaxel (S-8184), and also on evaluating a variety of other drug candidates in areas that target cancer, diabetes, bacterial infections and cardiovascular disease.

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 cost 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 revenues from collaborative agreements, licensing fees and from the assignment of developed and patented technology. Revenue is recorded as earned based on the performance requirements of the contract, generally as the services are performed. The Company recognizes revenue from non-refundable, upfront license fees and proceeds from the assignment of technology when delivery has occurred and no future obligations exist. Royalties from licensees are based on third-party sales and recorded as earned in accordance with contract terms, when third-party results are reliably measured and collection is reasonably assured. Payments received for which the earnings process is not complete are classified as deferred revenue.

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.

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.

Stock-Based Compensation

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the market price of the Company's common stock at the date of grant over the stock option exercise price. Under the Company's stock plans, stock options are generally granted at fair market value.

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 marketable securities.

Per Share Data

Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS 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 June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141,*Business Combinations* (SFAS 141), which provides a comprehensive standard of accounting for business combinations. SFAS 141 is effective for all business combinations after June 30, 2001.

In June 2001 the FASB issued Statement of Financial Accounting Standards No. 142,*Goodwill and Other Intangible Assets* (SFAS 142), which requires a change in accounting for goodwill and certain other intangible assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt

SFAS 142 as of January 1, 2002 and does not expect that adoption of SFAS 142 will have any impact on the Company's results of operations or financial position, as the Company has no goodwill or other intangible assets.

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 144,*Accounting for the Impairment or Disposal of Long-Lived Assets*(SFAS 144), which addresses financial accounting and reporting for impairment or disposal of long-lived assets and supersedes SFAS 121. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt SFAS 144 as of January 1, 2002 and does not expect that the adoption of SFAS 144 will have a significant impact on the Company's results of operations or financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2001 presentation.

2. Marketable Securities

Marketable securities consist of the following at December 31, 2001 and 2000:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2001:				
Corporate debt securities (principally commercial paper)	$14,629,133	$41,906	$(2,198)	$14,668,841

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2000:				
Corporate debt securities (principally commercial paper)	$6,764,805	$ 1,263	$ (214)	$6,765,854

Realized gains on the sales of available-for-sale securities were $2,112, $0 and $3,015 in 2001, 2000 and 1999, respectively. The realized losses on sales of available for sale securities were $102, $0 and $7,991 in 2001, 2000 and 1999, respectively. All marketable securities at December 31, 2001 mature within one year.

3. Equipment, Furniture and Leasehold Improvements

Equipment, furniture and leasehold improvements consist of the following:

	2001	2000
Laboratory equipment	$2,314,518	$2,204,009
Office furniture and equipment	967,327	989,618
Leasehold improvements	813,418	782,060
	4,095,263	3,975,687
Less accumulated depreciation and amortization	3,698,552	3,474,027
	$ 396,711	$ 501,660

4. Debt

The Company had a Loan Agreement with a bank that provided for a $5.0 million revolving line of credit facility, bearing interest at the prime rate plus 1.0% per annum. Under the terms of this facility, the Company was required to maintain a compensating cash balance on hand at the bank equal to amounts borrowed. The Company elected not to renew this line of credit and it expired in August 2001. The facility was unused at expiration.

5. Contractual Agreements

In January 2001, the Company entered into a patent licensing agreement with Chugai Pharmaceutical, Co., Ltd. (Chugai) that gave Chugai non-exclusive rights under certain Sonus ultrasound contrast patents in Japan, South Korea, and Taiwan. The Company received an initial license fee of $1.0 million in January 2001 and a second $1.0 million payment in June 2001.

In August 2001, the Company entered into an agreement with Nycomed Amersham (Nycomed) whereby the Company assigned substantially all of its ultrasound contrast intellectual property to Nycomed for $6.5 million. As part of the agreement, the Company also assigned to Nycomed its interest in the ultrasound contrast patent license agreement entered into with Chugai in January 2001. In addition, as part of the agreement, Nycomed granted the Company an exclusive license to use the patents assigned to Nycomed for certain biomedical purposes. Sonus and Nycomed previously entered into an agreement in September 1999 whereby Nycomed received an exclusive license to certain of the Company's ultrasound contrast patents in the U.S. and Europe. In exchange, Nycomed paid the Company an initial license fee of $10.0 million, assumed the responsibility and costs of applicable patent litigation, and paid royalties to the Company on sales of an approved product covered by the licensed patents. This patent license agreement terminated concurrent with the execution of the August 2001 agreement.

6. Income Taxes

Income taxes consist of the following:

	2001	2000	1999
Federal – current	$ —	$ —	$ —
Foreign – current	200,000	(176,939)	—
Total	$200,000	$(176,939)	$ —

In 2001 the Company paid $200,000 for international withholding taxes on license fees received during the year. In 2000, the Company received a refund of $176,939 for international withholding taxes that were originally paid in 1995. Due to the uncertainty of receipt of this refund, a valuation allowance had previously been provided.

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

	2001	2000	1999
Statutory tax rate	34.00%	(34.00%)	34.00%
Utilization of net operating loss carry forwards	(36.31)	—	(37.95)
Permanent difference	2.31	0.89	3.95
Change in valuation allowance	—	33.11	—
Foreign tax (refund)	26.95	(7.61%)	—
Effective tax rate	26.95%	(7.61%)	—%

Significant components of the Company's net deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows:

	2001	2000
Deferred tax assets:		
Federal net operating loss carry forwards	$ 9,618,000	$ 9,518,000
Accrued expenses	71,000	96,000
Research and development credits	1,659,000	1,490,000
Foreign tax credits	1,029,000	829,000
AMT tax credits	68,000	68,000
Book in excess of tax depreciation expense	190,000	170,000
Gross deferred tax assets	12,635,000	12,171,000
Valuation allowance for net deferred tax assets	(12,635,000)	(12,171,000)
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, 2001 and 2000, a valuation allowance has been recognized for financial reporting purposes. The Company's valuation allowance for deferred tax assets increased $464,000 and $718,000 for the years ended December 31, 2001 and 2000, respectively.

At December 31, 2001, the Company has federal net operating loss carry forwards of approximately $28,200,000 for income tax reporting purposes and research and development and AMT tax credit carry forwards of approximately $1,728,000. The federal operating loss carry forwards and research and development credits begin to expire in 2006. To the extent that net operating loss carry forwards, when realized, relate to stock option deductions of approximately $1.1 million, the resulting benefit will be credited to stockholders' equity.

The initial public offering of common stock by the Company in 1995 caused an ownership change pursuant to applicable regulations in effect under the Internal Revenue Code of 1986. Therefore, the Company's use of losses incurred through the date of ownership change will be limited during the carry forward period and may result in the expiration of net operating loss carry forwards before utilization.

7. Stockholders' Equity

Common Stock

At December 31, 2001, the Company had shares of common stock reserved for possible future issuance as follows:

Stock options outstanding	2,537,272
Shares available for future grant under stock plans	806,644
Warrants outstanding	174,500
	3,518,416

In June 2001, the Company sold 1.7 million shares of common stock in a private placement transaction for gross proceeds of $4.9 million ($4.5 million net of transaction costs). In connection with the placement, the Company issued warrants to purchase 174,500 shares of common stock. The warrants are exercisable at $3.36 per share and expire in June 2006. The warrants were valued at $510,000 using the Black-Scholes pricing model.

The assumptions used in this model include (1) the stock price at issuance date, (2) the exercise price, (3) an estimated warrant life of five years, (4) no expected dividends for each year presented, (5) stock price volatility factor of 1.175, and (6) a risk-free interest rate of 4.56%. As of December 31, 2001 all of these warrants were outstanding.

Stock Options

The Company has several 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, January 1, 1999	1,311,091	.20 – 44.00
Granted	814,026	3.69 – 6.94
Exercised	(5,158)	3.93 – 6.25
Canceled	(134,077)	5.94 – 44.00
Balance, December 31, 1999	1,985,882	.20 – 44.00
Granted	1,252,215	.63 – 6.00
Exercised	(203,785)	.66 – 6.75
Canceled	(518,367)	.88 – 6.00
Balance, December 31, 2000	2,515,945	.20 – 44.00
Granted	504,364	2.63 – 8.08
Exercised	(274,895)	.88 – 5.94
Canceled	(208,142)	.88 – 6.94
Balance, December 31, 2001	2,537,272	.20 – 44.00

Options exercisable at December 31, 2001, 2000, and 1999, were 1,826,770; 997,546 and 990,462, respectively.

The following table summarizes information about stock options outstanding at December 31, 2001:

	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
$ 0.20 – $ 0.88	416,863	8.81 years	$ 0.75	416,863	$ 0.75
$ 2.63 – $ 4.88	246,863	9.13 years	$ 3.66	49,716	$ 4.02
$ 5.94 – $ 8.19	1,325,307	7.93 years	$ 6.72	812,004	$ 6.24
$ 10.13 – $20.50	487,406	4.15 years	$13.57	487,354	$13.57
$ 27.75 – $44.00	60,833	5.55 years	$34.21	60,833	$34.21
Total	2,537,272	7.41 years	$ 7.42	1,826,770	$ 7.81

Accounting for Stock-Based Compensation

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation (SFAS 123), the Company has elected to continue following the intrinsic value method allowed under the statement for its stock option plans and present pro forma disclosures of the fair value method prescribed by SFAS 123. Had the Company elected to recognize compensation cost based on the fair value of the options as prescribed by SFAS 123, the net loss and associated basic net loss per share amounts would have been $0.6 million or $0.06 per share, $3.6 million or $0.40 per share and $1.7 million or $0.19 per share for the years ended December 31, 2001, 2000 and 1999, respectively. The fair value of each option is estimated using the Black-Scholes 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 1.175, 1.14, and 0. 873 in 2001, 2000 and 1999, respectively, and (6) a risk-free interest rate of 4.56%, 6.35% and 6.88% in 2001, 2000 and 1999, respectively. The weighted average fair value per share of options granted during 2001, 2000 and 1999 was $5.23, $2.38 and $3.92, 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 9,640, 9,763 and 8,787 in 2001, 2000 and 1999, respectively. At December 31, 2001, 45,817 shares remain available for future purchases by employees under the plan.

Stockholder Receivable

In October 2000, the Company entered into stock purchase agreements with certain officers whereby the officers purchased 400,000 shares of common stock at the fair market value of the stock on the date of purchase in exchange for full-recourse promissory notes totaling $350,000, with interest due annually at the rate of 6.09%. The promissory notes and accrued interest were repaid during 2001.

Shareholder Rights Plan

The Company has adopted a Shareholder Rights Plan ("Plan"). Under the Plan, 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.

8. Net Income (Loss) Per Share

A reconciliation between basic and diluted net income (loss) per share follows:

	2001	2000	1999
Basic net income (loss) per share:			
Net income (loss)	$ 542,177	$(2,147,437)	$ 434,670
Weighted average common shares	10,288,085	9,146,374	8,836,406
Basic net income (loss) per share	$ 0.05	$ (0.23)	$ 0.05
Diluted net income (loss) per share:			
Net income (loss)	$ 542,177	$(2,147,437)	$ 434,670
Weighted average common shares	10,288,085	9,146,374	8,836,406

	2001	2000	1999
Dilutive potential common shares	759,859	—	132,998
Total shares	11,047,944	9,146,374	8,969,404
Diluted net income (loss) per share	$ 0.05	$ (0.23)	$ 0.05

As of December 31, 2001, 2000 and 1999, 2,018,159; 3,015,945 and 2,090,529 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.

9. Commitments and Contingencies

The Company has leased office space and equipment under two operating lease agreements which expire in July 2007 and October 2004, respectively. Under the office 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:

2002	$ 419,631
2003	522,570
2004	578,850
2005	582,000
2006	597,000
Thereafter	360,500
	$3,060,551

Rental expense for the years ended December 31, 2001, 2000 and 1999 was $506,000, $603,000 and $613,000, respectively.

10. Legal Proceedings

In July 2000, DuPont Pharmaceuticals Company and certain Dupont-related entities filed a complaint in the United States District Court for the District of Massachusetts against us and certain Nycomed Amersham-related entities. Under a prior agreement with Nycomed, Nycomed has the right to enforce the patents in the field of non-perfluoropentane ultrasound contrast agents on behalf of Nycomed and us, at Nycomed's expense. This litigation was dismissed pursuant to a settlement agreement in November 2001 with no obligation of the Company or consideration paid to the Company.

11. Other Income

Other income for the year ended December 31, 2000 represents payments received of $4.25 million from patent litigation and insurance settlements. As part of the patent litigation settlement, the Company received a payment of $2.5 million from Nycomed Amersham pursuant to the Company's patent license agreement with Nycomed Amersham. In addition, the Company reached an agreement on a pre-existing insurance coverage dispute and received a settlement payment of $1.75 million.

12. Quarterly Financial Information (unaudited)

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands, except per share data)			
2001				
Revenues	$ 1,096	$ 91	$ 7,562	$ —
Operating expenses	$ 1,865	$ 1,941	$ 2,487	$ 2,239
Operating income (loss)	$ (769)	$(1,850)	$ 5,074	$(2,239)
Net income (loss)	$ (738)	$(1,743)	$ 5,154	$(2,131)
Net income (loss) per share:				
Basic	$ (0.08)	$ (0.18)	$ 0.47	$ (0.19)
Diluted	$ (0.08)	$ (0.18)	$ 0.45	$ (0.19)
2000				
Revenues	$ —	$ 45	$ 68	$ 295
Operating expenses	$ 2,476	$ 2,424	$ 2,403	$ 338
Operating income (loss)	$(2,476)	$(2,379)	$(2,335)	$ (43)
Net income (loss)	$(2,150)	$ 2,056	$(2,166)	$ 113
Net income (loss) per share:				
Basic	$ (0.24)	$ 0.22	$ (0.24)	$ 0.01
Diluted	$ (0.24)	$ 0.22	$ (0.24)	$ 0.01

13. Subsequent Event

In January 2002, the Company sold 1.9 million shares of common stock in a private placement transaction for gross proceeds of $13.6 million ($12.5 million net of transaction costs). In connection with the placement, the Company issued warrants to purchase up to 385,000 shares of common stock. The warrants are exercisable at $9.40 per share and expire in January 2007.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2002 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 2002 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with its 2002 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 2002 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

The financial statements filed as a part of this Report are listed on the "Index to Financial Statements" on Page 21.

(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
3.2	Amended and Restated Certificate of Incorporation of the Company	(1)
3.3	Certificate of Amendment of Certificate of Incorporation of the Company	(12)
3.4	Amended and Restated Bylaws of the Company	(1)
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)
10.14	Contrast Agent Development and Supply Agreement dated May 6, 1993 by and between the Company and Abbott Laboratories, Inc. (portions omitted pursuant to Rule 406 of the 1933 Act)	(1)
10.14A	Amendment to Contrast Agent Development and Supply Agreement dated August 22, 1995 by and between the Company and Abbott Laboratories, Inc. (portions omitted pursuant to Rule 406 of the 1933 Act)	(1)
10.18	Lease Agreement dated January 17, 1994 between the Company and WRC Properties, Inc.	(1)
10.18A	Amendment 2 dated October 28, 1997 to Lease Agreement dated January 17, 1994.	(10)
10.18B	Amendment 3 dated October 15, 1998 to Lease Agreement dated January 17, 1994.	(10)
10.19	Form of Indemnification Agreement for Officers and Directors of the Company.	(1)
10.21	Loan and Security Agreement dated August 11, 1995 by and between the Company and Silicon Valley Bank.	(1)
10.21A	Loan Modification Agreement dated September 10, 1997 to Loan and Security Agreement by and between the Company and Silicon Valley Bank.	(10)
10.21B	Loan Modification Agreement dated August 31, 1998 to Loan and Security Agreement by and between the Company and Silicon Valley Bank.	(10)
10.21C	Loan Modification Agreement dated August 30, 1999 to Loan and Security Agreement by and between the Company and Silicon Valley Bank.	(14)
10.25	Agreement between Abbott Laboratories, Inc. and the Company, dated May 14, 1996 (portions omitted pursuant to Rule 24b-2).	(5)
10.26	Third Amended and Restated Registration Rights Agreement dated as of May 15, 1996.	(6)
10.28	International License Agreement, dated October 1, 1996, by and between Abbott Laboratories, Inc. and the Company (portions omitted pursuant to Rule 24b-2).	(7)

Exhibit No.	Description	Location
10.29	Commercial Supply Agreement dated March 6, 1998.	(8)
10.33	First Amendment to Agreement by and between Abbott Laboratories and Sonus Pharmaceuticals, Inc. dated January 31, 1999.	(11)
10.34	First Amendment to International License Agreement by and between Abbott International, Ltd. and Sonus Pharmaceuticals, Inc. dated January 31, 1999.	(11)
10.35	Securities Purchase Agreement between Abbott Laboratories and Sonus Pharmaceuticals, Inc. dated January 31, 1999.	(11)
10.36	License Agreement by and between Nycomed Amersham AS and the Company dated August 31, 1999.	(13)
10.38	Mutual Recission Agreement dated October 11, 1999 by and between the Company and Abbott International Ltd.	(14)
10.40	Amendment to the First Amendment to Agreement by and between Abbott Laboratories and the Company, dated February 3, 2000.	(15)
10.43	Loan and Security Agreement by between Sonus Pharmaceuticals, Inc. and Silicon Valley Bank, dated September 6, 2000.	(17)
10.45	License Agreement by and between Chugai Pharmaceutical Co. Ltd., Molecular Biosystems, Inc., and the Company, dated December 22, 2000.	(18)
10.46	Termination Agreement by and between Abbott Laboratories and the Company, dated December 14, 2000.	(18)
10.49	Nycomed Assignment and Asset Transfer Agreement, dated August 3, 2001.	(20)
10.50	Amendment 4 dated November 29, 2001 to Lease Agreement dated January 17, 1994.	(11)
10.51	Supply Agreement dated January 22, 2002 between Indena SpA and Sonus Pharmaceuticals, Inc.	(21)
23.1	Consent of Ernst & Young LLP, Independent Auditors.	(11)
24.1	Power of Attorney (included on the Signature Page of this Annual Report on Form 10-K).	(11)
	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").	(12)
10.8	Form of Stock Option Agreement pertaining to the 1999 Plan.	(12)
10.9	Form of Restricted Stock Purchase Agreement pertaining to the 1999 Plan.	(12)
10.22	Sonus Pharmaceuticals, Inc. Employee Stock Purchase Plan.	(2)
10.24	Employment Agreement, effective as of January 16, 1996, by and between the Company and Steven C. Quay, M.D., Ph.D.	(12)
10.24A	Employment Agreement, effective February 11, 1999, by and between the Company and Steven C. Quay, M.D., Ph.D.	(12)
10.31	Change in Control Agreement for Michael Martino.	(9)
10.37	Agreement for Part-Time Employment and Mutual Release, effective August 25, 1999 by and between the Company and Steven C. Quay, M.D., Ph.D.	(14)
10.39	Change in Control Agreement for John T. Flaherty, M.D.	(15)
10.41	2000 Stock Incentive Plan (the "2000 Plan").	(16)
10.42	Form of Stock Option Agreement pertaining to the 2000 Plan.	(16)
10.44	Change in Control Agreement for Richard J. Klein.	(17)

Exhibit No.	Description	Location
10.47	Change in Control Agreement for Nagesh Palepu.	(19)
10.48	Change in Control Agreement for Michael A. Martino.	(19)

(1) Incorporated by reference to the referenced exhibit number to the Company's Registration Statement on form S-1, Reg. No. 33-96112.
(2) Incorporated by reference to Exhibit 4.7 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 referenced exhibit number to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996.
(5) Incorporated by reference to the referenced exhibit number to the Company's Current Report on Form 8-K dated May 14, 1996.
(6) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996.
(7) Incorporated by reference to the referenced exhibit number to the Company's Current Report on Form 8-K dated October 1, 1996.
(8) Incorporated by, reference to the referenced exhibit number to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998.
(9) Incorporated by, reference to the referenced exhibit number to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998.
(10) Incorporated by reference to the referenced exhibit number to the Company's Annual Report on form 10-K for the period ended December 31, 1998.
(11) Filed herewith.
(12) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on form 10-Q for the quarterly period ended March 31, 1999.
(13) Incorporated by reference to the referenced exhibit number to the Company's Current Report on Form 8-K dated September 28, 1999.
(14) Incorporated by, reference to the referenced exhibit number to the Company's Quarterly Report on Form 10-QA for the quarterly period ended September 30, 1999.

(15) Incorporated by reference to the referenced exhibit number to the Company's Annual Report on form 10-K for the period ended December 31, 1999.
(16) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on form 10-Q for the quarterly period ended June 30, 2000.
(17) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on form 10-Q for the quarterly period ended September 30, 2000.

(18) Incorporated by reference to the referenced exhibit number to the Company's Annual Report on form 10-KA for the period ended December 31, 2000.
(19) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on form 10-QA for the quarterly period ended June 30, 2001.
(20) Incorporated by reference to the referenced exhibit number to the Company's Quarterly Report on form 10-Q for the quarterly period ended September 30, 2001.
(21) Incorporated by reference to exhibit number 10.1 to the Company's Registration Statement on Form S-3 filed February 8, 2002.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended December 31, 2001.

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 5, 2002.

SONUS PHARMACEUTICALS, INC.

Dated: March 5, 2002

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 Richard J. Klein, 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 5, 2002
/s/ Richard J. Klein Richard J. Klein	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2002
/s/ George W. Dunbar, Jr. George W. Dunbar, Jr.	Director, Co-Chairman of the Board of Directors	March 5, 2002
/s/ Christopher S. Henney, Ph.D., D. Sc. Christopher S. Henney, Ph.D, D. Sc.	Director	March 5, 2002
/s/ Robert E. Ivy Robert E. Ivy	Director, Co-Chairman of the Board of Directors	March 5, 2002
/s/ Dwight Winstead Dwight Winstead	Director	March 5, 2002

FIRST AMENDMENT TO AGREEMENT
BY AND BETWEEN
ABBOTT LABORATORIES AND SONUS PHARMACEUTICALS, INC.

THIS FIRST AMENDMENT TO AGREEMENT ("Amendment") is dated January 31, 1999 ("Amendment Effective Date"), by and between Abbott Laboratories, an Illinois corporation with principal offices at 100 Abbott Park Road, Abbott Park, Illinois 60064-3500 ("ABBOTT") and SONUS Pharmaceuticals, Inc., a Delaware corporation with principal offices at 22026 20th Avenue, S.E., Suite 102, Bothell, Washington 98021 ("SONUS").

RECITALS

WHEREAS, ABBOTT and SONUS have previously entered into the Agreement dated May 14, 1996 ("Agreement") whereby SONUS granted to ABBOTT and ABBOTT obtained from SONUS certain exclusive marketing rights to certain ultrasound contrast agents, including EchoGen(R), in the United States in accordance with the terms and conditions thereof;

WHEREAS, Abbott International, Ltd. ("Abbott International") and SONUS entered into an International License Agreement, dated October 1, 1996 whereby SONUS granted to Abbott International and Abbott International obtained from SONUS certain exclusive marketing rights to EchoGen(R) in certain areas outside the United States in accordance with the terms and conditions thereof ("International Agreement"), which agreement shall be amended as of the Amendment Effective Date as specifically set forth in the amendment to such agreement;

WHEREAS, ABBOTT and SONUS entered into a Development and Supply Agreement, dated May 6, 1993, whereby ABBOTT assisted in the manufacturing scale-up for EchoGen(R) and agreed to manufacture EchoGen(R) for SONUS ("Supply Agreement"); and

WHEREAS, ABBOTT and SONUS desire to amend the Agreement, as set forth in this Amendment, simultaneously with amending the International Agreement and executing a letter of understanding with respect to the amendment of the Supply Agreement as soon a reasonably practicable;

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants set forth below, ABBOTT and SONUS mutually agree as follows:

1. ARTICLE 1 - DEFINITIONS. Capitalized terms used in this Amendment and not otherwise

defined in this Amendment shall have the meanings set forth in the Agreement. Article 1 shall be amended by adding the following definitions:

1.21 "Cardiology Indication" means an indication for EchoGen(R) Emulsion which is substantially equivalent to the following: EchoGen(R) Emulsion as indicated for use in resting echocardiography to provide contrast enhancement of ventricular chambers and to improve endocardial border delineation in patients with suboptimal echoes undergoing ventricular function and wall motion studies.

1.22 "Radiology Indication" means an indication for EchoGen(R) Emulsion which is substantially equivalent to the following: EchoGen(R) Emulsion as indicated for use in adult patients undergoing ultrasound examination to provide contrast enhancement or facilitate visualization of anatomic structures, lesions, and normal and abnormal blood flow patterns during studies of the liver, kidney, and peripheral vasculature.

1.23 "Supply Agreement" shall mean the EchoGen(R) Contrast Agent Development and Supply Agreement between ABBOTT and SONUS as amended and restated as of the Amendment Effective Date as such agreement may be further amended from time to time.

1.24 "Cardiology/Radiology Approval Date" means the later to occur of (i) the date of FDA approval for the Cardiology Indication, and (ii) the date of FDA approval for the Radiology Indication.

2. APPENDIX 2.3 - RESEARCH AND DEVELOPMENT PAYMENT SCHEDULE shall be deleted and replaced with the amended Appendix 2.3, attached to this Amendment. SONUS acknowledges and agrees that the amounts referred to in items 1, 2, 3, 4, and 5 of the Appendix 2.3, as amended by this Amendment, have been paid by ABBOTT to SONUS in full prior to the Amendment Effective Date.

3. SECTION 2.4 - ADDITIONAL CLINICAL RESEARCH shall be deleted in its entirety and replaced with the following:

"2.4 Additional Clinical Research.

(A) ABBOTT shall have no obligation to provide financial support for research

and development, including clinical research, to be conducted by SONUS except for the amounts payable by ABBOTT as set forth in Section 2.3 and Article 7. SONUS shall promptly notify ABBOTT in writing if SONUS desires that ABBOTT fund expenditures for clinical research in addition to that set forth in the Plan to support research and development for ultrasound diagnostic applications for indications other than the Cardiology Indication and the Radiology Indication. Such notice from SONUS shall include a budget for clinical research and a preliminary clinical plan. ABBOTT shall communicate its decision whether or not to financially participate in such clinical research within ninety (90) days of receipt of the budget and clinical plan from SONUS. ABBOTT shall be under no obligation to financially support such additional clinical research. If ABBOTT desires to participate financially in such additional clinical research, and communicates its decision to participate in writing, ABBOTT shall reimburse SONUS for SONUS' documented incremental costs and expenses incurred with respect to the additional clinical research described in Sections 2.2 and 2.6 and which are mutually agreed upon by the parties in writing. SONUS will document the costs incurred during the studies approved by ABBOTT and submit detailed cost summaries to ABBOTT on a monthly basis. ABBOTT will reimburse SONUS for such documented costs incurred within thirty (30) days of receipt of the cost summaries, subject to the funding limitations set forth herein. If SONUS determines that there will be any material variance in the actual costs, as compared to the approved funding, SONUS will promptly notify ABBOTT and obtain prior written approval from ABBOTT in advance of incurring the additional costs. Any funding by ABBOTT in addition to that indicated above may be approved by ABBOTT at its sole discretion. Furthermore, ABBOTT may terminate its participation in and reimbursement of the costs of the clinical research if ABBOTT has any concern over safety and/or efficacy issues at any time. For any such cost and expenses ABBOTT funds, SONUS shall reimburse ABBOTT for fifty percent (50%) of such costs and expenses funded by ABBOTT, plus interest at the prime rate of interest (as published in the Wall Street Journal, Midwest Edition on the date on which ABBOTT provides such funding) ("Reimbursement Amount"). Reimbursement Amounts shall be aggregated on an annual basis and must be repaid by SONUS within five (5) years from the end of the calendar year in which the

Reimbursement Amount was advanced by ABBOTT as provided in Subsections (i), (ii), (iii) and (iv) below. Interest on outstanding Reimbursement Amounts shall be accrued monthly. Reimbursement Amounts shall be paid by SONUS to ABBOTT, by either, at the option of SONUS:

(i) reimbursing ABBOTT in cash for the Reimbursement Amount within five (5) years from the end of the calendar year in which such Reimbursement Amount is paid by ABBOTT; or

(ii) reducing the percentage amounts payable by ABBOTT to SONUS as provided in Article 7 at such dates and in such amounts as mutually agreed by the parties; or

(iii) in the event that the net tangible assets of SONUS shall fall below an amount equal to the then current Nasdaq National Market listing requirement for net tangible assets contained in paragraph 4450(a)(3) of the NASD Manual (as such provision may be amended from time to time), plus One Million Dollars ($1,000,000), reimbursing ABBOTT such Reimbursement Amount with interest at the United States prime rate of interest (as published in the Wall Street Journal Midwest Edition on the date on which ABBOTT funds such reimbursement), by issuing and delivering to ABBOTT shares of Common Stock of SONUS having a fair market value equal to the Reimbursement Amount pursuant to the terms, provisions and conditions of a Securities Purchase Agreement in form attached hereto as Appendix 2.4, and which is incorporated herein by this reference; or

(iv) reimbursing ABBOTT partially in cash pursuant to Section 2.4(A)(i) and the remainder in SONUS Common Stock pursuant to Section 2.4(A)(iii).

SONUS shall provide fifteen (15) days prior written notice to ABBOTT of the payment option SONUS elects under this Section 2.4(A). In addition, the definition of the "Field" set forth in Section 1.6 shall be expanded to include the indication(s) funded by ABBOTT pursuant to this Section 2.4(A).

(B) If the parties are unable to agree on a reduction of the percentage allocations of Revenue Payments payable by ABBOTT to SONUS in Article 7 pursuant to Section 2.4(A)(ii) within thirty (30) days of the date on which they began discussing such reduction, then the parties shall utilize the ADR Procedure under Article 21 to determine the reduction in percentage amounts payable by ABBOTT to SONUS in Article 7. In such event, from the time the ADR process is initiated and until the final decision of the neutral, Abbott, at its option, may withhold from payment to SONUS ten percent (10%) of the Revenue Payments due to SONUS under Article 7. The neutral shall also determine whether ABBOTT owes to SONUS a portion of the Revenue Payment withheld during the ADR, or SONUS owes to ABBOTT certain sums. Such amount due by one party to the other (if any) shall be due and payable (with interest at the prime rate of interest, as published in the Wall Street Journal, Midwest Edition on the date on which the decision is delivered) within thirty (30) days of the delivery of a decision.

(C) In the event ABBOTT should terminate its reimbursement of costs and expenses incurred by SONUS in connection with any clinical research pursuant to Section 2.4(A) prior to the conclusion of such clinical research, the parties shall negotiate in good faith to modify the percentage allocations of Revenue Payments allocable to such additional indications under Section 7.1 to reflect the amount of the additional expenditures made by SONUS for such additional clinical research, together with such other factors as are appropriate. Notwithstanding the foregoing, if within ninety (90) days of the receipt of regulatory approval of the Product for such additional indication supported by such clinical research in the United States or the European Union (whichever first occurs) ABBOTT pays to SONUS the amount ABBOTT would have paid had ABBOTT not terminated such reimbursement with interest at the prime rate of interest (as published in the Wall Street Journal, Midwest Edition on the date on which the termination took place from the date of such unreimbursed expenditures by SONUS to the date of payment by ABBOTT), the obligation of SONUS to reimburse ABBOTT as set forth above shall continue with respect to all such amounts paid by ABBOTT.

(D) If ABBOTT determines not to provide additional financial support for such additional clinical research as provided in Section 2.4(A) and SONUS proceeds with the additional research and development, then the parties shall

negotiate in good faith to modify the percentage allocations of Revenue Payments allocable to such additional indications under Section 7.1 below to reflect the amount of the expenditures to be made by SONUS for such additional clinical research related to such additional indications, together with such other factors as are appropriate. If the parties are unable to agree upon a reasonable modification of the percentage allocation of Revenue Payments within thirty (30) days of the date on which they began discussing such modification, then the parties shall use the ADR procedure pursuant to Article 21 to determine the modification of the percentage allocations of Revenue Payments (if any). The provisions of this Section 2.4 shall apply only with respect to the new indications for the Product specified above and shall not apply to any new product which is subject to the right of first refusal pursuant to Article 10."

4. SECTION 3.2 shall be amended as follows:

A. APPENDIX 3.2B - FORECASTED NET SALES ("NET SALES FORECAST"). The Net Sales Forecast shall be updated and revised by ABBOTT and mutually agreed upon by the parties in good faith.

B. SECTION 3.2(A) second sentence shall be amended as follows:

"ABBOTT shall use its reasonable best efforts to optimize sales, profitability and market share of the Product in the Territory in a manner consistent with the efforts which it exerts to optimize sales, profitability, and market share of its other products in the Territory."

C. SECTION 3.2(B) shall be amended by restating the preamble paragraph and clause (i) as follows:

"(B) SONUS shall not have the right to co-promote (as defined herein) the Product unless and until such time as SONUS has received FDA approval of the Product for both the Cardiology Indication and the Radiology Indication. In the event that (and

after such time as) SONUS has received FDA approval for the

Product for both the Cardiology Indication and the Radiology Indication, SONUS may co-Promote the Product at its own expense in the Territory only under the following circumstances:

(i) at any time after the first anniversary of the First Shipment Date, if ABBOTT's Net Sales to Third Parties are below fifty percent (50%) of the mutually agreed upon Net Sales Forecast for any two consecutive calendar quarters. SONUS shall notify ABBOTT in writing within thirty (30) days of receipt of the applicable second quarterly Net Sales report, as set forth in Section 7.1, of its intention to co-promote the Product. The Net Sales Forecast shall include the material assumptions made in preparing the Net Sales Forecast, including without limitation, the anticipated Cardiology Indication Approval Date and Radiology Indication Approval Date. SONUS' right to co-promote would be effective thirty (30) days after the date of ABBOTT's receipt of notice from SONUS. If SONUS does not so inform ABBOTT, then SONUS shall have waived its right to co-promote the Product with regard to that specific failure of ABBOTT to meet its Net Sales Forecast for such two (2) consecutive calendar quarters. In the event that the Cardiology/Radiology Approval Date does not occur within the time frame contemplated by the parties as set forth in Net Sales Forecast, the Net Sales Forecast shall be adjusted as mutually agreed by the parties to reflect the revised anticipated Cardiology/Radiology Approval Date and the specific indications approved, and any material changes to the assumptions for the Net Sales Forecast, including without limitation, any additional indications which may be approved as contemplated in Section 2.4. If the parties are unable to agree on such adjustment within thirty (30) days of the date on which they began discussing such adjustment, then the parties shall utilize the Alternative Dispute Resolution Procedure set forth in Section 21 to determine such adjustment."

D. SECTION 3.2(C) shall be amended by adding to the beginning thereto the following:

"In the event that SONUS co-promotes the Product pursuant to Section 3.2(B), such co-promotion shall be in a manner designed to be

complementary to ABBOTT's sales and marketing efforts. All SONUS deployment and promotional plans and budgets must be reviewed and approved by ABBOTT prior to implementation, such approval not to be unreasonably withheld."

5. SECTION 3.4(A) - PRODUCT MANUFACTURE shall be deleted in its entirety and replaced with the following:

"(A) ABBOTT and SONUS have previously entered into a Development and Supply Agreement dated as of May 6, 1993, as amended ("Supply Agreement") under which ABBOTT has agreed to manufacture the Product for SONUS. SONUS may purchase Product under the Supply Agreement to fulfill ABBOTT's purchase orders under Section 3.5. All manufacturing of the Product by ABBOTT for sale in the Territory by ABBOTT shall be governed by the terms of the Supply Agreement, as amended from time to time, and the specifications for the Product in effect under the Supply Agreement."

6. SECTION 3.5 - PRODUCT FORECASTS, ORDERS AND REJECTED PRODUCT shall be amended by adding at the end thereto Subsection (H) as follows:

"(H) ABBOTT and SONUS agree that during the term of the Agreement a certain portion of the Product will be packaged in a kit (procedure tray). In the early years following the First Shipment Date of the Product in a stand-alone vial, a larger percentage of total Unit Sales shall consist of kits, whereas, in later years, ABBOTT shall move toward marketing and selling a certain portion of the Product in a stand alone vial, as opposed to packaged in a kit in accordance with the following guidelines:

<TABLE>
<CAPTION>

Following First Shipment Date	Kits as a Maximum Percentage of Total Unit Sales

<S> <C>
First 12 Months 100%
Second 12 Months 90%
Third 12 Months 75%
</TABLE>

<TABLE>
<S> <C>
Fourth 12 Months 50%
Fifth 12 Months and remainder of Term of Agreement 25%
</TABLE>

After the expiration of the Launch Budget Reimbursement Payments under Article 6.2 and in the event that actual Unit Sales of the kits (procedure trays) as a percentage of total Unit Sales exceed the percentage thresholds set forth in this subsection (H), ABBOTT and SONUS agree to meet to discuss an adjustment of the percentages or modifications to the kit (procedure tray) or modification to the percentage allocation of Revenue Payments under Article 7.1, as appropriate. If the parties are unable to agree upon an appropriate and reasonable adjustment or modification within thirty (30) days of the date on which they began discussing such modification, then the parties shall use the ADR procedure pursuant to Article 21 to determine an appropriate and reasonable adjustment or modification, if any.

7. SECTION 3.6 - CLINICAL RESEARCH, REGULATORY AFFAIRS, TECHNICAL MARKETING/MEDICAL SUPPORT. The last two sentences of subsection (A) are deleted. Subsections (C) and (D) are added as follows:

"3.6. Clinical Research, Regulatory Affairs, Technical Marketing/Medical Support.

(C) ABBOTT shall be responsible for required adverse drug event reporting to the FDA and will consult with SONUS prior to such required reports to allow SONUS to conduct an investigation of the event and review all such reports prior to submission to the FDA. Notwithstanding the foregoing provisions, however, nothing in this Agreement shall require ABBOTT to delay submitting any adverse event report beyond the time limit set by the FDA. Each party shall promptly notify the other party of all communications from and to the FDA regarding the Product.

(D) ABBOTT shall be responsible for obtaining reimbursement code programs with respect to all federally-funded and/or state-funded reimbursement

programs. ABBOTT will pursue such activities diligently and will use its reasonable best efforts to obtain such reimbursement code programs."

8. ARTICLE 4 - CANADA AND LATIN AMERICA AND OTHER TERRITORIES shall be deleted in its entirety.

9. SECTION 5 - LICENSES shall be amended by adding a new Subsection (D) as follows:

"(D) As specified in amended Appendix 2.3 certain milestone payments have been conditioned upon the achievement of specific milestones relating to the Cardiology Indication and the Radiology Indication. Payments due on or after the date of this Amendment have been apportioned (i) fifty percent (50%) to milestones related to the achievement of the FDA approval of the Cardiology Indication for the Product ("Cardiology Milestone Payments") and (ii) fifty percent (50%) have been apportioned to the achievement of FDA approval of the Radiology Indication (or a modification of the Radiology Indication, as may be mutually agreed upon by ABBOTT and SONUS through good faith discussions and in writing, through a development plan agreed upon and approved by both ABBOTT and SONUS within ninety (90) days following the date hereof) for the Product and other specific milestones relating to the Radiology Indication ("Radiology Milestone Payments").

(E) Within one (1) year following the Radiology Prepayment Date (as such term is defined on Exhibit A to the Securities Purchase Agreement), SONUS shall have the right to request that ABBOTT prepay any or all of the Radiology Milestone Payments in

consideration for the issuance by SONUS to ABBOTT of shares of SONUS Common Stock, pursuant to and subject to the terms and conditions of a the Securities Purchase Agreement in the form attached hereto as Appendix 2.4, the terms and conditions of which Securities Purchase Agreement are incorporated herein by reference. Anything herein or in the Securities Purchase Agreement notwithstanding, SONUS shall not have the right to request that Abbott make any prepayment of any Radiology Milestone Payment (i) relating to the NDA approval milestone unless and until SONUS has received the

first FDA approval of the Product in the Field, and (ii) relating to the first shipment of the Product milestone unless and until the first shipment of the Product has occurred. If SONUS does not request prepayment of the Radiology Milestone Payments within such one (1) year period as provided in the Securities Purchase Agreement, ABBOTT shall not be obligated to pay the Radiology Milestone Payments until such time as SONUS obtains FDA approval of the Radiology Indication. In the event that ABBOTT has prepaid any or all of the Radiology Milestone Payments, SONUS shall repay thirty percent (30%) of the dollar value of such prepaid amount ("Repayment Amount") to ABBOTT if SONUS fails to achieve the Radiology Milestone on or before the date which is five (5) years following the Amendment Effective Date. SONUS shall pay to ABBOTT the Repayment Amount by either, at the option of SONUS:

(i) repaying ABBOTT the Repayment Amount in the form of cash within ten (10) days following the date which is five (5) years following the Amendment Effective Date; or

(ii) issuing and delivering to ABBOTT a number of shares of Common Stock of SONUS equal to the Repayment Amount pursuant to the terms and conditions of the Securities Purchase Agreement.

10. SECTION 6.2 - LAUNCH BUDGET REIMBURSEMENT PAYMENTS - shall each be deleted in its entirety and replaced with the following:

"6.2 Launch Budget Reimbursement Payments. Each calendar quarter following the First Shipment Date and until the earlier to occur of either: (a) the last day of the calendar quarter in which achievement of Net Sales equal to or greater than fifteen million dollars ($15,000,000) in two (2) consecutive calendar quarters, or (b) December 31, 2002, one party shall pay to the other party an amount equal to fifty percent (50%) of the excess of Budget Launch Expenses of one party over the Budget Launch Expenses of the other party for the same period (e.g. if ABBOTT has Budget Launch Expenses of $10,002,000 and SONUS has Budget Launch Expenses of $7,491,000 in the first twelve (12) months of Product sales, the amount to be paid by SONUS to ABBOTT is $10,002,000 - $7,491,000 x 50% or $1,255,500). The payment will be made within sixty (60) days of the end of each calendar quarter for the period the

launch expenses are incurred. In the case of payment to be made by SONUS, the amounts payable shall be offset against payments to be made by ABBOTT to SONUS as set forth in Article 7. In the case of payments to be made by ABBOTT, the payments will be made by wire transfer. Each party shall supply to the other party all wire transfer account information. As used herein, "Budget Launch Expenses" shall mean the lesser of: (i) the actual cost and expenses incurred by a party related to the launch of the Product, including, but not limited to costs and expenses related to technical marketing and medical support, or (ii) the amount of the costs and expenses set forth in the party's budget as previously agreed to and approved in writing by the other party."

11. SECTION 6.3 - LOSS CARRY FORWARD. Section 6.3 shall be deleted in its entirety and replaced with the following:

"6.3 Loss Carry Forward. If a Launch Budget Reimbursement Payment as calculated in Section 6.2 is to be made by SONUS to ABBOTT and such Launch Budget Reimbursement Payment has not been fully paid by SONUS to ABBOTT by the earlier to occur of either: (a) achievement of Net Sales equal to or greater than fifteen million dollars ($15,000,000) in two (2) consecutive calendar quarters, or (b) December 31, 2002, then the unpaid amount shall be carried forward and offset against Revenue Payments for subsequent quarters until such time as the entire Launch Budget Reimbursement Payment has been paid or credited to ABBOTT."

12. SECTION 7.1 - CALCULATION OF REVENUE PAYMENTS - shall be amended by adding to the end thereof the following:

"Anything herein to the contrary notwithstanding, the amount of the payments to be made by ABBOTT to SONUS as set forth in Article 7 shall not be reduced by more than fifty percent (50%) in any calendar quarter as a result of the offsets pursuant to Section 6.2. Any offsets which otherwise would have been made except for the preceding sentence or for any other reason shall be carried forward and applied as offsets against future payments to be made by ABBOTT to SONUS as set forth under Article 7."

13. SECTION 8.3 - PROHIBITION shall be amended by deleting the initial phrase "With the

exception of purchase under Section 8.1," and replacing it with the phrase "With the exception of purchase under the terms of this Agreement or any other written agreement between SONUS and ABBOTT or ABBOTT's Affiliates".

14. SECTION 16 - NON-COMPETE shall be amended by deleting the first sentence thereof and replacing it with the following sentence:

"For a period of five (5) years after the Amendment Effective Date, each party and its Affiliates shall undertake not to market or sell a competing product in the Territory to an end user."

15. QW7437 RIGHTS AND NEGOTIATION.

As of the Amendment Effective Date, SONUS has under development an ultrasound diagnostic imaging product within the Field which SONUS has designated as "QW7437". SONUS and ABBOTT acknowledge and agree that: (i) QW7437 falls within the definition of "Product" set forth in Section 1.16 (although all specific terms and conditions with respect to QW7437 shall be set forth in a separate agreement between ABBOTT and SONUS), and (ii) ABBOTT has exclusive rights to market and sell QW7437. SONUS and ABBOTT shall exert all reasonable efforts to negotiate in good faith, execute and deliver a separate agreement with respect to QW7437.

16. REGISTRATION RIGHTS. SONUS shall, prior to or on the Amendment Effective Date, cause to be amended and restated the Sonus Pharmaceuticals, Inc. Third Amended and Restated Registration Rights Agreement dated May 15, 1996, as amended ("Registration Rights Agreement"), to include the shares of Common Stock issued by SONUS to ABBOTT and Common Stock issuable upon exercise of the Warrants pursuant to the Agreement, as amended, and the Securities Purchase Agreement, as "Registrable Securities" as the term "Registrable Securities" is defined in the Registration Rights Agreement. The effectiveness of this Amendment shall be conditioned upon the approval, execution and delivery of the Registration Rights Agreement, amended and restated as set forth in this Section 16 of the Amendment.

17. APPENDICES. Appendices of the Agreement are amended as set forth in the corresponding Appendices attached to this Amendment.

18. CONFIDENTIALITY. In the event that this Amendment is to be filed with the Securities and Exchange Commission, ABBOTT and SONUS shall discuss any request for confidential treatment of certain financial and other terms of this Amendment and cooperate in the preparation and filing of any confidential treatment requests submitted to the Securities and Exchange Commission with respect to this Amendment.

19. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all together shall constitute one and the same instrument.

20. AMENDED TERMS. Except as expressly modified and amended by this Amendment, all terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative as of the day and year first above written.

ABBOTT LABORATORIES	SONUS PHARMACEUTICALS, INC.
By: /s/ Richard A. Gonzalez	By: /s/ Michael A. Martino
Richard A. Gonzalez	Name: Michael A. Martino
President, Hospital Products Division	Title: President

AMENDED
APPENDIX 1.7

INDICATIONS AND USAGE
AS OF JANUARY 25, 1998

RADIOLOGY INDICATION

An indication for EchoGen(R) Emulsion which is substantially equivalent to the following: EchoGen(R) Emulsion as indicated for use in adult patients undergoing ultrasound examination to provide contrast enhancement or facilitate visualization of anatomic structures, lesions, and normal and abnormal blood flow patterns during studies of the liver, kidney, and peripheral vasculature.

CARDIOLOGY INDICATION

An indication for EchoGen(R) Emulsion which is substantially equivalent to the following: EchoGen(R) Emulsion as indicated for use in resting echocardiography to provide contrast enhancement of ventricular chambers and to improve endocardial border delineation in patients with suboptimal echoes undergoing ventricular function and wall motion studies.

AMENDED
APPENDIX 2.3

RESEARCH AND DEVELOPMENT
PAYMENT SCHEDULE

1. Execution of definitive Agreement (May 14, 1996) $4 Million
(Includes $1,000,000 payment for grant of licenses)

<TABLE>
<S> <C>

2.	Quarterly Milestone Payments*	
	Payment 1	$1 Million
	Payment 2	$1 Million
	Payment 3	$1 Million
	Payment 4	$1 Million
	Payment 5	$1 Million
	Payment 6	$1 Million
	Payment 7	$1 Million
3.	Filing NDA** within 15 days	$2 Million
	within 105 days	$1 Million
	within 195 days	$1 Million
4.	NDA acceptance by FDA**	
	within 15 days	$1 Million
	within 105 days	$1 Million
	within 195 days	$1 Million
	within 285 days	$1 Million
5.	Advisory Panel Approval**	
	within 15 days	$2 Million
	within 105 days	$2 Million
6.	NDA Approval **	$4 Million
7.	First Shipment of Product **	$4 Million

</TABLE>

*Payments made on January 1, April 1, July 1, and October 1. Payments will begin on the first quarter after the Effective Date.

**For one or more indications which are the Cardiology Indication and Radiology Indication defined in Sections 1.21 and 1.22, respectively. Of the amount specified in each of item 6 and 7, fifty percent (50%) shall be earned based on the FDA approval of the NDA for the Cardiology Indication and fifty percent (50%) shall be earned based on FDA approval of the NDA for the Radiology Indication. The manner in which these milestones are earned and paid is further set forth in the Securities Purchase Agreement.

APPENDIX 2.4

SECURITIES PURCHASE AGREEMENT

[ATTACHED]

FIRST AMENDMENT TO INTERNATIONAL LICENSE AGREEMENT BETWEEN ABBOTT INTERNATIONAL, LTD. AND SONUS PHARMACEUTICALS, INC.

THIS FIRST AMENDMENT ("Amendment") dated January 31, 1999 ("Amendment Effective Date"), by and between Abbott International, Ltd., a Delaware corporation with principal offices at 100 Abbott Park Road, Abbott Park, Illinois 60064-3500 ("ABBOTT") and SONUS Pharmaceuticals, Inc., a Delaware corporation with principal offices at 22026 20th Avenue, S.E., Suite 102, Bothell, Washington 98021 ("SONUS").

RECITALS

WHEREAS, ABBOTT and SONUS have previously entered into an International License Agreement dated October 1, 1996 ("International Agreement"), whereby ABBOTT obtained certain exclusive marketing rights for certain territories outside of the United States, subject to limited SONUS co-promotion rights, to certain ultrasound contrast agents;

WHEREAS, ABBOTT and SONUS desire to amend the International Agreement as set forth in this Amendment;

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants set forth below, ABBOTT and SONUS mutually agree as follows:

1. Capitalized terms used in this Amendment and not otherwise defined in this Amendment shall have the meanings set forth in the International Agreement. Article 1 of the International Agreement is amended as follows:

   (a) Article 1.10 is amended as follows:

   > "`First Sale Date' means the earlier of: (i) the date of the first sale of the Product in a given Major Country following the Approval Date
   >
   > (as defined below) in such Major Country by ABBOTT or an ABBOTT Affiliate or sublicensee to a Third Party; or (ii) the date ninety (90) days after the Approval Date in such Major Country."

   (b) The following new definitions are added to Article 1:

   > "1.24 `Approval Date' means the later to occur of the date of Regulatory Approval by the European Medicines Evaluation Agency ("EMEA") of the Product for (i) the Cardiology Indication and (ii) the Radiology Indication.
   >
   > "1.25 `Cardiology Indication' means the indication for the Product which is substantially equivalent to those indications as defined in the EMEA Marketing Authorization dated July 17, 1998.
   >
   > "1.26 `Radiology Indication' means the indication for the Product for use in adult patients undergoing ultrasound examination to provide B-mode gray scale contrast enhancement and Doppler signal enhancement, and to facilitate visualization of anatomic structures, lesions and blood flow patterns during studies of the liver, kidney, and peripheral vasculature."

2. The introduction of Article 2.1(A) of the International Agreement is amended as follows:

   > "(A) SONUS shall be responsible for all activities required to obtain Regulatory Approval, exclusive of price approval and reimbursement approval, in Countries which as of the Effective Date, are members of the European Community (`EC Countries'). These activities will include, but not be limited to, clinical trials and the filing of an application for marketing approval with the EMEA. SONUS will pursue these activities diligently and will use its reasonable best efforts to obtain such Regulatory Approval, exclusive of price approval and reimbursement approval, as quickly as is feasible. ABBOTT shall be responsible for all activities required to obtain price approval and reimbursement approval in such EC Countries. ABBOTT will pursue such activities diligently and will use its reasonable best efforts to obtain such price approvals and reimbursement approvals as quickly as is feasible."

3. Article 2.2(A) of the International Agreement is amended as follows:

   > "(A) If ABBOTT desires to participate financially in such

additional clinical research, and communicates its decision to participate in accordance with Article 2.4 of the United States Agreement, as amended, SONUS shall reimburse ABBOTT fifty

percent (50%) of such costs and expenses funded by ABBOTT (`Reimbursement Amount') by either, at the option of SONUS:

(i) reimbursing ABBOTT in cash such Reimbursement Amount with interest at the United States prime rate of interest (as published in the Wall Street Journal Midwest Edition on the date on which ABBOTT funds such reimbursement) within five (5) years of the date such Reimbursement Amount is fully paid by ABBOTT; or

(ii) reducing the royalty rates payable by ABBOTT to SONUS as provided in Article 6.1 at such dates and in such amounts as is mutually agreed by the parties; or

(iii) in the event that the net tangible assets of SONUS shall, at any time within five (5) years of the date such Reimbursement Amount is fully paid by ABBOTT, fall below an amount equal to the then current Nasdaq National Market listing requirements for net tangible assets contained in paragraph 4450(a)(3) of the NASD Manual, as such paragraph may be amended from time to time, plus One Million Dollars ($1,000,000) reimbursing ABBOTT such Reimbursement Amount with interest at the United States prime rate of interest (as published in the Wall Street Journal Midwest Edition on the date on which ABBOTT funds such reimbursement), by issuing and delivering to ABBOTT within such five (5) year period shares of Common Stock of SONUS having a fair market value equal to such Reimbursement Amount plus such interest pursuant to the terms and conditions of a Securities Purchase Agreement substantially in the form attached hereto as Exhibit 2.2(A), and which is incorporated herein by reference; or

(iv) reimbursing ABBOTT partially in cash pursuant to Article 2.2(A)(i) and the remainder in SONUS Common Stock pursuant to Article 2.2(A)(iii). If the parties are unable to agree on a reduction of the royalty rates pursuant to Article 2.2(A)(ii) within thirty (30) days of the date on which they began discussing such reduction, then the parties shall utilize the ADR procedure pursuant to Article 20 to determine the royalty rate reduction. Once the ADR procedure has been initiated, and through the date of the final ADR decision, ABBOTT may deduct 10% from its royalty payments to SONUS. Promptly after the ADR decision, ABBOTT shall pay SONUS the balance of royalty

payments due under the reduced royalty rate (if any), or SONUS shall repay to ABBOTT the overpayment by ABBOTT (if any). Any such amount due from one party to the other shall be due and payable (with interest at the prime rate of interest as published in the Wall Street Journal Midwest Edition on the date of the ADR decision) within thirty (30) days of the owing party's receipt of the ADR decision."

4. The second sentence of Article 3.2(A) of the International Agreement is amended as follows:

"ABBOTT shall use its reasonable best efforts to optimize sales, profitability, and market share of the Product in the Territory in a manner consistent with the efforts which it exerts to optimize sales, profitability, and market share of its other products in the Territory."

5. Article 3.2(B)(i)(c)(1) of the International Agreement is amended as follows:

"(1) ABBOTT's failure to make the minimum royalty payment in a Major Country in the Territory was due to the fact that the Approval Date did not occur within the time frame contemplated by the parties as set forth in the Plan for that Major Country. The Net Sales forecast shall be adjusted as mutually agreed by the parties to reflect the actual Approval Date and the actual indications approved, and any material changes to the assumptions for the Net Sales forecast, including without limitation any

additional indications which may be approved as contemplated in Section 2.2. If the parties are unable to agree on such adjustment within thirty (30) days of the date on which they began discussing such adjustment, then the parties will utilize the Dispute Resolution Procedure under Article 20 to determine such adjustment."

6. Article 3.4(A) of the International Agreement is deleted and replaced with the following:

(A) ABBOTT and SONUS have previously entered into a Development and Supply Agreement dated May 6, 1993, as amended ("the Supply Agreement") under which ABBOTT has agreed to manufacture the Product for SONUS. SONUS may purchase Product under the Supply Agreement to fulfill ABBOTT's purchase orders under Article 3.5. All manufacturing of the Product by ABBOTT for sale in the Territory by ABBOTT shall be in accordance with the terms of the Supply Agreement, as

amended from time to time, and the specifications for the Product under the Supply Agreement."

7. Article 3.4 of the International Agreement is amended by adding the following:

"(E) ABBOTT and SONUS agree that during the term of this Agreement a certain portion of the Product will be packaged in a kit (procedure tray). In the early years following the First Sale Date of the Product packaged as a stand-alone vial in the European Union (E.U.), a larger percentage of total Unit Sales shall consist of kits, whereas in later years, ABBOTT shall move toward selling a larger percentage of the total Unit Sales of stand-alone vials, in accordance with the following guidelines:

<TABLE>
<CAPTION>

Following First Sale Date of Product in Stand-Alone Vial in the E.U.	Kits as a Maximum Percentage of Total Unit Sales
<S>	<C>
First 12 Months	100%
Second 12 Months	90%
Third 12 Months	75%
Fourth 12 Months	50%
Fifth 12 Months and remainder of term of Agreement	25%

</TABLE>

In the event that actual Unit Sales of the kits as a percentage of total Unit Sales exceed the percentage thresholds set forth in this Subsection (E), ABBOTT and SONUS agree to discuss an adjustment of the percentages or modifications to the kit or a modification to the royalty rates under Article 6, as appropriate." If the parties are unable to agree upon a reasonable adjustment or modification within thirty (30) days of the date on which they began discussing such adjustment or modifications, then the parties shall use the ADR procedure pursuant to Article 20 to determine such adjustment or modifications (if any).

8. Article 4 of the International Agreement shall be amended by adding the following last sentence:

"ABBOTT agrees that, as of the Amendment Effective Date, SONUS has fulfilled its obligations to ABBOTT relating to the SONUS/Daiichi Agreement under this Article 4."

9. SONUS acknowledges that ABBOTT has exercised the options granted under Article 5.1(C)(i) and Article 5.1(C)(ii), and that the licenses relating respectively to such options

have been granted to ABBOTT and are part of, and subject to the terms and conditions of, the International Agreement as modified by this Amendment.

10. SONUS acknowledges that the amounts referred to in items 1, 2 and 3 of Appendix 5.2 and in items 1, 2 and 3 of Appendix 5.3 of the International Agreement, as modified by this Amendment, have been paid by ABBOTT to SONUS in full prior to the Amendment Effective Date.

11. New Articles 5.4 and 5.5 are added to the International Agreement as follows:

"5.4 Acceleration of Radiology Milestone Payments. As indicated in Appendices 5.2 and 5.3 of the International Agreement, as modified by this Amendment, certain of the milestone payments have been conditioned upon the achievement of specific milestones relating to specified indications for the Product. Fifty percent (50%) of each such payment is to be earned based on approval of the Cardiology Indication (`Cardiology Milestone Payment') and the remaining fifty percent (50%) is to be earned based on approval of the Radiology Indication or of a radiology indication mutually agreed by the parties in writing hereafter (`Radiology Milestone Payment').

5.5 Prepayment of Radiology Milestone. Within one (1) year following the Radiology Prepayment Date (as such term is defined in Exhibit A to the Securities Purchase Agreement), SONUS shall have the right to request that ABBOTT prepay any or all of such Radiology Milestone Payments in consideration for the issuance by SONUS to ABBOTT of shares of SONUS Common Stock pursuant to and subject to the terms and conditions of the Securities Purchase Agreement in the form attached hereto as Exhibit 2.2(A), the terms and conditions of which Securities Purchase Agreement are incorporated herein by reference. Anything herein or in the Securities Purchase Agreement notwithstanding, SONUS shall not have the right to request that ABBOTT make any prepayment of any Radiology Milestone Payment, (i) relating to the U.S. NDA approval milestone unless and until SONUS has received the first U.S. FDA approval of the Product in the Field (as defined in the United States Agreement), and (ii) relating to the first shipment date of Product for sale in Germany, France, Italy, Spain, Canada or

the United Kingdom milestone, unless and until the first shipment of Product has occurred in any such country. If SONUS does not request prepayment of the Radiology Milestone Payments within such one (1) year period as provided in the Securities Purchase Agreement, ABBOTT shall not be obligated to pay the Radiology Milestone Payments until such time as SONUS obtains EMEA approval of the Radiology Indication. In the event that ABBOTT has prepaid any or all of the Radiology Milestone Payments, SONUS shall repay thirty percent (30%) of the dollar value of such prepaid amount ("Repayment Amount") to ABBOTT if SONUS fails to achieve the Radiology Milestone on or before the date which is five (5) years following the Amendment Effective Date. SONUS shall pay to ABBOTT the Repayment Amount by either, at the option of SONUS:

(i) repaying ABBOTT the Repayment Amount in the form of cash within ten (10) days following the date which is five (5) years following the Amendment Effective Date; or

(ii) issuing and delivering to ABBOTT a number of shares of Common Stock of SONUS equal to the Repayment Amount pursuant to the terms and conditions of the Securities Purchase Agreement.

12. Article 6.1 of the International Agreement is amended as follows:

"Royalty Rate. The Royalty Rate applicable to calculate ABBOTT's Royalty payment, pursuant to Article 6.2 below, shall be based upon the number of approved indications for the Product in Germany, France, Italy, Spain and the United Kingdom, and upon the level of ABBOTT's aggregate annual Net Sales in the Territory, as set forth in Appendix 6.1 to this Amendment."

13. As of the Amendment Effective Date, SONUS has under development an ultrasound diagnostic imaging product within the Field which SONUS has designated as "QW7437". SONUS and ABBOTT acknowledge and agree that: (i) QW7437 falls within the definition of "Product" (although all specific terms and conditions with respect to QW7437 shall be set forth in a separate agreement between ABBOTT and SONUS), and (ii) ABBOTT has exclusive rights to market and sell QW7437. SONUS and ABBOTT shall exert all reasonable efforts to negotiate in good faith, execute and deliver a separate agreement with respect to QW7437.

14. Registration Rights. SONUS shall, prior to or on the Amendment Effective Date, cause to be amended the Sonus Pharmaceuticals, Inc. Third Amended and Restated Registration Rights Agreement dated May 15, 1996, as amended ("Registration Rights Agreement"), to include the shares of Common Stock issued by SONUS to ABBOTT and Common Stock issuable upon exercise of the Warrants pursuant to the United States Agreement, as amended, and the Securities Purchase Agreement, as "Registrable Securities" as the term "Registrable Securities" is defined in the Registration Rights Agreement.

15. Appendices. Appendices of the International Agreement are amended as set forth in the corresponding Appendices attached to this Amendment.

16. Confidentiality. In the event that this Amendment is to be filed with the Securities and Exchange Commission, ABBOTT and SONUS shall discuss any request for confidential treatment of certain financial and other terms of this Amendment and cooperate in the preparation and filing of any confidential treatment requests submitted to the Securities and Exchange Commission with respect to this Amendment.

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

18. Except as expressly modified by this Amendment, all terms and conditions of the International Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be executed by its duly authorized representative as of the day and year first above written.

ABBOTT INTERNATIONAL, LTD.	SONUS PHARMACEUTICALS, INC.
By: /s/ Richard A. Gonzalez	By: /s/ Michael A. Martino
Title: President, Hospital Products Division	Title: President

APPENDIX 5.2

MILESTONE AND LICENSE FEES
PAYMENT SCHEDULE

1.	Execution of Definitive Agreement	US$ 1 million
2.	Filing of NDA with EMEA within 15 days	US$ 1 million
3.	Commencement of Phase III Myocardial Perfusion Studies*	
	within 30 days	US$ 1 million
	within 120 days	1 million
	within 150 days	1 million
4.	United States NDA Approval	
	within 15 days	US$ 3 million***
5.	European Community Marketing Authorization Granted	
	within 15 days	US$ 2 million
	within 105 days	1 million***
	within 195 days	1 million***
6.	First Shipment Date of Product for Sale**	
	within 15 days	US$ 3 million***
	within 105 days	1 million***
7.	Annual**** (One-Time) U.S. $20 Million Net Sales in the Territory	US$ 4 million
8.	Annual**** (One-Time) U.S. $40 Million Net Sales in the Territory	US$ 2 million
Total License and Milestone Payments		US$ 22 million

*"Commencement" means enrollment of first patient in a U.S. clinical study.

**To Germany, France, Italy, Spain, Canada or the United Kingdom.

***These milestone payments shall be earned based on approved indications. Of the amount specified in item 4 above, fifty percent (50%) shall be earned based on United States NDA approval by the FDA of the Cardiology Indication for the Product, and fifty percent (50%) shall be earned based on United States NDA approval by the FDA of the Radiology Indication or a radiology indication mutually agreed by the parties hereafter for the Product. Of the amounts specified in items 5 and 6 above, fifty percent (50%) shall be earned based on approval by the EMEA of the Cardiology Indication for the Product, and fifty percent (50%) shall be earned based on approval by the EMEA of the Radiology Indication or of a radiology indication mutually agreed by the parties hereafter for the Product.

****"Annual" means the then-applicable fiscal year of ABBOTT.

APPENDIX 5.3

OFFSETTABLE MILESTONES, LICENSE AND OPTION FEES
PAYMENT SCHEDULE

<TABLE>

<S>	<C>	<C>
1.	Execution of Definitive Agreement within 300 days	US$ 700,000
2.	Commencement of Phase III Myocardial Perfusion Studies*	
	within 30 days	US$ 700,000
	within 120 days	700,000
3.	After Exercise by ABBOTT of Article 5.1 (C) Option	
	On December 15, 1997	US$ 1,400,000
	On January 15, 1998	700,000
	On April 15, 1998	700,000
4.	European Community Marketing Authorization Granted	
	within 15 days	US$ 700,000
	within 105 days	700,000**
	within 195 days	700,000**
	within 265 days	700,000**
5.	Annual*** (One-Time) U.S. $20 Million Net Sales in the Territory	US$ 2,800,000
6.	Annual*** (One-Time) U.S. $40 Million Net Sales in the Territory	US$ 2,100,000
	Total Offsettable License and Milestone Payments	US$ 12,600,000

</TABLE>

* "Commencement" means enrollment of first patient in a U.S. clinical study.

** These milestone payments shall be earned based on approved indications. Fifty percent (50%) shall be earned based on approval by the EMEA of the Cardiology Indication for the Product, and fifty percent (50%) shall be earned based on approval by the EMEA of the Radiology Indication or a radiology indication mutually agreed by the parties hereafter for the Product.

*** "Annual" means the then-applicable fiscal year of ABBOTT.

APPENDIX 6.1

ROYALTY RATES

<TABLE>
<CAPTION>

Indications	Aggregate Annual** Sales	Royalty Rate
<S>	<C>	<C>
Sales during the period that there is only Cardiology Indication approved in the E.U.*	Up to $42 million	24% of Net Sales
Sales during the period that there is only Cardiology Indication approved in the	Greater than $42 million	28% of Net Sales

E.U.*		
Sales during the period that there are Cardiology and Radiology Indications approved in the E.U.*	Up to $90 million	28% of Net Sales
Sales during the period that there are Cardiology and Radiology Indications approved in the E.U.*	From $90 million to $125 million	32% of Net Sales
Sales during the period that there are Cardiology and Radiology Indications approved in the E.U.*	Over $125 million	36% of Net Sales
Sales during the period that there are Cardiology, Radiology and perfusion Indications approved in the E.U.*	Up to $90 million	32% of Net Sales
Sales during the period that there are Cardiology, Radiology and perfusion Indications approved in the E.U.*	From $90 million to $125 million	36% of Net Sales
Sales during the period that there are Cardiology, Radiology and perfusion Indications approved in the E.U.*	From $125 million to $225 million	40% of Net Sales
Sales during the period that	Over $225 million	42% of Net Sales

<S>	<C>	<C>
there are Cardiology, Radiology and perfusion Indications approved in the E.U.*		

* "Approved in the E.U." means that EMEA marketing authorization has been obtained for the specified indications in at least Germany, France, Italy, Spain and the United Kingdom.

EXHIBIT 10.35

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement is entered into as of this 31 day of January 1999 by and between Abbott Laboratories, an Illinois corporation ("Abbott") and SONUS Pharmaceuticals, Inc. a Delaware corporation ("SONUS").

RECITALS

A. Concurrently herewith Abbott and SONUS are entering into a First Amendment to that certain Agreement between Abbott and SONUS dated May 14, 1996 (as amended, the "U.S. Agreement") and a First Amendment to that certain International License Agreement dated October 1, 1996 (as amended, the "International Agreement") (the U.S. Agreement and the International Agreement are collectively referred to herein as the "Agreements") whereby, among other things, Abbott and SONUS have agreed that certain milestone payments shall be made conditioned upon the achievement of specified milestones relating to a Cardiology Indication (the "Cardiology Milestone Payments"), and that certain milestone payments shall be conditioned upon the achievement of specified milestones relating to a specified Radiology Indication (collectively, the "Radiology Milestone Payments"), as more particularly specified on Appendix 2.3 of the U.S. Agreement and Appendix 5.2 and 5.3 of the International Agreement.

B. The Agreements provide that SONUS shall have the right to request that Abbott prepay all or a portion of the Radiology Milestone Payments on or after the Radiology Prepayment Date, as specified in Exhibit A attached hereto, in consideration for the issuance by SONUS of shares of its Common Stock under the terms and conditions provided herein.

C. Pursuant to Section 2.4 of the U. S. Agreement, and Article 2.2(A) of the International Agreement, Abbott may at its option elect to fund certain expenditures for clinical research conducted by SONUS to support research and development for ultrasound diagnostic applications for certain specified indications for the Product, in which event SONUS shall become obligated to reimburse Abbott fifty percent (50%) of such costs and expenses funded by Abbott plus accrued interest (the "Additional Clinical Reimbursement Amounts"). Such sections of the Agreements further provide that in the event that the net tangible assets of SONUS shall at any time fall below an amount equal to the current Nasdaq National Market listing requirement for net tangible assets contained in paragraph 4450(a)(3) of the NASD Manual, plus $1,000,000, SONUS at its option may repay the Additional Clinical Reimbursement Amounts by delivering shares of Common Stock of SONUS pursuant to the terms and provisions set forth herein.

In consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Agreements, or a specific Agreement as may be indicated herein or as may be applicable due to variations in certain definitions between the Agreements.

2. Purchase and Sale of Common Stock Upon Prepayment of Radiology Milestone Payments and Payment of Repayment Amount.

2.1 Purchase and Sale Upon Prepayment of Radiology Milestone Payments. In the event that SONUS desires that Abbott prepay all or any portion of the Radiology Milestone Payment, SONUS shall give written notice to Abbott of such prepayment request within one (1) year following the Radiology Prepayment Date, which notice shall specify the amount of the prepayment (which may not exceed the amount of the Radiology Milestone Payment). In such event, pursuant to the terms and conditions set forth herein, SONUS shall issue to Abbott and Abbott shall accept and purchase from SONUS a number of shares of Common Stock equal to the amount of the prepayment divided by the "Fair Market Value" per share of Common Stock. The "Fair Market Value" of the Common Stock shall be determined as follows:

(a) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such an exchange, or is listed on the Nasdaq National Market or Small Cap Market or any comparable system, the current Fair Market Value shall be the average of the daily closing prices of the Common Stock on such exchange or Nasdaq for the twenty (20) trading days prior to the notice by SONUS to Abbott of the requested prepayment; the closing price for any day shall be the last reported sale price regular way or, if no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case (1) on the principal national securities exchange on which the shares of Common Stock are listed or to which such shares are admitted to trading or (2) if the Common Stock is not listed or admitted to trading on a national securities exchange, in the over-the-counter market as reported by Nasdaq or any comparable system; or

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges or quoted on Nasdaq or any comparable system, the current Fair Market Value shall be the average of the daily closing prices for the twenty (20) trading days prior to the notice by SONUS to Abbott of the requested repayment as furnished by two members of Nasdaq selected from time to time in good faith by the Board of Directors of SONUS for that purpose; or

(c) In the absence of the foregoing valuation methods in Section 2.1(a) or (b), or if for any other reason the Fair Market Value per share cannot be determined pursuant to Section 2.1(a) or (b), the current Fair Market Value shall be determined in good faith as promptly as reasonably practicable by the Board of Directors of SONUS.

(d) Anything herein to the contrary notwithstanding, for the purpose of determining Fair Market Value under this Section 2.1 (but not in Section 3.1), the Fair Market Value shall not exceed $16.00 per share of Common Stock.

2.2 Purchase and Sale Upon Payment of Repayment Amount. In the event SONUS has requested that Abbott prepay a Radiology Milestone Payment and SONUS fails to achieve the milestone giving rise to the Radiology Milestone Payment within five (5) years from the date of this Agreement, SONUS shall be obligated to pay Abbott an amount equal to thirty percent (30%) of the amounts prepaid (the "Repayment Amount") in cash, or by the issuance of shares of Common Stock. In the event SONUS elects to pay the Repayment Amount in cash, such repayment shall be made within ten (10) days following the expiration of the five (5) year period. In the event SONUS elects to pay the Repayment Amount in the form of the issuance of shares of Common Stock, SONUS shall issue to Abbott and Abbott shall accept and purchase from SONUS that number

of shares of Common Stock of SONUS equal to the Repayment Amount divided by the Fair Market Value per share (determined in accordance with Section 2.1 above for the seventeen (17) trading days preceding the third trading day prior to the closing date). The issuance of such shares of Common Stock shall constitute payment in full of the Repayment Amount. Anything herein to the contrary notwithstanding, in the event that SONUS elected to pay the Repayment Amount in the form of issuance of shares of SONUS Common Stock and either (i) SONUS' ability to issue some or all of the shares of Common Stock for such repayment to Abbott is suspended pursuant to the terms of Section 2.4, or (ii) the conditions to closing set forth in Section 6 have not been fulfilled within 180 days following the expiration of the five (5) year period following the date hereof, then in either such event SONUS shall pay to Abbott the portion of the Repayment Amount (not paid in the form of Common Stock) in the form of cash or in another form mutually agreed to by the parties.

2.3 Closing. The closing for the purchase and sale of shares of Common Stock shall occur at a mutually agreeable date and location, which shall occur within the later of (i) (A) ten (10) days from the date of the notice of exercise of prepayment by SONUS in the case of shares issued pursuant to Section 2.1 above, or (B) within ten (10) days of expiration of the five (5) year period following the date hereof in the case of shares issued pursuant to Section 2.2 above, or (ii) five (5) days following the fulfillment of all of the conditions set forth in Section 6 below. At the closing, SONUS shall deliver to Abbott shares of Common Stock as provided in Section 2.1 or Section 2.2 above, as applicable, against payment by Abbott to SONUS of the prepayment amount in the case of Section 2.1 above. In addition, a duly authorized officer of each of SONUS and Abbott shall deliver to the other a certificate confirming that their respective representations and covenants set forth in Sections 4 and 5, as applicable, are true and correct in all material respects as of the closing date.

2.4 Suspension of Right to Request Prepayment. Anything herein to the contrary notwithstanding, SONUS shall not have the right to request that Abbott make any prepayment of any Radiology Milestone Payment or accept payment of any Repayment Amount in return for the issuance of shares of Common Stock as provided in this Section 2 if the number of shares of Common Stock to be issued to Abbott would result in Abbott beneficially owning shares of Common Stock of SONUS following the issuance in an amount equal to 19.9% or more of the outstanding Common Stock of SONUS in which event SONUS shall be obligated to pay the appropriate Repayment Amount in cash as set forth in Section 5(E) of the U.S. Agreement or Section 5.5 of the International Agreement, as applicable. The shares of Common Stock of SONUS subject to any warrants or other rights to acquire shares of Common Stock shall be included for the purpose of determining the number of shares beneficially owned by Abbott, but warrants and other rights to acquire Common Stock held by persons other than Abbott shall not be included for the purpose of determining the total amount of outstanding Common Stock. Furthermore, anything herein to the contrary notwithstanding, SONUS shall not have the right to request that Abbott make any prepayment of any Radiology Milestone Payment (a) with respect to the U.S. Agreement (i) relating to the U.S. NDA approval milestone unless and until SONUS has received the first U.S.

FDA approval of the Product in the Field (as defined in the U.S. Agreement), and (ii) relating to the U.S. first shipment of Product milestone unless and until the U.S. first shipment of Product has occurred and (b) with respect to the International Agreement (i) relating to the U.S. NDA approval milestone, unless and until SONUS has received the first U.S. FDA approval of the Product in the Field (as defined in the U.S. Agreement) and (ii) relating to the first shipment date of the Product in Germany, France, Italy, Spain, Canada or the United Kingdom milestone, unless and until the first shipment of Product has occurred in any such country. SONUS shall not repurchase its shares of Common Stock if such repurchases (including shares repurchased by SONUS from Abbott) would cause Abbott to

beneficially own 19.9% or more of the outstanding Common Stock of SONUS, calculated as set forth above.

3. and Sale of Common Stock Upon Exercise of Additional Clinical Research Reimbursement Option.

3.1 Purchase and Sale. SONUS shall have the right at any time after the amount of its net tangible assets is below an amount equal to the then current Nasdaq National Market listing requirement for net tangible assets contained in paragraph 4450(a)(3) of the NASD Manual, as such paragraph may be amended from time to time, plus $1,000,000, to elect to fulfill its obligations to repay Abbott for any or all of the outstanding Additional Clinical Reimbursement Amounts payable to Abbott by the delivery to Abbott of shares of Common Stock of SONUS. The amount of net tangible assets of SONUS shall be determined as of the end of any month according to the unaudited balance sheet of SONUS prepared in accordance with generally accepted accounting principles. In the event SONUS desires to make such election, it shall notify Abbott in writing of the election, specifying the amount of the Additional Clinical Reimbursement Amount to be paid by delivery to Abbott of shares of Common Stock and including a copy of the most recent monthly unaudited balance sheet.

3.2 Closing. The closing of the purchase and sale of shares of Common Stock in connection with any such election shall be a mutually agreeable date and location, which shall be within the later of (i) ten (10) days from the notice from SONUS, or (ii) five (5) days following the fulfillment of all of the conditions set forth in Section 6 below. At the closing, SONUS shall deliver to Abbott a number of shares of Common Stock of SONUS equal to the amount of the Additional Clinical Reimbursement Amount to be so paid, divided by the Fair Market Value per share of Common Stock of SONUS determined in accordance with the provisions of Section 2.1 above (excluding paragraph 2.1(d), against a receipt by Abbott acknowledging receipt of the shares of Common Stock and a cancellation of the Additional Clinical Reimbursement Amount to be so paid. In addition, a duly authorized officer of each of SONUS and Abbott shall deliver to the other a certificate confirming that the respective representations, warranties and covenants set forth in Section 4 and 5 as applicable, are true and correct in all material respects as of the closing date.

3.3 Suspension of Right to Issue Shares. Anything herein to the contrary notwithstanding, SONUS shall not have the right to pay the Additional Clinical Reimbursement Amounts in shares of Common Stock as provided in this Section 3 if the number of shares of Common Stock to be issued to ABBOTT would result in ABBOTT beneficially owning shares of Common Stock of SONUS following the issuance in an amount equal to 19.9% or more of the outstanding Common Stock of SONUS, in which event SONUS shall be obligated to pay the Additional Clinical Reimbursement Amounts in cash as set forth in Section 2.4 of the U.S. Agreement or Section 2.2A of the International Agreement, as applicable. The shares of Common Stock of SONUS subject to any warrant or other right to acquire shares of Common Stock held by Abbott shall be included for the purpose of determining the number of shares beneficially owned by Abbott but warrants and other rights to acquire Common Stock held by persons other than Abbott shall not be included for the purpose of determining the total amount of outstanding Common Stock.

4. Representations, Warranties and Covenants of SONUS. SONUS hereby represents and warrants to, and covenants with, Abbott as of the date hereof as follows:

4.1 Authorization. SONUS has full power and authority to execute, deliver and perform its obligations under this Agreement and to issue and sell the Common Stock. All corporate action on the part of SONUS necessary for the authorization, execution and delivery of this Agreement and the Common Stock and the performance of all obligations of SONUS hereunder has been taken. The execution and delivery of this Agreement and the Common Stock and the performance of all obligations of SONUS hereunder have been duly authorized and

approved by the Board of Directors of SONUS and no further authorization is necessary. This Agreement and the Common Stock are valid and legally binding obligations of SONUS enforceable against it in accordance with their terms.

4.2 No Conflict. The execution, delivery and performance of this Agreement and the issuance and sale of the Common Stock and the consummation of each of the transactions contemplated hereby and thereby do not and will not (a) conflict with or result in a breach of the terms, conditions or provisions of, (b) with or without notice or lapse of time or both, constitute a default under, (c) result in the creation of any lien, security interest, charge or encumbrance upon the capital stock or assets of SONUS pursuant to, (d) with or without notice or lapse of time or both, give any third party the right to accelerate, cancel or terminate any obligation under, (e) result in a violation of, or (f) require any order, qualification, waiver, permit, authorization, consent, approval, exemption or other action by or from, or any registration, notice, declaration, application or filing to or with, any court or administrative or governmental body or any other person or entity pursuant to (i) the Certificate of Incorporation or Bylaws of SONUS, (ii) any agreement to which SONUS is a party or is bound or to which its assets are subject, which conflict, breach or default would have a material adverse effect on SONUS or the ability of SONUS to perform its duties or obligations hereunder or (iii) any law, statute, rule or regulation to which SONUS is subject; provided, however, that with respect to clause (f) of this Section 4.2, no representation or warranty is made as to any such requirements applicable to SONUS as a result of the specific legal or regulatory status of Abbott (including without limitation any agreements between Abbott or its affiliates) or as a result of any other facts that specifically relate to Abbott, any business in which Abbott has engaged or proposes to engage or any financing arrangements or transactions entered into or proposed to be entered into by or on behalf of Abbott and provided, further, that no representation or warranty is made with respect to the application of the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the "HSR Act"), to the issuance of the Common Stock. In the event that the HSR Act should apply to the issuance of any shares of Common Stock, upon the request of Abbott, SONUS agrees to prepare and file, and to assist Abbott and cooperate with Abbott in its preparation and filing of all necessary notifications and the providing of all necessary information pursuant to the HSR Act. The fees for any such HSR filing shall be paid fifty percent (50%) by SONUS and fifty percent (50%) by Abbott.

4.3 Valid Issuance of Common Stock. The Common Stock, when issued, sold and delivered in accordance with the terms of this Agreement to Abbott, will be duly authorized and validly issued and will be issued in compliance in all material respects with all federal and state securities laws. The shares of Common Stock have been duly and validly reserved for issuance and, upon issuance in accordance with the terms hereof, will be duly authorized, validly issued, fully paid and nonassessable and, assuming no distribution of the Common Stock by Abbott, will be issued in compliance with all applicable federal and state securities laws.

4.4 Valid Existence and Capitalization. SONUS is duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is qualified to do business as a foreign corporation in the State of Washington. As of the date hereof, the description of the capitalization of SONUS and its outstanding equity securities and rights to acquire equity securities and the holders thereof is as set forth on Exhibit B.

4.5 SEC Documents. As of their respective dates, all registration statements and reports filed by SONUS with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, since January 1, 1998 complied in all material respects with the requirements of such Acts and the rules and regulations promulgated thereunder and did 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 not misleading.

5. and Covenants of Abbott. Abbott hereby represents and warrants to, and covenants with, SONUS as of the date hereof as follows:

5.1 Authorization. Abbott has full power and authority to execute, deliver and perform its obligations under this Agreement. All corporate action on the part of Abbott necessary for the authorization, execution and delivery of this Agreement and the performance of all obligations of Abbott hereunder has been taken. The execution and delivery of this Agreement and the performance of all obligations of Abbott hereunder were duly authorized and approved by Abbott, and no further authorization is necessary. This Agreement is a valid and legally binding obligation of Abbott, enforceable against it in accordance with its terms.

5.2 No Conflict. The execution, delivery and performance of this Agreement and the consummation of each of the transactions contemplated hereby do not and will not (a) conflict with or result in a breach of the terms, conditions or provisions of, (b) with or without notice or lapse of time or

both, constitute a default under, (c) result in the creation of any lien, security interest, charge or encumbrance upon Abbott's capital stock or assets pursuant to, (d) with or without notice or lapse of time or both, give any third party the right to accelerate, cancel or terminate any obligation under, (e) result in a violation of, or (f) require any order, qualification, waiver, permit, authorization, consent, approval, exemption or other action by or from, or any registration, notice, declaration, application or filing to or with, any court or administrative or governmental body or any other person or entity pursuant to (i) the Certificate of Incorporation or Bylaws of Abbott, (ii) any material agreement to which Abbott is a party or is bound or to which its assets are subject or (iii) any law, statute, rule or regulation to which Abbott is subject; provided, however, that with respect to clause (f) of this Section 5.2, no representation or warranty is made as to any such requirements applicable to Abbott as a result of the specific legal or regulatory status of SONUS (including without limitation any agreements between SONUS or its affiliates) or as a result of any other facts that specifically relate to SONUS, any business in which SONUS has engaged or proposes to engage or any financing arrangements or transactions entered into or proposed to be entered into by or on behalf of SONUS and provided, further, that no representation or warranty is made with respect to the application of the HSR Act to the issuance of the Common Stock. Upon the request of SONUS, Abbott agrees to prepare and file, and to assist SONUS and cooperate with SONUS in its preparation and filing of all necessary notifications and the providing of all necessary information pursuant to the HSR Act. The fees for any such HSR filing shall be paid fifty percent (50%) by Abbott and fifty percent (50%) by SONUS.

5.3 Accredited Investor Status. Abbott is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

5.4 Restricted Securities. Abbott understands that the shares of Common Stock to be issued hereunder are restricted securities and may not be sold, transferred or otherwise disposed of without registration under the Securities Act or the availability of an exemption therefrom, and that in the absence of an effective registration statement covering such securities or an exemption from registration, the Common Stock must be held indefinitely. In the absence of an effective registration statement under the Securities Act with respect to the Common Stock, Abbott shall notify the Company of any proposed disposition by Abbott of the Common Stock, shall furnish SONUS with a statement of the circumstances surrounding the proposed disposition and, if reasonably requested by SONUS, shall furnish SONUS with an opinion of counsel, reasonably satisfactory to SONUS, that such disposition will not require the registration of such Common Stock under the Securities Act; provided, however, that a notice and an opinion of counsel will not be required for routine sales under Rule 144 under the Securities Act.

6. Conditions. The closing of the purchase by Abbott of Common Stock of SONUS under Sections 2.3 and 3.2 shall be conditioned upon receipt of the officer's certificates referenced in Sections 2.3 and 3.2, and upon the following conditions any or all of which may be waived by Abbott in its sole discretion:

6.1 Agreements in Effect. The amendments to the Agreements referred to in Recital A above shall have been executed and delivered by the parties thereto, and the Agreements shall be in full force and effect and SONUS shall not be in breach, after all applicable cure periods, in any material respect of its obligations thereunder.

6.2 No Material Adverse Change. Since the end of the last fiscal quarter of SONUS, there shall have been no material adverse change in the business, management, results of operations or financial condition of SONUS which has not been publicly disclosed by SONUS.

6.3 Hart-Scott-Rodino. If the HSR Act shall apply, all waiting periods under the HSR Act shall have expired or been earlier terminated without action by the Justice Department or the Federal Trade Commission to prevent or materially alter the consummation of the transactions contemplated by this Agreement.

6.4 Actions or Proceedings. No action or proceeding by any court or other governmental authority or other person or entity shall have been instituted or threatened which could enjoin or prohibit any provision of this Agreement or the consummation of the transactions contemplated hereby.

7. Miscellaneous.

7.1 Governing Law. This Agreement shall be governed by, and construed in accordance with the laws of the State of Delaware, without regard to the conflicts of law rules of such state.

7.2 Successors and Assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by SONUS or Abbott without the prior written consent of Abbott or SONUS, respectively; provided, however, that either party may assign this Agreement to any of its Affiliates, or to any successor by merger or sale of substantially all of its business unit to which this Agreement relates without the consent of the other party. Any assignment or delegation in contravention of this Agreement shall be void and shall not relieve the assigning or delegating party of any obligation hereunder. Except as set forth in the preceding sentences, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

7.3 No Third Party Beneficiaries. Nothing in this Agreement, whether express or implied, shall be construed to give any person, other than the parties hereto, any legal or equitable right, remedy or claim under or in respect of this Agreement.

7.4 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. Each counterpart shall be enforceable against the parties actually executing such counterpart, and all counterparts shall be construed together and shall constitute one instrument.

7.5 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.6 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given as follows:

To Abbott:

(1) Abbott Laboratories
100 Abbott Park Road
Abbott Park, Illinois 60064-3500
Attn: President - Hospital Products Division

With a copy to:

Abbott Laboratories
100 Abbott Park Road
Abbott Park, Illinois 60064-3500
Attn: Divisional Vice President
Domestic Legal Affairs
D-322/AP6D

and (2) Abbott International, Ltd.
200 Abbott Park Road
Abbott Park, Illinois 60064-3537
Attn: President - Abbott International

With a copy to:

Abbott International, Ltd.
100 Abbott Park Road
Abbott Park, Illinois 60064-3500
Attn: Divisional Vice President
International Legal Operations
D-323/AP6D

To SONUS:

SONUS Pharmaceuticals, Inc.
22026 20th Avenue, S.E., Suite 201
Bothell, Washington 98021
Attn: Chief Executive Officer

7.7 Public Announcements. Any press release or other public statement issued by any party relating to this Agreement or the transactions contemplated hereby shall be governed by Section 22 of the U.S. Agreement.

7.8 Entire Agreement. This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof. This Agreement may be amended, modified or waived only by a written instrument executed by duly authorized representatives or both parties.

7.9 Alternative Dispute Resolution. The Parties agree that any dispute that arises in connection with this Agreement shall be determined according to the Alternative Dispute Resolution provisions set forth in Section

21 of the U.S. Agreement.

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

SONUS PHARMACEUTICALS, INC.

By: /s/ Michael A. Martino

Name: Michael A. Martino
Title: President

ABBOTT LABORATORIES

By: /s/ Richard A. Gonzalez

Name: Richard A. Gonzalez
Title: President - Hospital Products Division

Attachments:

Exhibit A - Radiology Milestone Dates
Exhibit B - Capitalization of SONUS

EXHIBIT A

U.S. AGREEMENT

MILESTONE	RADIOLOGY PREPAYMENT DATE	RADIOLOGY MILESTONE PAYMENT
U.S. NDA Approval	6/1/99*	$2.0 Million
U.S. First Shipment of Product	7/1/99**	$2.0 Million
		Total: $4.0 Million

INTERNATIONAL AGREEMENT

MILESTONE	RADIOLOGY PREPAYMENT DATE	RADIOLOGY MILESTONE PAYMENT
U.S. NDA Approval Within 15 Days	6/1/99*	$1,500,000
European Community Authorization Granted		
Within 105 days:	2/1/99	$850,000
Within 195 days:	2/1/99	$850,000
Within 265 days:	5/1/99	$350,000
First Shipment Date of Product for Sale (to Germany, France, Italy, Spain, Canada, or the United Kingdom)		
Within 15 days:	6/1/99***	$1,500,000
Within 105 days:	9/1/99***	$500,000

		Total: $5,550,000

</TABLE>

* Anything herein to the contrary notwithstanding, the Radiology Prepayment Date shall be the later of (i) the date referenced, or (ii) the first U.S. FDA approval for the Product in the Field (as defined in the U.S. Agreement).

** Anything herein to the contrary notwithstanding, the Radiology Prepayment Date shall be the later of (i) the date referenced, or (ii) the U.S. first shipment of Product.

*** Anything herein to the contrary notwithstanding, the Radiology Prepayment Date shall be the later of (i) the date referenced, or (ii) the first shipment date of Product in Germany, France, Italy, Spain, Canada or United Kingdom.

EXHIBIT B

CAPITALIZATION OF SONUS

Common Stock:

Authorized:	20,000,000 shares of Common Stock; 5,000,000 shares of Preferred Stock
Outstanding as of December 31, 1998:	8,632,225 shares of Common Stock No shares of Preferred Stock

Options:

Authorized:	2,022,137
Outstanding as of December 31, 1998:	1,311,091

Warrants:

Outstanding as of December 31, 1998:	785,161

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Note: SONUS also has in place a Stockholders Rights Plan which provides for the issuance of Convertible Preferred Stock under certain circumstances.

EXHIBIT 10.50

FOURTH AMENDMENT TO LEASE
RENEWAL

This FOURTH AMENDMENT TO LEASE (this "Fourth Amendment") is made this 29th day of November, 2001 (the "Reference Date"), by and between TEACHERS INSURANCE & ANNUITY ASSOCIATION OF AMERICA, INC., a New York corporation ("Landlord") and SONUS PHARMACEUTICALS, INC., a New York corporation ("Landlord") and SONUS PHARMACEUTICALS, INC., a Delaware corporation ("Tenant").

RECITALS

Landlord is the landlord and Tenant is the tenant under that certain Lease dated January 14, 1994 (the "Initial Lease"), for premises located at 22026 20th Avenue SE, Bothell, Washington 98021, Building L, Unit 102 (the "Initial Premises"), as modified by First Amendment to Lease dated for reference purposes August 26, 1996 (the "First Amendment"), by the Second Amendment dated for reference purposes October 28, 1997 (the "Second Amendment"), and by the Third Amendment dated for reference purposes October 15, 1998 (the "Third Amendment"). As used herein the "Amended Lease shall mean the Initial Lease as modified by the First Amendment, Second Amendment and Third Amendment; and the "Lease" shall mean the Amended Lease as further amended by this Fourth Amendment.

The parties desire to further amend the Amended Lease and effective on the Reference Date stated above the portions of the Lease as numbered below shall be amended to read as follows:

Except as otherwise specifically defined herein all capitalized terms shall have the meanings assigned in the Amended Lease.

1.g. EXTENDED TERM OF THE LEASE: The Lease Expiration Date shall be July 31, 2007.

1.h. RENT ADJUSTMENT: Additional Base Monthly Rent Adjustments shall be as follows:

Effective Date of Rent Increase	New Base Monthly Rent
May 1, 2002	$0.00
June 1, 2002	$45,750.00
October 1, 2002	$0.00
November 1, 2002	$45,750.00
October 1, 2003	$0.00
November 1, 2003	$45,750.00
August 1, 2004	$48,500.00
August 1, 2006	$51,500.00

1k. SECURITY DEPOSIT: On May 1, 2002, the Security Deposit shall be increased to $51,500.00 of which $18,039.00 has previously been deposited with Landlord.

15. RELEASE AND INDEMNITY.
a. Indemnity. Tenant shall indemnify, defend (using legal counsel reasonably acceptable to Landlord) and save Landlord and its property manager harmless from all claims, suits, losses, damages, fines, penalties, liabilities and expenses (including Landlord's personnel and overhead costs and attorneys fees and other costs incurred in connection with claims, regardless of whether such claims involve litigation, but excluding consequential damages such as lost profits) resulting from any actual or alleged injury (including death) of any person or from any actual or alleged loss of or damage to, any property arising out of or in connection with (i) Tenant's occupation, use or improvement of the Premises, or that of its employees, agents or contractors, (ii) Tenant's breach of its obligations hereunder, or (iii) any act or omission of Tenant or any subtenant, licensee, assignee or concessionaire of Tenant, or of any officer, agent, employee, guest or invitee of Tenant, or of any such entity in or about the Premises, provided that this indemnity shall not apply to claims to the extent caused by Landlord's gross negligence or willful misconduct. Tenant agrees that the foregoing indemnity specifically covers actions brought by its own employees. This indemnity with respect to acts or omissions during the term of this Lease shall survive termination or expiration of this Lease. The foregoing indemnity is specifically and expressly intended to,

constitute a waiver of Tenant's immunity under Washington's Industrial Insurance Act, RCW Title 51, to the extent necessary to provide Landlord with a full and complete indemnity from claims made by Tenant and its employees, to the extent provided herein. Tenant shall promptly notify Landlord of casualties or accidents occurring in or about the Premises. LANDLORD AND TENANT ACKNOWLEDGE THAT THE INDEMNIFICATION PROVISIONS OF SECTION 8 AND THIS SECTION 15 WERE SPECIFICALLY NEGOTIATED AND AGREED UPON BY THEM.

b. LANDLORD INDEMNITY. Except as otherwise provided in this Section 15, Landlord shall indemnify, defend (using legal counsel reasonably acceptable to Tenant) and save Tenant harmless from all claims, suits, losses, fines,

penalties, liabilities and expenses (including Tenant's personnel and overhead costs and attorneys' fees and other costs incurred in connection with claims, regardless of whether such claims involve litigation, but excluding consequential damages such as lost profits) resulting from any actual or alleged injury (including death) of any person or from any actual or alleged loss of or damage to, any property to the extent caused by the intentional misconduct or gross negligence of Landlord or of any employee or agent of Landlord in the Common Areas. Landlord agrees that the foregoing indemnity specifically covers actions brought by its own employees. This indemnity with respect to actions or omissions during the term of this Lease shall survive termination or expiration of this Lease. The foregoing indemnity is specifically and expressly intended to constitute a waiver of Landlord's immunity under Washington's Industrial Insurance Act, RCW Title 51, to the extent necessary to provide Tenant with a full and complete indemnity from all claims made by Landlord and its employees to the extent provided herein. LANDLORD AND TENANT ACKNOWLEDGE THAT THE INDEMNIFICATION PROVISIONS OF SECTION 15 WERE SPECIFICALLY NEGOTIATED AND AGREED UPON BY THEM.

c. RELEASE. Tenant hereby fully and completely releases all claims against Landlord for any losses or other damages sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises, including but not limited to: any defect in or failure of Project equipment; any failure to make repairs; any defect, failure, surge in, or interruption of Project facilities or services; any defect in or failure of Common Areas; broken glass; water leakage; the collapse of any Building component; or any act, omission or negligence of co-tenants, licensees or any other persons or occupants of the Building, provided only that the release contained in this Section 15(b) shall not apply to claims for actual damage to persons or property (excluding consequential damages such as lost profits) to the extent caused by Landlord's gross negligence or willful misconduct or breach of its express obligations under this Lease which Landlord has not cured within a reasonable time after receipt of written notice of such breach from Tenant. Notwithstanding any other provision of this Lease, and to the fullest extent permitted by law, Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom, whether such injury or loss results from conditions arising upon the Premises or the Project, or from other sources or places including, without limitation, any interruption of services and utilities or any casualty, or from any cause whatsoever, including Landlord's negligence, and regardless of whether the cause of such injury or loss or the means of repairing the same is inaccessible to Landlord or Tenant. Tenant may elect, at its sole cost and expense, to obtain business interruption insurance with respect to such potential injury and loss.

d. LIMITATION ON INDEMNITY. In compliance with RCW 4.24.115 as in effect on the date of this Lease, all provisions of this Lease pursuant to which Landlord or Tenant (the "Indemnitor") agrees to indemnify the other (the "Indemnitee") against liability for damages arising out of bodily injury to Persons or damage to property relative to the construction, alteration, repair, addition to, subtraction from, improvement to, or maintenance of, any building, road, or other structure, project, development, or improvement attached to real estate, including the Premises, (i) shall not apply to damages caused by or resulting from the sole negligence of the Indemnitee, its agents or employees, and (ii) to the extent caused by or resulting from the concurrent negligence of (a) the Indemnitee or the Indemnitee's agents or employees, and (b) the Indemnitor or the Indemnitor's agents or employees, shall apply only to the extent of the Indemnitor's negligence; PROVIDED, HOWEVER, the limitations on indemnity set forth in this Section shall automatically and without further act by either Landlord or Tenant be deemed amended so as to remove any of the restrictions contained in this Section no longer required by then applicable law.

c. DEFINITIONS. As used in any Section establishing indemnity or release of Landlord, "Landlord" shall include Landlord, its partners, officers, agents, employees and contractors, and "Tenant" shall include Tenant and any person or entity claiming through Tenant.

16. INSURANCE: Tenant shall, throughout the term of this Lease and any renewal hereof, at its own expense, keep and maintain in full force and effect, a policy of commercial general liability (occurrence form) insurance, including contractual liability (including Tenant's indemnification obligations under this Lease) insuring Tenant's activities upon, in or about the Premises or the Project, against claims of bodily injury or death or property damage or loss with a combined single limit of not less than One Million Dollars ($1,000,000) per occurrence and an excess/umbrella liability insurance policy with minimum limits of not less than Five Million Dollars ($5,000,000), with such increases in limits as Landlord may from time to time require consistent with insurance requirements of institutional landlords in similar projects in the area, if such increased limits are available at commercially reasonable terms. If Tenant manufactures on the Premises consumer goods using any materials supplied by Landlord (including but not limited to water supplied as part of utilities to the Premises), Tenant's insurance shall include products liability insurance, on a claims made basis, in the amounts specified for the commercial general liability insurance.

Tenant shall further, throughout the term of this Lease and any renewal

thereof, at its own expense, keep and maintain in full force and effect, property insurance for what is commonly referred to as "Special Cause of Loss" or "Special" coverage insurance (excluding earthquake and flood) on tenant's leasehold improvements in an amount equal to one hundred percent (100%) of the replacement value thereof with a coinsurance waiver. Tenant shall use the proceeds from any such policy for the restoration of Tenant's improvements or alterations, unless restoration is not an available option. As used in this Lease, "tenant's leasehold improvements" shall mean any alterations, additions or improvements installed in or about the Premises by or with Landlord's permission or otherwise permitted by this Lease, whether or not the cost thereof was paid for by Tenant.

All insurance required to be provided by Tenant under this Lease: (a) shall be issued by Insurance companies authorized to do business in the state in which the premises are located with a financial rating of at least an A VIII status as rated in the most recent edition of Best's insurance Reports; (b) shall be issued as a primary policy, or umbrella policy where appropriate (in which case there shall be a per location endorsement making the limits available at each location); shall be on an occurrence basis, except with respect to products liability; (c) name Landlord and Landlord's property manager as additional insured; and (d) shall contain an endorsement requiring at least 30 days prior written notice of cancellation to Landlord and Landlord's lender, before cancellation or change in coverage, scope or amount of any policy. Tenant shall deliver a certificate or copy of such policy together with evidence of payment of all current premiums to Landlord within 30 days of execution of this Lease and at the time of all renewals thereof. If Tenant fails at any time to maintain the insurance required by this Lease, and fails to cure such default within ten (10) business days of written notice from Landlord then, in addition to all other remedies available under this Lease and applicable law, Landlord may purchase such insurance on Tenant's behalf and the cost of such insurance shall be Additional Rent due within ten (10) days of written invoice from Landlord to Tenant.

Landlord and Tenant release and relieve the other, and waive their entire right of recovery for loss or damage to property located within or constituting a part or all of the Building or the Development to the extent that the loss or damage is covered by (a) the injured party's insurance, or (b) the insurance the injured party is required to carry under this Article 16, whichever is greater. This waiver applies whether or not the loss is due to the negligent acts or omissions of Landlord or Tenant, or their respective officers, directors, employees, agents, contractors, or invitees. Each of Landlord and Tenant shall have their respective property insurers endorse the applicable insurance policies to reflect the foregoing waiver of claims, provided however, that the endorsement shall not be required if the applicable policy of insurance permits the named insured to waive rights of subrogation on a blanket basis, in which case the blanket waiver shall be acceptable.

30. TENANT IMPROVEMENT ALLOWANCE: Landlord shall make up to One Hundred Sixty Thousand Six Hundred Eighty Dollars ($160,680) (the "Fourth Amendment Tenant Improvement Allowance") available to Tenant after January 1, 2002 but before October 1, 2003 to reimburse Tenant for actual out-of-pocket costs paid to third parties for designing and constructing tenant improvements to the Premises pursuant to plans reasonably approved by Landlord and otherwise subject to the provisions of Section 14. Landlord shall pay the Fourth Amendment Tenant Improvement Allowance within thirty (30) days of invoice submitted after the improvements have been inspected and accepted by Tenant (less minor punch list items). Landlord
may require lien releases as a condition of payment. Tenant confirms that Landlord's obligations under any previous tenant improvement allowances have been satisfied.

If Tenant utilizes the entire Fourth Amendment Tenant Improvement Allowance, Landlord shall make available to Tenant after January 1, 2002 but before October 1, 2003 up to an additional Two Hundred Seventy-Five Thousand Dollars ($275,000) as a supplemental Tenant Improvement Allowance (the "Fourth Amendment Supplemental Tenant Improvement Allowance") to be expended for the same purposes, subject to the same approvals, and with the same disbursement provisions as the Fourth Amendment Tenant Improvement Allowance. If Tenant utilizes all or some of the Fourth Amendment Supplemental Tenant Improvement Allowance, then commencing with the first payment of Base Monthly Rent due after payment of the Fourth Amendment Supplemental Tenant Improvement Allowance, Tenant shall pay monthly, as additional Base Monthly Rent, an amount sufficient to amortize the Fourth Amendment Supplemental Tenant Improvement Allowance on an equal payments basis over the then remaining term of this Lease (excluding any renewal terms) with interest at ten percent (10%) per annum (which payments shall include amortization of interest accrued from date of disbursement to the first amortization payment).

35. OPTION TO RENEW. Tenant is granted the right to extend the term of this Lease beyond the expiration date of the initial Lease Term for one (1) successive period of thirty-six (36) months (the "Extended Term"). This replaces any prior Options to Renew. If Tenant has materially defaulted in its obligations under this Lease, and failed to cure such defaults within any applicable cure period, then Tenant's right to extend the Lease for the Extended Term shall automatically terminate. Tenant's right to extend the Lease

for the Extended Term is personal to Tenant and may not be exercised by any subtenant. Tenant's extension rights shall apply to all of the Property under lease to Tenant at the time. From and after the commencement of the Extended Term, all of the terms, covenants, and conditions of the Lease shall continue in full force and effect as written, except that Base Rent for the Extended Term shall be at the then prevailing market rate (the "Fair Market Rent") for similar space in the Project but not less than that paid in the last month of the initial term. Tenant shall provide Landlord one hundred eighty (180) days written notice of its intent to renew the Lease.

If Landlord and Tenant are not able to agree on the Fair Market Rent for the Extended Term within thirty days after Tenant's notice of election to renew, then such Fair Market Rent shall be determined as follows. Landlord and Tenant shall each select an appraiser with at least ten years experience in the office/high-tech industrial market in the eastside area. If the two appraisers are unable to agree within ten days after their selection, they shall select a similarly qualified third appraiser (the "Neutral Appraiser"). Within twenty days after selection of the Neutral Appraiser, the three appraisers shall simultaneously exchange determinations of Fair Market Rent. If the lowest appraisal is not less than ninety percent (90%) of the highest appraisal, then the three appraisals shall be averaged and the result shall be the Fair Market Rent. If the lowest appraisal is less than ninety percent (90%) of the highest appraisal, then the Fair Market Rent shall be deemed the rent set forth in the appraisal that is closest in dollar amount to the appraisal submitted by the Neutral Appraiser.

All other terms and conditions of the above described Lease shall remain in full force and effect.

Landlord: Teachers Insurance & Annuity
Association of America, Inc.

By: /s/ JAMES P. GAROFALO

James P. Garofalo

Its: Assistant Secretary

Tenant: Sonus Pharmaceuticals, Inc.

By: /s/ RICHARD J. KLEIN

Richard J. Klein

Its: CFO

STATE OF New York)
)ss.
COUNTY OF New York)

I certify that I know or have satisfactory evidence that James P. Garofalo is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Assistant Secretary of Teachers Insurance & Annuity Association of America, Inc. to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Date: November 30, 2001

[SEAL OF HARRIET L. ROSENTHAL, NOTARY PUBLIC, STATE OF NEW YORK]

/s/ HARRIET L. ROSENTHAL

(Signature)

Harriet L. Rosenthal

(Print Name)

Notary Public, in and for the State of New York, residing at New York, N.Y.

My Commission Expires 8/17/02

HARRIET L. ROSENTHAL
Notary Public, State of New York
No. 01RO6011725

Qualified in Suffolk County
Commission Expires August 17, 2002

STATE OF Washington)
)ss.
COUNTY OF King)

I certify that I know or have satisfactory evidence that Richard J. Klein is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the CFO of Sonus Pharmaceuticals, Inc. to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: November 29, 2001

[SEAL OF CONSTANCE E. ANDERSON, NOTARY PUBLIC, STATE OF WASHINGTON]

/s/ CONSTANCE E. ANDERSON

(Signature)

Constance E. Anderson

(Print Name)

Notary Public, in and for the State of Washington, residing at Newcastle

My Commission Expires 4/2/04

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-08626, 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 Incentive Plan, 2000 Stock Incentive Plan and 401(k) Profit Sharing Plan and Trust and the Registration Statement (Form S-3 No. 333-64966) pertaining to the registration of 1,745,000 shares of common stock of our report dated January 18, 2002, with respect to the financial statements of Sonus Pharmaceuticals, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Seattle, Washington
March 4, 2002