SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

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:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, par value $0.001 per share	The NASDAQ Stock Market, LLC
Series A Junior Participating Preferred Stock, par value $0.001 per share	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

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

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

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

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

As of June 30, 2006, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was $162,703,119. As of March 1, 2007, 36,853,974 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 2007 Annual Meeting of Stockholders to be held on May 10, 2007 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III hereof.

PART I

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

ITEM 1. BUSINESS

Overview

Sonus Pharmaceuticals is focused on the development of cancer drugs that are designed to provide better efficacy, safety and tolerability, and are easier to use. Our business strategy is as follows:

- develop proprietary formulations of cancer drugs utilizing our TOCOSOL® technology;
- develop novel formulations of oncology related drugs; and
- identify and acquire products/technologies that are complementary to our focus in oncology in order to broaden our business and market opportunities.

Proprietary TOCOSOL technology

Our novel vitamin E-based emulsion technology has been designed to address the challenges of poorly soluble cancer drugs. The technology uses vitamin E oil and tocopherol derivatives to solubilize and formulate drugs with the goal of enhancing their efficacy, safety and administration. Drug products formulated with our TOCOSOL

technology are ready-to-use, requiring no dilution or reconstitution.

TOCOSOL Paclitaxel

Our lead oncology product candidate, TOCOSOL Paclitaxel, is a novel, nanodroplet formulation of paclitaxel, one of the world's most widely prescribed anti-cancer drugs. Paclitaxel, a member of the taxane family of cancer drugs, is the active ingredient in Taxol®, which is approved in the U.S. for the treatment of breast, ovarian and non-small cell lung cancers and Kaposi's sarcoma. Our product, TOCOSOL Paclitaxel, is a ready-to-use, injectable paclitaxel emulsion formulation. We believe that data from our Phase 2 clinical trials conducted to-date suggest that TOCOSOL Paclitaxel:

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

We initiated Phase 2a studies for TOCOSOL Paclitaxel in March 2002 to evaluate the safety and efficacy of TOCOSOL Paclitaxel in ovarian, non-small cell lung and bladder cancers using weekly dosing of the product. These were single agent, open label studies that enrolled taxane naïve patients who had progressive disease despite prior treatment with a standard chemotherapy regimen. The best tolerated dose of TOCOSOL Paclitaxel administered weekly was initially estimated to be 120 mg/m² per week in the ovarian and lung cancer trials, and 100 mg/m² per week in the bladder cancer trial, based on observations among a small number of patients treated for a few weeks. Subsequent review of actual doses administered across all patients in all studies over extended treatment periods indicated that patients assigned to receive weekly doses of

100 mg/m² or 120 mg/m² actually received similar cumulative doses over time, based on long-term tolerability. Patient enrollment in the Phase 2a clinical trials was completed in the second quarter of 2003. Data review, confirmation and analysis are now complete, and databases have been locked. A total of 120 patients in the ovarian, non-small cell lung and bladder cancer studies were evaluable for objective response, which means that the patients received at least eight weekly cycles of TOCOSOL Paclitaxel and underwent CT scans to determine anti-tumor responses according to RECIST. Patients were also evaluated for time to disease progression and overall survival. Final analyses of all data are now complete and response rates are presented in the table below.

			Objective Responses (OR)				
Cancer Type	No. Patients Evaluable	Stable Disease	Partial Response	Complete Response	Total OR	% OR	95% CI
Ovarian	52	15	17	3	20	38%	(25% - 53%)
NSCL	43	19	6	3	9	21%	(10% - 36%)
Bladder	27	11	7	2	9	33%	(17% - 54%)

Following completion of treatment in the Phase 2a studies, clinical monitoring of each consenting patient was continued to assess survival duration. Median survival in each of the three studies has been estimated based on reports received from investigators:

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

In September 2004, we initiated a Phase 2b study of TOCOSOL Paclitaxel for first line treatment of women with metastatic breast cancer. Enrollment in this study was closed in October 2004 with 47 patients randomized. The investigators reported an overall objective response rate of 53%, (95% Confidence Interval 38% - 68%). Review of all radiographic images by an independent radiologist who had no information about individual patients' treatment or non-radiographic response assessments reported a confirmed objective response rate of 49%, (95% Confidence Interval 34% - 64%).

In addition to being assessed for anti-tumor efficacy, patients are also monitored for adverse events in all clinical studies. The most significant adverse events expected with taxanes are neutropenia and peripheral neuropathy. Among 232 patients treated in the Phase 2 clinical trials, the incidence of at least one episode of Grade 4 neutropenia (absolute neutrophil count <500 cells/mm3) during treatment was 18%. However, only 2% of patients had febrile neutropenia, and there was one septic death. No peripheral neuropathy was observed in 56% of patients, Grade 3 peripheral neuropathy was reported in only 10% of patients cumulatively, and no patients experienced Grade 4 peripheral neuropathy. We believe these adverse event rates compare favorably to the reported neutropenia and peripheral neuropathy experienced when Taxol is administered with the approved dosing regimen of 175 mg/m² every three weeks. Dose reductions or treatment delays due to toxicity from TOCOSOL Paclitaxel did not limit long-term treatment in most patients. A majority of patients in our Phase 2 studies were administered antihistamines prior to the infusion of TOCOSOL Paclitaxel. Paclitaxel-mediated infusion-related toxicities, sometimes called "hypersensitivity reactions" were generally mild and were reported following approximately 11% of all doses. Investigators have reported that infusion-related toxicities associated with our product could be ameliorated by temporary (a few minutes) interruption of infusion and restarting the infusion at a slower rate. Infusion-related toxicities very rarely prevented delivery of intended doses. Overall, we believe that TOCOSOL Paclitaxel appears to be well tolerated over multiple treatment cycles.

The results of the Phase 2 clinical trials may or may not be indicative of the final results upon completion of the ongoing studies or our Phase 3 pivotal study that was initiated in September 2005 and closed enrollment in November 2006.

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

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

- *U.S. Development.* In collaboration with our partner, we will seek initial approval of TOCOSOL Paclitaxel with a 505(b)(2) NDA submission, which will rely on the FDA's previous findings of safety and efficacy for Taxol (the reference paclitaxel product), supplemented by data supporting TOCOSOL Paclitaxel's safety and efficacy. After meetings with the FDA, and based on preclinical and clinical data generated to date, the FDA indicated that it was appropriate for Sonus to conduct a single Phase 3 clinical trial that would be the basis for submission of a NDA for TOCOSOL Paclitaxel under the 505(b)(2) regulatory mechanism. The FDA and Sonus finalized the study design and plans for conducting and analyzing the results of the Phase 3 trial under a Special Protocol Assessment ("SPA"), which was completed in June 2005. The Phase 3 study is comparing the safety and efficacy of TOCOSOL Paclitaxel administered weekly with Taxol administered weekly. Enrollment in the Phase 3 study was closed in November 2006 with 821 patients randomized.

  The FDA has indicated to Sonus that a NDA approval will require either (a) demonstration of superior efficacy of TOCOSOL Paclitaxel compared to Taxol; or (b) demonstration of non-inferior efficacy as compared to Taxol and either (i) a change of the approved label for Taxol to include a weekly dosing schedule or (ii) availability of reviewable data from a trial demonstrating superior efficacy of Taxol using a weekly dosing schedule as compared to that of Taxol using the currently approved three-weekly dosing schedule.

  We have an agreement with the Cancer and Leukemia Group B Foundation (the CALGB) giving us the right to use data from the CALGB Study 9840, a Phase 3 trial comparing weekly dosing of Taxol to three-weekly dosing of Taxol in patients with metastatic breast cancer. In the event that TOCOSOL Paclitaxel does not achieve superior efficacy over Taxol in the Phase 3 trial or the approved label for Taxol is not changed to include a weekly dosing schedule, Bayer Schering and we plan to submit the CALGB 9840 data to the FDA as part of the TOCOSOL Paclitaxel NDA to support weekly dosing of Taxol as an appropriate reference arm in the ongoing pivotal Phase 3 trial. Based on the summary presentation of CALGB 9840 at the American Society of Clinical Oncology (ASCO) 2004 annual meeting, our analysis of the data set and discussions with the FDA, we believe that the data from this study should fulfill the FDA's requirement to submit a reviewable data set that compares weekly dosing of Taxol to three-weekly dosing of Taxol, and demonstrate the weekly regimen to be superior to the every three-weekly regimen. While there can be no assurance that the data obtained from this study will be sufficient to support the TOCOSOL Paclitaxel NDA, Sonus' preliminary analysis of the CALGB 9840 data confirm the conclusions presented in the abstract at ASCO 2004. If the FDA does not accept the CALGB Study 9840 data as support for a weekly reference arm, substantial additional costs and time would be required before the NDA submission for TOCOSOL Paclitaxel.

  The clinical trial protocol and Statistical Analysis Plan approved under the SPA provide for sequential superiority analyses for efficacy of TOCOSOL Paclitaxel compared to Taxol, provided that we first demonstrate a non-inferior objective response rate; however, there can be no assurance that the Phase 3 clinical trial data will demonstrate that TOCOSOL Paclitaxel has efficacy that is non-inferior or superior to Taxol.

  We are collaborating with Bayer Schering on the assembly of the NDA and are completing those components which are the responsibility of Sonus within timelines established by Bayer Schering. Bayer Schering is responsible for submission of the NDA, which we currently believe will be in the second quarter of 2008. However, this is only an estimate as the submission date is outside of our direct control and is subject to change.

- *Ex-U.S. development.* Our corporate partner will pursue development and approval of TOCOSOL Paclitaxel in markets outside the U.S. (initially Europe and Japan). During the second quarter of 2006, Bayer Schering's subsidiary in Japan submitted the Japanese Investigational New Drug Application (IND) for TOCOSOL Paclitaxel, which was accepted by the regulatory authorities. A Phase 1 study was initiated in the third quarter of 2006 subsequent to the acceptance of the IND, the results of which will also be used to support U.S. regulatory submissions.

- *New indications for taxanes.* In conjunction with our corporate partner, we may pursue clinical development of TOCOSOL Paclitaxel for the treatment of other types of cancer, including indications for which Taxol has been approved as well as for diseases for which Taxol is used but not approved. In October 2003, we announced that we were granted Fast Track designation by the FDA for the development of TOCOSOL Paclitaxel for inoperable or metastatic urothelial transitional cell cancers (mostly urinary bladder cancers). In December 2004, the FDA granted an Orphan Drug designation to TOCOSOL Paclitaxel for the treatment of non-superficial urothelial

cancer. We initiated a Phase 2b study in bladder cancer in the U.S. during the fourth quarter of 2003, and in Spain and the U.K. during 2005, using weekly dosing of TOCOSOL Paclitaxel. Enrollment in this trial was completed in September 2006 and we expect to have preliminary data by mid-2007. Continued development in this indication will be dependent on many factors, including the clinical and commercial potential compared to other opportunities in our pipeline and agreement with Bayer Schering to jointly develop.

The scope, timing and costs of the clinical trials to be conducted under all of the above regulatory strategies are difficult to determine with accuracy. We are conducting a single pivotal Phase 3 trial in metastatic breast cancer, an indication where paclitaxel is approved, with a primary endpoint of objective response rate and secondary endpoints of progression-free survival and overall survival durations. Our partner expects to submit the NDA with data on the primary endpoint, potentially followed by supplemental submissions for the secondary endpoints when data are mature. The Phase 3 trial, which compares TOCOSOL Paclitaxel to Taxol administered weekly, is powered to achieve statistical significance on all three endpoints, and was designed to enroll approximately 800 evaluable patients. Our current estimate for the total cost of the pivotal Phase 3 trial is approximately $50 million. This estimate is our external direct cost only and does not include any internal costs or future billings from Bayer Schering. Under our Collaboration and License Agreement with Bayer Schering, dated October 17, 2005, Bayer Schering will fund 50% of these costs (in certain cases the reimbursement rate is 100%). In addition, it is anticipated that we will collaborate with Bayer Schering on additional studies of TOCOSOL Paclitaxel. Under the terms of our agreement, we are obligated to fund 50% of the costs of any additional studies conducted by Bayer Schering in support of commercialization activities for the U.S. market. The exact cost and timing of these studies is yet to be finalized. The current ongoing Phase 3 trial will constitute the bulk of the Company's clinical trial spending in 2007. Approximately two thirds of the cost of the Phase 3 trial has been incurred as of December 31, 2006. However, future costs may vary significantly depending upon regulatory and other matters that are not within our control and there can be no assurance that such amount will be sufficient to complete the study. Development costs for commercialization activities outside the U.S. market are borne by Bayer Schering. There can be no assurance that the results of any or all of the anticipated clinical trials will be successful or will support product approval.

TOCOSOL Camptothecin

Our second oncology drug candidate is TOCOSOL Camptothecin Injectable Emulsion. This product candidate is a novel camptothecin derivative formulated as an oil-in-water emulsion with Sonus' proprietary TOCOSOL technology. Camptothecins are an important class of anti-cancer drugs introduced in recent years; however, the marketed camptothecin analogs, irinotecan (Camptosar®) and topotecan (Hycamtin®), have demonstrated limitations that may reduce their clinical utility. Irinotecan and topotecan are used in the treatment of colorectal, lung, ovarian and cervical cancers. The active ingredient in TOCOSOL Camptothecin is SN-38 (formulated as a prodrug), which is the active ingredient in irinotecan. Our objective with TOCOSOL Camptothecin is to provide a ready to use product that has enhanced anti-tumor activity and improved tolerability compared with the approved camptothecin-based products. An IND was submitted to the FDA for TOCOSOL Camptothecin in June 2006. The FDA completed its review in July 2006, and Phase 1 clinical testing was initiated in September 2006. Our research and development efforts on TOCOSOL Camptothecin enabled the initiation of the Phase 1 study; however, we cannot give any assurance that this compound will be clinically successful.

Research and Development Pipeline

We continue to invest in the research and development of new oncology related product candidates, including those that we believe could extend the application of our technology. In addition to our internal research and development efforts, we may also consider acquisitions of other products, development candidates or technologies to expand our pipeline and capabilities.

Market Overview

Cancer is characterized by rapid, uncontrolled cell division resulting in the growth of an abnormal mass of cells generally referred to as a malignant tumor. Cancerous tumors can arise in almost any tissue or organ, and cancer cells, if not eradicated, can spread, or metastasize, throughout the body. As these tumors grow, they cause damage to the surrounding tissue and organs and commonly result in death if left untreated. Cancer is believed to occur as a result of a number of hereditary and environmental factors. According to the American Cancer Society, cancer is the second leading cause of death in the United States and accounts for approximately one in every four deaths. Approximately 560,000 Americans are expected to die of cancer in 2007. The National Institutes of Health estimated the direct medical cost of cancer to be $78 billion in 2006.

Our lead product candidate, TOCOSOL Paclitaxel, is a chemotherapy drug incorporating paclitaxel as the active ingredient. If approved, TOCOSOL Paclitaxel will be a member of the taxane class of chemotherapy drugs, which generates annual worldwide sales estimated to be in excess of $3.5 billion. TOCOSOL Paclitaxel would address a portion of this

market depending on the approved indication(s). Other product candidates in our pipeline are in the early stages of development, and it is difficult to evaluate the potential markets for these product candidates as the areas of potential application are diverse and specific applications are yet to be determined.

Manufacturing

We originally used the University of Iowa as the FDA-approved institution to manufacture TOCOSOL Paclitaxel under current Good Manufacturing Practice ("GMP") requirements for our use in preclinical and clinical studies. In mid-2002, we entered into a manufacturing and supply agreement with Sicor Pharmaceutical Sales, Inc. (Sicor is now known as TEVA Pharmaceuticals USA). During 2003, in collaboration with TEVA Pharmaceuticals USA, we completed scale-up of the drug product manufacturing process for TOCOSOL Paclitaxel to commercial scale under current GMP requirements, ensuring adequate clinical drug supplies for ongoing and planned clinical trials, and providing a commercial process to enable regulatory approval and commercial product launch.

On March 2, 2006, in accordance with the Collaboration and License Agreement with Bayer Schering, Bayer Schering exercised their right to assume responsibility for the manufacturing of TOCOSOL Paclitaxel. In June 2006, we entered into a clinical supply agreement with Bayer Schering to provide clinical supplies of TOCOSOL Paclitaxel to Bayer Schering until such time as Bayer Schering establishes its own manufacturing capability.

Research and Development

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

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

	2006	2005	2004
TOCOSOL Paclitaxel	$32.4	$21.2	$ 9.2
Other research & preclinical programs	$ 8.7	$ 3.3	$ 1.5
Total research & development	$41.1	$24.5	$10.7

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

Government Regulations — Drug Approval Process

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

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

- Preclinical studies including laboratory evaluation and animal studies to test for initial safety and efficacy;

- Submission to national health authorities of an Investigational New Drug application (IND), or Clinical Trials Application (CTA) or equivalent dossier, which must be accepted by each national health authority before human clinical trials may commence in that country;

- Adequate and well-controlled clinical trials to establish the safety and efficacy of the drug in its intended population and use(s);

- Submission to appropriate national and/or regional regulatory health authorities of a New Drug Application (NDA), or equivalent marketing authorization application, which application is not automatically accepted for review; and

- approval by appropriate regulatory health authorities of the marketing authorization application prior to any commercial sale or shipment of the drug in each country or jurisdiction.

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

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

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

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

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

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

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

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

Competition

The healthcare industry in general is characterized by extensive research efforts, rapid technological change and intense competition. We believe that other pharmaceutical companies will compete with us in areas of research and development, acquisition of products and technology licenses, and the manufacturing and marketing of products that could potentially

compete with ours. We expect that competition will be based on safety, efficacy, ease of administration, breadth of approved indications, price, reimbursement and physician and patient acceptance.

Several other companies are developing enhanced delivery taxanes with a goal of delivering a more effective and tolerable therapy than Taxotere, Taxol and the approved generic paclitaxel-based products. On January 7, 2005, American Pharmaceutical Partners (now Abraxis BioScience) obtained FDA approval to market its

paclitaxel-based product, ABRAXANE® (paclitaxel protein-bound particles for injectable suspension). In addition, Sanofi-aventis has a taxane product, Taxotere (docetaxel), which has a similar mechanism of action to paclitaxel and is marketed for the treatment of breast, non-small cell lung and prostate cancers. There are also a number of generic paclitaxel products, identical to Taxol, currently on the market.

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

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

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

Patents and Proprietary Rights

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

Our success will depend, in part, on our ability to obtain and defend patents and protect trade secrets. As of December 31, 2006, nine United States patents and five patents outside the U.S., one each in Canada, Taiwan, Mexico, Korea and India have been issued pertaining to our proprietary TOCOSOL technology. Additional patent applications are pending in the United States and counterpart filings have been made in Europe, Canada and key countries in Asia and Latin America.

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

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

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

We also rely on unpatented trade secrets, proprietary know-how and continuing technological innovation, which we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees and consultants in our

drug development research. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that our trade secrets or know-how will not otherwise become known or be independently discovered by competitors. Further, there can be no assurance that we will be able to protect our trade secrets or that others will not independently develop substantially equivalent proprietary information and techniques.

Product Liability

The testing, marketing and sale of pharmaceutical products entails a risk of product liability claims by consumers and others. We currently maintain product liability insurance for our clinical trials with limits of $10 million per claim and in the aggregate, which we believe to be adequate for current non-commercial and Phase 3 applications of our products. In the event of a successful suit against us, the lack or insufficiency of insurance coverage could have a material adverse effect on our business and financial condition. Although we have never been subject to a product liability claim, there can be no assurance that the coverage limits of our insurance policies will be adequate or that one or more successful claims brought against us would not have a material adverse effect upon our business, financial condition and results of operations. If any of our products under development gain marketing approval from the FDA or other regulatory health authorities, there can be no assurance that adequate product liability insurance will be available, or if available, that it will be available at a reasonable cost. Any adverse outcome resulting from a product liability claim could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of March 1, 2007, we had 61 employees, 44 engaged in research and development, regulatory, clinical and manufacturing activities, and 17 in business operations and administration. All of our employees are covered by confidentiality agreements. We consider our relations with our employees to be good, and none of our employees is a party to a collective bargaining agreement.

Company Information

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

ITEM 1A. RISK FACTORS

You should consider the risk below carefully in addition to other information contained in this report before engaging in any transaction involving shares of our common stock. If any of these risks occur, they could seriously harm our business, financial condition or results of operations. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

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

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

Our product candidates are subject to significant uncertainty because they are in both early to late stages of development and are subject to regulatory approval. The results of preclinical and clinical testing of our products are uncertain and regulatory approval of our products may take longer or be more expensive than anticipated, which could have a material

adverse effect on our business, financial condition and results of operations. In June 2005, the FDA completed its review of the contents of the SPA for TOCOSOL Paclitaxel. The FDA has indicated to Sonus that NDA approval under 505(b)(2) will require either (i) demonstration of superior efficacy of TOCOSOL Paclitaxel as compared to Taxol; or (ii) demonstration of non-inferior efficacy of TOCOSOL Paclitaxel as compared to Taxol, and either a change of the approved label for Taxol and generic equivalents to include a weekly dosing schedule or availability of reviewable data from a Phase 3 trial demonstrating superior efficacy of Taxol using a weekly dosing schedule as compared to that of Taxol using the currently approved three-weekly dosing schedule.

We do not currently believe that the timing or cost of the Phase 3 trial or the NDA submission will be adversely affected by these requirements. The clinical trial Protocol and Statistical Analysis Plan approved under the SPA provide for sequential superiority analyses for efficacy of TOCOSOL Paclitaxel compared to Taxol, provided that we first demonstrate a non-inferior objective response rate; however, there can be no assurance that the Phase 3 clinical trial data will demonstrate that TOCOSOL Paclitaxel has efficacy that is non-inferior or superior to Taxol. Further, there can be no assurance that the approved label for Taxol or generics will be changed to provide for weekly dosing, although we do believe, based on several discussions with the FDA, that they are pursuing this change.

We have an agreement with the Cancer and Leukemia Group B Foundation (the CALGB) giving us the right to use data from the CALGB Study 9840, a Phase 3 trial comparing weekly dosing of Taxol to three-weekly dosing of Taxol in patients with metastatic breast cancer. In the event that TOCOSOL Paclitaxel does not achieve superior efficacy over Taxol in the Phase 3 trial or the approved label for Taxol is not changed to include a weekly dosing schedule, Bayer Schering and we plan to submit the CALGB 9840 data to the FDA as part of the TOCOSOL Paclitaxel NDA to support weekly dosing of Taxol as an appropriate reference arm in the ongoing pivotal Phase 3 trial. Based on the summary presentation of CALGB 9840 at the American Society of Clinical Oncology (ASCO) 2004 annual meeting, our analysis of the data set and discussions with the FDA, we believe that the data from this study should fulfill the FDA's requirement to submit a reviewable data set that compares weekly dosing of Taxol to three-weekly dosing of Taxol, and demonstrate the weekly regimen to be superior to the every three-weekly regimen. While there can be no assurance that the data obtained from this study will be sufficient to support the TOCOSOL Paclitaxel NDA, Sonus' preliminary analysis of the CALGB 9840 data confirm the conclusions presented in the abstract at ASCO 2004. If the FDA does not accept the CALGB Study 9840 data as support for a weekly reference arm, substantial additional costs and time would be required before the NDA submission for TOCOSOL Paclitaxel.

In addition, there is pending litigation attacking the utilization of the 505(b)(2) regulatory strategy generally. There can be no assurance that such litigation will not be successful. A 505(b)(2) application permits us to rely upon the FDA's findings of safety and efficacy for a previously approved drug product without requiring us to obtain a right of reference from the original applicant. In addition to permitting reliance upon the FDA's prior findings of safety and effectiveness for previously approved drugs, section 505(b)(2) continues to allow reliance on third party data that is available in published literature and which establishes the safety and effectiveness of a drug. However, we are required to provide any additional clinical data necessary to demonstrate the safety and effectiveness of differences between the original drug and the 505(b)(2) drug, so while unnecessary duplication of preclinical and certain human studies is avoided, specific studies may be required to establish the relevance and applicability of prior findings for our particular product formulation. We cannot predict if or when any of our products under development will be commercialized.

We will need additional capital in the future to support the continued development and commercialization of TOCOSOL Paclitaxel, our obligations under the Collaboration and License Agreement with Bayer Schering and to fund continuing operations.

We expect that our cash requirements will continue to increase in future periods due to development costs associated with TOCOSOL Paclitaxel and other product candidates. We believe that existing cash, cash equivalents and marketable securities, in addition to future payments and cost sharing arrangements under our Collaboration and License Agreement with Bayer Schering, will be sufficient to fund operations through the second quarter of 2008. We will need additional capital in 2008 to complete the development and commercialization of TOCOSOL Paclitaxel, fund our obligations under the Collaborative License Agreement with Bayer Schering, fund the development of other product candidates and support our continuing operations. In addition to the supportive trials Sonus plans to conduct, it is anticipated that we will collaborate with Bayer Schering on additional studies. Under the terms of the Collaboration and License Agreement with Bayer Schering, we are also obligated to fund 50% of the costs of certain studies conducted by Bayer Schering for the U.S. The exact cost and timing of these studies is yet to be finalized. Our current estimate for the total cost of the Phase 3 trial is approximately $50 million. This estimate is our direct cost only and does not include any future billings from Bayer Schering. However, the scope, timing and costs of the Phase 3 clinical trial are difficult to determine with accuracy and these costs may vary significantly depending upon regulatory and other matters that are not within our control. Enrollment in the Phase 3 study was closed in November 2006 with 821 patients randomized. Should our clinical data support an NDA

submission based on the primary endpoint of objective response rate, we anticipate that the NDA, the contents of which are being developed in collaboration Bayer Schering, will be submitted by Bayer Schering in the second quarter of 2008. Our future capital requirements depend on many factors including:

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

Any future debt or equity financing, if available, may result in substantial dilution to existing stockholders, and debt financing, if available, may include restrictive covenants.

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

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

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

Our future prospects are heavily dependent on the results of the Phase 3 clinical testing of TOCOSOL Paclitaxel and subsequent commercialization should the product be approved by the FDA and other international regulatory agencies.

TOCOSOL Paclitaxel is the only product candidate we have in Phase 3 clinical testing. All other product candidates are in much earlier stages of development. Due to the significant costs and data performance uncertainties and other significant uncertainties involved in getting the other product candidates to Phase 3 clinical testing, our current prospects are substantially dependent on the outcome of the current Phase 3 trial with TOCOSOL Paclitaxel. There can also be no assurance that performance seen to-date for TOCOSOL Paclitaxel in Phase 1 and 2 clinical testing will be reflected in the final data for the current Phase 3 clinical trial, or that the product will be approved by the FDA or other international regulatory agencies, or achieve commercial success, if approved.

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

We have experienced significant accumulated losses since our inception, and are expected to incur net losses for the foreseeable future. These losses have resulted primarily from expenses associated with our research and development activities, including nonclinical and clinical trials, and general and administrative expenses. As of December 31, 2006, our accumulated deficit totaled $111.7 million. We anticipate that our operating losses will continue as we further invest in research and development for our products. We will not generate the majority of milestone or royalty revenues under our collaboration and license agreement with Bayer Schering unless and until we receive regulatory approvals, which are not likely to occur until 2009 and beyond. Even if we generate milestone and royalty revenues, there can be no assurance that we will be able to achieve or sustain profitability. Our results of operations have varied and will continue to vary significantly and depend on, among other factors:

- our ability to obtain and timing of payments under corporate partner agreements and/or debt or equity financings;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and amount of costs to support our obligations under the Collaboration and License Agreement with Bayer Schering;

- drug discovery and research and development;
- entering into new collaborative or product license agreements for products in our pipeline;
- timing and costs of technology transfer associated with manufacturing and supply agreements; and
- costs related to obtaining, defending and enforcing patents.

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

We are dependent, and may in the future be dependent, on third parties for funding or performance of a variety of key activities including research, clinical development,

manufacturing, marketing, sales and distribution of our products. Our current business strategy is to enter into agreements with third parties both to license rights to our potential products and to develop and commercialize new products. We executed an agreement with Bayer Schering for TOCOSOL Paclitaxel in October 2005. Under the Collaboration and License Agreement, Bayer Schering has a worldwide exclusive license to market and promote TOCOSOL Paclitaxel and is responsible for clinical development and regulatory activities outside of the U.S. If these arrangements with Bayer Schering or other third parties are terminated or the collaborations are not successful, we will be required to identify alternative sources of funding to finance research, clinical development, manufacturing, marketing, sales and/or distribution. Our inability to secure additional funding would have a material adverse effect on our business, financial condition and results of operations. Our success depends in part upon the performance by these collaborators of their responsibilities under these arrangements. We have no control over the resources that our partners may devote to the development and commercialization of products under these collaborations and our partners may fail to conduct their collaborative activities successfully or in a timely manner. On April 13, 2006, a wholly owned subsidiary of Bayer AG, a German corporation, or Bayer, submitted a formal tender offer to the stockholders of Schering AG to purchase all of the outstanding shares of Schering AG. The acquisition was essentially complete as of December 31, 2006 with only some minor activities remaining. We are not aware of any material effect the acquisition has had on our business, financial condition or results of operations but there can be no assurance that the acquisition will not have a material effect in the future.

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

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

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

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

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

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

- efficacy;
- safety;
- price;

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

Several other companies are developing paclitaxel reformulations with a goal of delivering a more effective and tolerable therapy than the approved paclitaxel products. Some of these products are further in development than TOCOSOL Paclitaxel and may achieve regulatory approval before our product. On January 7, 2005, Abraxis BioScience (formerly American Pharmaceutical Partners) obtained FDA approval to market its paclitaxel-based product, ABRAXANE (paclitaxel protein-bound particles for injectable suspension). In addition, sanofi-aventis has a taxane product, Taxotere (docetaxel), which is similar to paclitaxel and is marketed for the treatment of breast, non-small cell lung and prostate cancers. There are also a number of generic paclitaxel products, identical to Taxol, currently on the market.

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

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

We currently rely on third parties to supply the chemical ingredients necessary for our drug product candidates. We have entered into supply agreements for the supply of GMP grade paclitaxel, which is the active pharmaceutical ingredient in TOCOSOL Paclitaxel. The chemical ingredients for our products are manufactured by a limited number of vendors. The inability of these vendors to supply medical-grade materials to us could delay the manufacturing of, or cause us to cease the manufacturing of our products. We also rely on third parties to manufacture our products for research and development and clinical trials. TEVA Pharmaceuticals USA (TEVA) is our primary manufacturer of TOCOSOL Paclitaxel for clinical studies. On March 2, 2006, in accordance with the Collaboration and License Agreement with Bayer Schering, Bayer Schering exercised their right to assume responsibility for the manufacturing of TOCOSOL Paclitaxel. In June 2006, we entered into a clinical supply agreement with Bayer Schering to provide clinical supplies of TOCOSOL Paclitaxel to Bayer Schering until such time as Bayer Schering establishes its own manufacturing capability. Suppliers and manufacturers of our products must operate under GMP regulations, as required by the FDA, and there are a limited number of contract manufacturers that operate under GMP regulations. GMP are enumerated in FDA regulations and guidance documents. The facilities, procedures, and operations of our contract manufacturers must be determined to be adequate by the FDA before approval of product manufacturing. Manufacturing facilities are subject to inspections by the FDA for compliance with GMP, licensing specifications, and other FDA regulations. Failure to comply with FDA and other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, injunctions and criminal

prosecution. Any of these actions could have a material adverse effect on us. Our reliance on independent manufacturers involves a number of other risks, including the absence of adequate capacity, the unavailability of, or interruptions in, access to necessary manufacturing processes and reduced control over delivery schedules. If our manufacturers are unable or unwilling to continue manufacturing our products in required volumes or have problems with commercial scale-up, we will have to identify acceptable alternative manufacturers. The use of a new manufacturer may cause significant interruptions in supply if the new manufacturer has difficulty manufacturing products to our specifications. Further, the introduction of a new manufacturer may increase the variation in the quality of our products.

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

Our success will depend, in part, on our ability to obtain and defend patents and protect trade secrets. As of December 31, 2006, we held nine United States patents and five patents outside the U.S., one each in Canada, Korea, Taiwan, Mexico and India pertaining to our proprietary TOCOSOL technology. We hold one additional United States patent directed to other technologies. Additional patent applications are pending in the United States and counterpart filings have been made in Europe, Canada and key countries in Asia and Latin America. The patent position of medical and pharmaceutical companies is highly uncertain and involves complex legal and factual questions. There can be no assurance that any claims which are included in pending or future patent applications will be issued, that any issued patents will provide us with competitive advantages or will not be challenged by third parties, or that the existing or future patents of third parties will not have an

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

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

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

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

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

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

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

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

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

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

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of

accidental contamination or injury from these materials cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result and any such liability not covered by insurance could exceed our resources. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or production efforts.

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

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, preclinical and clinical trial results, market perception of the prospects for biotechnology companies as an industry sector and general market and economic conditions, some of which are beyond our control. Factors such as fluctuations in our financial and operating results, changes in government regulations affecting product approvals, reimbursement or other aspects of our or our competitors' businesses, FDA review of our product development activities, the results of preclinical studies and clinical trials, announcements of technological innovations or new commercial products by us or our competitors, developments concerning key personnel and our intellectual property rights, significant collaborations or strategic alliances and publicity regarding actual or potential performance of products under development by us or our competitors could also cause the market price of our common stock to fluctuate substantially. In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These broad market fluctuations may lower the market price of our common stock. Moreover, during periods of stock market price volatility, share prices of many biotechnology companies have often fluctuated in a manner not necessarily related to the companies' operating performance. Also, biotechnology or pharmaceutical stocks may be volatile even during periods of relative market stability. Accordingly, our common stock may be subject to greater price volatility than the stock market as a whole.

Failure to satisfy NASDAQ Global Market listing requirements may result in our common stock being delisted from The NASDAQ Global Market.

Our common stock is currently listed on The NASDAQ Global Market under the symbol "SNUS." For continued inclusion on The NASDAQ Global Market, we must maintain among other requirements stockholders' equity of at least $10.0 million, a minimum bid price of $1.00 per share and a market value of our public float of at least $5.0 million; or market capitalization of at least $50 million, a minimum bid price of $1.00 per share and a market value of our public float of at least $15.0 million. As of December 31, 2006, we had stockholders' equity of approximately $43.0 million. In the event that we fail to satisfy the listing standards on a continuous basis, our common stock may be removed from listing on The NASDAQ Global Market. If our common stock were delisted from The NASDAQ Global Market, our common stock may be transferred to the NASDAQ Capital Market if we satisfy the listing criteria for the NASDAQ Capital Market or trading of our common stock, if any, may be conducted in the over-the-counter market in the so-called "pink sheets" or, if available, the National Association of Securities Dealer's "Electronic Bulletin Board." Consequently, broker-dealers may be less willing or able to sell and/or make a market in our common stock. Additionally, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, our common stock. As a result of a delisting, it may become more difficult for us to raise funds through the sale of our securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease approximately 27,000 square feet of laboratory and office space in a single facility near Seattle, Washington. The lease expires in July 2007 and includes an option to extend the term of the lease for three years. We did not exercise the lease option and instead signed a new lease agreement for a larger facility also near Seattle, Washington. The new lease involves approximately 37,000 square feet of laboratory and office space in a single facility. The lease has a 10 year term and includes two options to renew for additional 5 year periods. We plan to move into the new facility in the fourth quarter of 2007.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2006.

PART II

ITEM 5 . MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

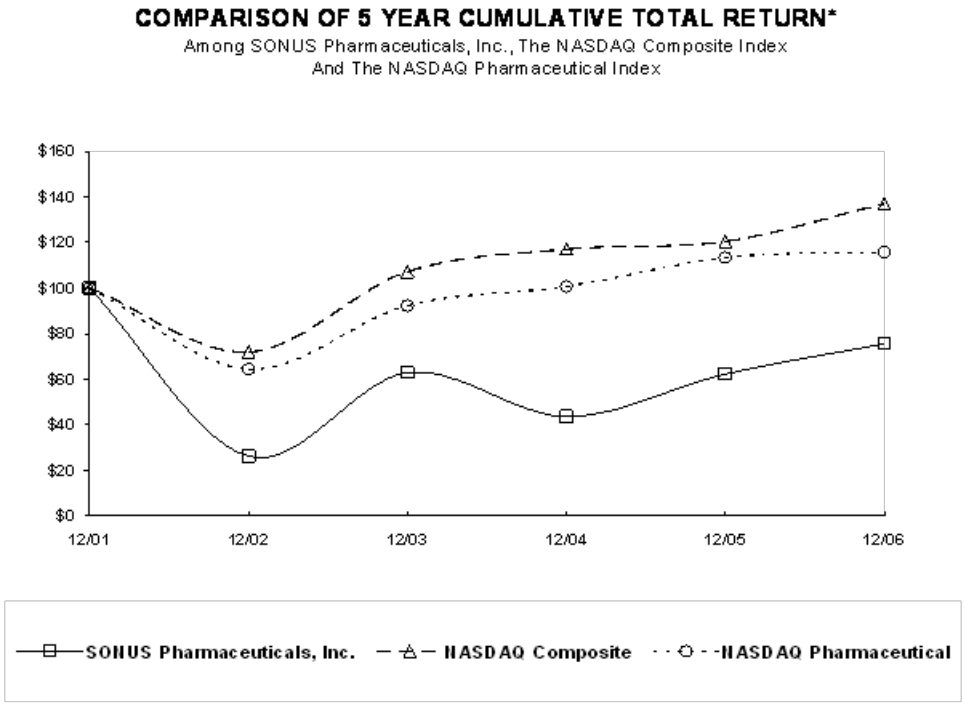
Our common stock first began trading on the Nasdaq National Market under the symbol SNUS on October 12, 1995. No cash dividends have been paid on the common stock, and we do not anticipate paying any cash dividends in the foreseeable future. As of March 1, 2007, there were approximately 160 stockholders of record and approximately 6,400 beneficial stockholders of our Common Stock. The high and low sales prices of our common stock as reported by Nasdaq Global Market (formerly the NASDAQ National Market) for the periods indicated are as follows:

	High	Low
2005		
First Quarter	$4.50	$2.56
Second Quarter	3.85	2.39
Third Quarter	5.04	3.33
Fourth Quarter	5.28	3.77
2006		
First Quarter	$6.92	$4.85
Second Quarter	6.28	4.40
Third Quarter	5.15	4.25
Fourth Quarter	6.32	4.51

The information required by this item regarding equity compensation plan information is set forth in Part III, Item 12 of this Annual Report filed on Form 10-K. We made no purchases of equity securities during the fourth quarter of the year ended December 31, 2006.

Stock Performance Graph

Set forth below is a line graph comparing the cumulative stockholder return on the Company's Common Stock with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Pharmaceutical Index for the five year period that commenced December 31, 2001 and ended on December 31, 2006.



ITEM 6. SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and Notes thereto appearing at Item 8 of this report.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Statements of Operations Data:					
Total revenue	$ 22,392	$ 8,254	$ —	$ 25	$ 25
Operating expenses	$ 48,679	$ 30,064	$ 16,576	$ 10,663	$ 12,199
Net loss	$ (23,551)	$ (21,097)	$ (16,311)	$ (10,467)	$ (11,636)
Net loss per share:					
Basic	$ (0.68)	$ (0.88)	$ (0.81)	$ (0.68)	$ (0.86)
Diluted	$ (0.68)	$ (0.88)	$ (0.81)	$ (0.68)	$ (0.86)
Shares used in calculation of net loss per share					
Basic	34,730	24,027	20,169	15,504	13,564
Diluted	34,730	24,027	20,169	15,504	13,564

	December 31,				
	2006	2005	2004	2003	2002
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 58,278	$ 49,318	$ 20,580	$ 19,664	$ 16,334
Accounts receivable from Bayer Schering Pharma AG	$ 8,044	$ 7,057	$ —	$ —	$ —
Total assets	$ 68,493	$ 57,914	$ 22,571	$ 21,468	$ 17,934
Current liabilities	$ 19,910	$ 11,242	$ 3,255	$ 1,794	$ 1,938
Long-term liabilities	$ 5,541	$ 11,408	$ 239	$ 364	$ 272
Stockholders' equity	$ 43,042	$ 35,264	$ 19,077	$ 19,310	$ 15,724

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

Forward-Looking Statements

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

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

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

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

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

MD&A Overview

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

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

Overview

Sonus Pharmaceuticals is focused on the development of cancer drugs that are designed to provide better efficacy, safety and tolerability, and are easier to use. Our business strategy is as follows:

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

Results of Operations

As of December 31, 2006, our accumulated deficit was approximately $111.7 million. We expect to incur substantial additional operating losses over the next several years. Such losses have been and will continue to principally be the result of various costs associated with our discovery and research and development programs. Substantially all of our working capital in recent years has resulted from equity financings and payments under corporate partnership agreements. Our ability to achieve a consistent, profitable level of operations depends in large part on obtaining regulatory approval for TOCOSOL Paclitaxel as well as future product candidates in addition to successfully manufacturing and marketing those products once they are approved. Even if we are successful in the aforementioned activities our operations may not be profitable. In addition, payments under corporate partnerships and licensing arrangements are subject to significant fluctuations in both timing and amount. Therefore, our operating results for any period may fluctuate significantly and may not be comparable to the operating results for any other period.

Collaboration and License Agreement with Bayer Schering

On October 17, 2005, we entered into a Collaboration and License Agreement with Bayer Schering, a German corporation, pursuant to which, among other things, we granted Bayer Schering an exclusive, worldwide license to

TOCOSOL Paclitaxel. Bayer Schering paid us an upfront license fee of $20 million and pays us for research and development services performed equal to 50% of eligible research and development costs related to TOCOSOL Paclitaxel (in certain cases the reimbursement rate is 100%). In addition, Bayer Schering may pay us (i) product milestone payments of up to $132 million upon the achievement of certain U.S., European Union and Japanese clinical and regulatory milestones, (ii) sales milestone payments of up to $35 million upon the achievement of certain annual worldwide net sales, and (iii) upon commercialization, royalties ranging between 15-30% of annual net sales in the U.S., with the exact percentage to be determined based on the achievement of certain annual net sales thresholds, and royalties equal to 15% of the annual net sales outside the U.S. The parties have agreed to a U.S. development program consisting of the ongoing Phase 3 pivotal trial for FDA NDA approval in metastatic breast cancer, and trials to support launch of TOCOSOL Paclitaxel and planned trials for additional indications. We have retained an option to exercise co-promotion rights in the U.S. and have also granted Bayer Schering the right of first negotiation on the novel camptothecin molecule Sonus is currently developing that is in Phase 1 clinical testing.

On March 2, 2006, in accordance with the Collaboration and License Agreement with Bayer Schering, Bayer Schering exercised their right to assume responsibility for the manufacturing of TOCOSOL Paclitaxel. In June 2006, we entered into a clinical supply agreement with Bayer Schering to provide clinical supplies of TOCOSOL Paclitaxel to Bayer Schering until such time as Bayer Schering establishes its own manufacturing capability.

On April 13, 2006, a wholly owned subsidiary of Bayer AG, a German corporation, or Bayer, submitted a formal tender offer to the stockholders of Schering AG to purchase all of the outstanding shares of Schering AG. The acquisition was essentially complete as of December 31, 2006 with only some minor activities remaining. We are not aware of any material effect the acquisition has had on our business, financial condition or results of operations but there can be no assurance that the acquisition will not have a material effect in the future.

Years Ended December 31, 2006 and December 31, 2005

Our revenue was $22.4 million for the year ended December 31, 2006 as compared with $8.3 million for 2005. Revenue in 2006 and 2005 was fully attributable to the collaboration agreement with Bayer Schering. We recognized $5.5 million in amortization of the upfront license fee and an additional $16.9 million in research and development reimbursements under the terms of our agreement with Bayer Schering. Amortization of the upfront fee will continue until the end of the development period for TOCOSOL Paclitaxel which is currently estimated at the end of 2008 or the currently estimated date for FDA approval assuming no further research is required and the results of the Phase 3 trial successfully meet its endpoints. Research and development funding will also continue during this time. This estimate is subject to change as facts and circumstances surrounding our Phase 3 trial for TOCOSOL Paclitaxel. We expect revenue to decline substantially in 2007 as reimbursements from Bayer Schering associated with the Phase 3 trial begin to wind down and Bayer Schering takes over full manufacturing of TOCOSOL Paclitaxel. These reimbursements provide the majority of our revenue.

Our research and development (R&D) expenses were $41.1 million for the year ended December 31, 2006 compared with $24.5 million for 2005. The 2006 increase was primarily the result of the spending associated with the Phase 3 clinical trial for TOCOSOL Paclitaxel including both clinical and drug supply and manufacturing costs (both control and study drug) as well as costs associated with the implementation of SFAS 123R. We expect R&D expenses to increase slightly in 2007 primarily on increased spending for preclinical activity associated with new product development as well as TOCOSOL Paclitaxel, offset in part by lower Phase 3 trial costs for TOCOSOL Paclitaxel as that trial begins to trend down.

Our general and administrative (G&A) expenses were $7.6 million for the year ended December 31, 2006 compared with $5.6 million for 2005. The 2006 increase was primarily attributed to costs associated with the implementation of SFAS 123R as well as market research conducted on TOCOSOL Paclitaxel as that product moves closer to FDA submission. We believe that G&A expenses will increase in 2007 on increased administrative support for TOCOSOL Paclitaxel and other product candidates as we continue to grow the business.

Our total operating expenses in 2007 are expected to increase from 2006 levels due to expected increased preclinical activity for both TOCOSOL Paclitaxel and new product development and higher G&A expenses. We estimate that R&D spending will comprise approximately 80%-85% of the anticipated spending in 2007. A significant portion of the R&D spending will be devoted to the Phase 3 and other supportive clinical trials for TOCOSOL Paclitaxel. These estimates and actual expenses are subject to change depending on many factors, including unforeseen expansion of study size or duration, complications in conducting or completing studies when the study begins, changes in FDA requirements, increased material costs and other factors.

Our interest income, net of interest expense, was $2.8 million for the year ended December 31, 2006 compared with $708,000 for 2005. The 2006 increase was due primarily to higher levels of invested cash in 2006 in addition to generally higher interest rates throughout 2006.

The Company had no income tax expense in 2006, 2005 or 2004 as it had incurred pretax losses.

Years Ended December 31, 2005 and December 31, 2004

Our revenue was $8.3 million for the year ended December 31, 2005 as compared with $0 million for 2004. Revenue in 2005 was fully attributable to the collaboration agreement with Bayer Schering.

Our research and development (R&D) expenses were $24.5 million for the year ended December 31, 2005 compared with $10.7 million for 2004. The 2005 increase was primarily the result of the spending associated with the Phase 3 clinical trial for TOCOSOL Paclitaxel including both clinical and drug supply and manufacturing costs (both control and study drug).

Our general and administrative (G&A) expenses were $5.6 million for the year ended December 31, 2005 compared with $5.9 million for 2004. The 2005 decrease was primarily attributed to approximately $1.0 million in costs related to the termination of our acquisition of Synt:em as well as increased personnel, business development and Sarbanes-Oxley compliance costs in 2004.

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

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

Liquidity and Capital Resources

We have historically financed operations with proceeds from equity financings and payments under collaboration agreements with third parties. At December 31, 2006, we had cash, cash equivalents and marketable securities totaling $58.3 million compared to $49.3 million at December 31, 2005. The increase was primarily due to the net proceeds of $28.6 million from the issuance of common stock on May 2, 2006 and payments of $15.7 million received from Bayer Schering under the collaboration agreement of which $7.2 million related to 2005 receivables. These increases were offset by the net loss for 2006 of $23.6 million, payment of 2005 incentive bonuses in 2006 of $1.2 million and other timing differences.

Net cash used in operating activities for the years ended December 31, 2006, 2005 and 2004, was $19.7 million, $8.4 million and $14.6 million, respectively. Expenditures in all periods were primarily a result of R&D expenses, including clinical trial costs, and G&A expenses in support of our operations and product development activities primarily related to TOCOSOL Paclitaxel and to a lesser extent other potential product candidates. We believe that G&A expenses will increase in 2007 on increased administrative support for TOCOSOL Paclitaxel and other product candidates as we continue to grow the business. We expect R&D expenses to increase slightly in 2007 primarily on increased spending for preclinical activity associated with new product development as well as TOCOSOL Paclitaxel, offset in part by lower Phase 3 trial costs for TOCOSOL Paclitaxel as that trial begins to trend down. We recorded $22.4 million in revenue in 2006, $8.3 million in 2005 and none in 2004. We expect revenue to decline substantially in 2007 as reimbursements from Bayer Schering associated with the Phase 3 trial begin to wind down and Bayer Schering takes over full manufacturing of TOCOSOL Paclitaxel. We paid no corporate income taxes in any of the periods presented.

Net cash provided by (used in) investing activities for the years ended December 31, 2006, 2005 and 2004, was ($23.0) million, $20.1 million and ($2.6) million, respectively. The cash used in investing activities in 2006 was primarily related to purchases of marketable securities as we began moving a portion of our portfolio to marketable securities due to better interest rate opportunities and our cash position in general. The cash provided by investing activities in 2005 was primarily related to sales and maturities of marketable securities occurring in the normal course of business. The cash used in investing activities in 2004 was primarily related to purchases of marketable securities offset in part by sales and maturities of marketable securities. In all of the years presented, we raised money in the capital markets and/or through corporate partnerships which was invested in either cash equivalent or marketable securities.

Net cash provided by financing activities for the years ended December 31, 2006, 2005 and 2004, was $29.1 million, $37.2 million and $16.0 million, respectively. The net cash provided by financing activities in 2006 and 2005 primarily related to proceeds from equity financing, payments received from Bayer Schering under our Collaboration and License Agreement, the exercise of common stock warrants and the issuance of common stock under employee benefit plans. The net cash provided by financing activities in 2004 primarily related to proceeds from equity financings, exercise of common stock warrants and the issuance of common stock under employee benefit plans.

We expect that our cash requirements will continue to increase in future periods due to the development and commercialization costs associated with TOCOSOL Paclitaxel and other product candidates. We believe that existing cash,

cash equivalents and marketable securities, in addition to payments pending and cost sharing arrangements under our Collaboration and License Agreement with Bayer Schering, will be sufficient to fund operations through the second quarter of 2008. In addition to the supportive trials Sonus plans to conduct, it is anticipated that we will collaborate with Bayer Schering on additional studies. Under the terms of the Collaboration and License Agreement with Bayer Schering, we are also obligated to fund 50% of the costs of certain studies conducted by Bayer Schering for the U.S. The exact cost and timing of these studies is yet to be finalized. In addition, the scope, timing and costs of the Phase 3 clinical trial are difficult to determine with accuracy and these costs may vary significantly depending upon regulatory and other matters that are not within our control. Our current estimate for the total cost of the Phase 3 clinical trial is approximately $50 million. This estimate is our direct cost only and does not include any future billings from Bayer Schering. Enrollment in the Phase 3 study concluded in November. We will need additional capital in 2008 to support the continued development and commercialization of TOCOSOL Paclitaxel, our obligations under the Collaboration and License Agreement with Bayer Schering, the development of other product candidates and to fund continuing operations. Should our clinical data support an NDA submission based on the primary endpoint of objective response rate, we anticipate that the NDA, the contents of which are being developed in collaboration with Bayer Schering, will be submitted by Bayer Schering in the second quarter of 2008. Our future capital requirements depend on many factors including:

- our ability to obtain and timing of payments under corporate partner agreements and/or debt or equity financings;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and amount of costs to support our obligations under the Collaboration and License Agreement with Bayer Schering;
- timing and cost of drug discovery and research and development;

- entering into new collaborative or product license agreements for products in our pipeline;
- timing and costs of technology transfer associated with manufacturing and supply agreements; and
- costs related to obtaining, defending and enforcing patents.

We have contractual obligations in the form of operating leases and leasehold financing arrangements, which expire in 2007. The Company signed a new facility lease in November 2006. The new facility lease has a term of 10 years with a provision for two additional five year renewals. The estimated commencement date for the new lease is October 2007. The following table summarizes our contractual obligations under these agreements, including interest as of December 31, 2006:

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Lease financing obligations	$ 15,197	$ 15,197	$ —	$ —	$ —
Operating lease obligations	20,325,529	1,096,483	3,569,760	3,752,720	11,906,566
Total	$ 20,340,726	$ 1,111,680	$ 3,569,760	$ 3,752,720	$ 11,906,566

Under the Collaboration and License Agreement with Bayer Schering, we are obligated to fund 50% of the costs of certain studies conducted by Bayer Schering. As these additional studies have not yet been finalized, no dollar amounts have been disclosed above.

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting estimates which are those that are most important to the portrayal of our financial condition and results of operations and which require our most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We also have other policies that we consider key accounting policies; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments which are difficult or subjective.

- *Cash, Cash Equivalents and Marketable Securities.* We consider investments in highly liquid instruments purchased with a remaining maturity at purchase of 90 days or less to be cash equivalents. Investments with a remaining maturity at purchase in excess of 90 days are classified as marketable securities. The amounts are recorded at cost, which approximate fair market value. Our cash equivalents and marketable securities consist principally of commercial paper, money market securities, repurchase agreements, corporate bonds/notes and government agency securities. We have classified our entire investment portfolio as available-for-sale. Available-for-sale securities are

carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity and included in accumulated other comprehensive income. The amortized cost of investments is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Interest earned on securities is included in interest income. We consider marketable securities with maturity greater than twelve months long-term and maturity less than twelve months short-term.

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

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

  The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon our estimates of the development period. We define the development period as the point from which research activities commence up to FDA approval of our submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should our clinical development plans change, as a result of regulatory or other matters, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period. Revenue from research and development services performed under collaboration agreements is generally recognized in the period when the services are performed. Payments received in excess of amounts earned are recorded as deferred revenue.

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

- *Stock-based Compensation.* We adopted the requirements of SFAS 123R, "*Share-Based Payment,*" effective January 1, 2006, utilizing the "modified prospective" method. We use the Black-Scholes-Merton option pricing model as the most appropriate fair-value method for our awards and recognize compensation cost on a straight-line basis over our awards' vesting periods in accordance with the provisions of SFAS 123R. In valuing our options using the Black-Scholes-Merton option pricing model, we make assumptions about risk-free interest rates, dividend yields, volatility and weighted average expected lives of the options. Risk-free interest rates are derived from United States treasury securities as of the option grant date. Dividend yields are based on our historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of our common stock as traded on NASDAQ. Forfeiture rates are estimated using historical actuals over the

estimated life of the option grant. These rates are adjusted on a quarterly basis and any change in compensation expense is recognized in the period of the change. The weighted average expected lives of the options is based on historical experience of option exercises and the average vesting option schedule. For unvested awards granted prior to the adoption date, compensation expense is based on the original grant date fair value measurement under SFAS 123. We currently believe that the assumptions used to generate those fair values are appropriate.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. We are required to adopt this interpretation in the first quarter of 2007. The company continues to evaluate the impact of FIN 48 on its financial position and results of operations. At this time, the effects of adoption have not yet been determined.

ITEM 7A . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate 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, 2006, the decline in the fair value of the investment portfolio would not be material. Given the short-term nature of our investment portfolio, 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.

Foreign currency exchange risk:

We are exposed to risks associated with foreign currency transactions on certain contracts denominated in foreign currencies (primarily Euro denominated contracts) and we have not hedged these amounts. As our unhedged foreign currency transactions fluctuate, our earnings might be negatively affected. Accordingly, changes in the value of the U.S. dollar relative to the Euro might have an adverse effect on our reported results of operations and financial condition, and fluctuations in exchange rates might harm our reported results and accounts from period to period. The impact of foreign currency fluctuations related to realized gains and losses during the past three years has not been material.

ITEM 8 . FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS:

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Sonus Pharmaceuticals, Inc. as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sonus Pharmaceuticals, Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sonus Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2007 expressed an unqualified opinion thereon.

As discussed in Note 1 to the financial statements, in 2006, Sonus Pharmaceuticals, Inc. changed its method of accounting for share-based payments in accordance with the guidance provided in Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments."

ERNST & YOUNG LLP

Seattle, Washington
March 13, 2007

Sonus Pharmaceuticals, Inc.
Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,771,784	$ 49,317,845
Marketable securities	22,506,086	—
Accounts receivable from Bayer Schering Pharma AG	8,043,771	7,056,640
Other current assets	524,470	341,787
Total current assets	66,846,111	56,716,272
Equipment, furniture and leasehold improvements, net	1,186,174	1,006,403
Long term receivable from Bayer Schering Pharma AG	—	87,500
Other assets	460,717	103,739
Total assets	$ 68,493,002	$ 57,913,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 898,486	$ 1,260,513
Accounts payable to Bayer Schering Pharma AG	1,473,050	—
Accrued expenses	11,928,124	4,407,844
Deferred revenue from Bayer Schering Pharma AG	5,545,919	5,545,920
Current portion of lease obligations	14,763	27,410
Other current liabilities	50,029	—
Total current liabilities	19,910,371	11,241,687
Deferred revenue from Bayer Schering Pharma AG, less current portion	5,540,694	11,086,612
Lease obligations, less current portion	—	14,763
Other liabilities	—	307,060
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value: 5,000,000 shares authorized; no shares outstanding	—	—
Common stock, $.001 par value: 75,000,000 shares authorized; 36,853,974 and 30,565,746 shares issued and outstanding in 2006 and 2005, respectively	154,780,939	123,443,666
Accumulated deficit	(111,738,669)	(88,187,373)
Accumulated other comprehensive income (loss)	(333)	7,499
Total stockholders' equity	43,041,937	35,263,792
Total liabilities and stockholders' equity	$ 68,493,002	$ 57,913,914

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Statements of Operations

	Year Ended December 31, 2006	2005	2004
Revenue:			
Collaboration revenue from Bayer Schering Pharma AG	$ 22,391,858	$ 8,254,483	$ —
Operating expenses:			
Research and development	41,102,276	24,493,651	10,706,223
General and administrative	7,576,276	5,570,051	5,869,331
Total operating expenses	48,678,552	30,063,702	16,575,554
Operating loss	(26,286,694)	(21,809,219)	(16,575,554)
Other income (expense):			

Other (expense) income	(112,490)	4,160	—
Interest income	2,850,872	714,866	289,587
Interest expense	(2,984)	(6,824)	(24,625)
Total other income, net	2,735,398	712,202	264,962
Net loss	$ (23,551,296)	$ (21,097,017)	$ (16,310,592)
Basic and diluted net loss per share	$ (0.68)	$ (0.88)	$ (0.81)
Shares used in calculation of basic and diluted net loss per share	34,729,930	24,027,127	20,169,258

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2004	17,957,452	$ 70,085,299	$ (50,779,764)	$ 4,148	$ 19,309,683
Comprehensive income (loss):					
Net loss	—	—	(16,310,592)	—	(16,310,592)
Change in unrealized gain (loss) on investments	—	—	—	(38,791)	(38,791)
Comprehensive loss					(16,349,383)
Issuance of common stock under employee benefit plans	150,628	259,093	—	—	259,093
Exercise of common stock warrants	344,715	1,409,884	—	—	1,409,884
Issuance of common stock (net of offering costs of $777,096)	2,900,000	14,447,904	—	—	14,447,904
Balance at December 31, 2004	21,352,795	86,202,180	(67,090,356)	(34,643)	19,077,181
Comprehensive income (loss):					
Net loss	—	—	(21,097,017)	—	(21,097,017)
Change in unrealized gain (loss) on investments	—	—	—	42,142	42,142
Comprehensive loss					(21,054,875)
Issuance of common stock under employee benefit plans	86,082	185,117	—	—	185,117
Exercise of common stock warrants	575,000	2,351,750	—	—	2,351,750
Issuance of common stock and common stock warrants (net of offering costs of $1,180,669)	8,551,869	34,704,619	—	—	34,704,619
Balance at December 31, 2005	30,565,746	123,443,666	(88,187,373)	7,499	35,263,792
Comprehensive income (loss):					
Net loss	—	—	(23,551,296)	—	(23,551,296)
Change in unrealized gain (loss) on investments	—	—	—	(7,832)	(7,832)
Comprehensive loss					(23,559,128)
Issuance of common stock under employee benefit plans	84,553	292,113	—	—	292,113
Stock-based compensation expense	—	2,173,379	—	—	2,173,379
Exercise of common stock warrants	73,675	301,330	—	—	301,330
Issuance of common stock (net of offering costs of $2,079,549)	6,130,000	28,570,451	—	—	28,570,451
Balance at December 31, 2006	36,853,974	$ 154,780,939	$ (111,738,669)	$ (333)	$ 43,041,937

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Statements of Cash Flows

	Year Ended December 31, 2006	2005	2004
Operating activities:			
Net loss	$ (23,551,296)	$ (21,097,017)	$ (16,310,592)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	609,615	592,825	552,277
Non-cash stock-based compensation	2,173,379	—	—
Accretion of net discount on securities	(301,312)	(6,669)	(36,798)
Gain on sale of capital equipment	—	(4,160)	—
Changes in operating assets and liabilities:			
Accounts receivable from Bayer Schering Pharma AG	(987,131)	(7,056,640)	—
Other current assets	(182,683)	117,039	(311,742)
Long term receivable from Bayer Schering Pharma AG	87,500	—	—
Other long term assets	(356,978)	(139,739)	—
Accounts payable	(362,027)	445,310	618,325
Accounts payable to Bayer Schering Pharma AG	1,473,050	—	—
Accrued expense	7,520,280	2,046,338	915,437
Deferred revenue from Bayer Schering Pharma AG	(5,545,919)	16,632,532	—
Other current liabilities	50,029	—	—

Other liabilities	(307,060)	110,968	(47,532)
Net cash used in operating activities	(19,680,553)	(8,359,213)	(14,620,625)
Investing activities:			
Purchases of capital equipment and leasehold improvements	(789,386)	(119,443)	(426,001)
Proceeds from sale of capital equipment	—	4,160	—
Purchases of marketable securities	(22,585,008)	—	(31,830,775)
Proceeds from sales of marketable securities	—	7,360,968	8,198,719
Proceeds from maturities of marketable securities	372,402	12,851,484	21,421,000
Net cash (used in) provided by investing activities	(23,001,992)	20,097,169	(2,637,057)
Financing activities:			
Proceeds from issuance of common stock and common stock warrants under equity financings, net of issuance costs	28,570,451	34,704,619	14,447,904
Proceeds from exercise of common stock warrants	301,330	2,351,750	1,409,884
Proceeds from issuance of common stock under employee benefit plans	292,113	185,117	259,093
Payments on lease obligations	(27,410)	(78,444)	(151,369)
Net cash provided by financing activities	29,136,484	37,163,042	15,965,512
Change in cash and cash equivalents for the year	(13,546,061)	48,900,998	(1,292,170)
Cash and cash equivalents at beginning of year	49,317,845	416,847	1,709,017
Cash and cash equivalents at end of year	$ 35,771,784	$ 49,317,845	$ 416,847
Supplemental cash flow information:			
Interest paid	$ 2,984	$ 6,824	$ 24,625

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Notes to Financial Statements

1. Description of Business and Summary of Accounting Policies

Overview

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

- develop proprietary formulations of cancer drugs utilizing our TOCOSOL® technology;
- develop novel formulations of oncology related drugs; and
- identify and acquire products/technologies that are complementary to our focus in oncology in order to broaden our business and market opportunities.

Liquidity

The Company has historically experienced recurring losses from operations which have generated an accumulated deficit of $111.7 million through December 31, 2006. For the year ended December 31, 2006, the Company used $19.7 million of cash to fund operations. At December 31, 2006, the Company had cash, cash equivalents and marketable securities of $58.3 million, and working capital of $46.9 million.

The Company expects that its cash requirements will continue to increase in future periods due to the projected development costs associated with TOCOSOL Paclitaxel and other product candidates. However, the Company believes that existing cash, cash equivalents and marketable securities, in addition to future payments and cost sharing arrangements under our Collaboration and License Agreement with Bayer Schering, will be sufficient to fund operations through the second quarter of 2008.

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. Included as a component of cash equivalents are $35.6 million and $23.9 million of securities purchased under overnight repurchase agreements as of December 31, 2006 and 2005, respectively.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, principally cash and cash equivalents, and marketable securities approximate fair value due to their short maturities.

Marketable Securities

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

Concentrations of Credit Risk

The Company invests its excess cash in accordance with investment guidelines, which limit the credit exposure to any one financial institution 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 generally mature within one year or less and in some cases are not collateralized. The company is subject to credit risk on its receivables from its collaborative partner.

Revenue Recognition

Since inception, we have generated revenue from collaborative agreements, licensing fees and from the assignment of developed and patented technology. These arrangements may include upfront non-refundable payments, development milestone payments, payments for research and development services performed and product sales royalties or revenue. Our

revenue recognition policies are based on the requirements of SEC Staff Accounting Bulletin No. 104 "*Revenue Recognition*," and, for contracts with multiple deliverables, we allocate arrangement consideration based on the fair value of the elements under guidance from Emerging Issues Task Force Issue 00-21 ("EITF 00-21"), "*Revenue Arrangements with Multiple Deliverables*." Under EITF 00-21, revenue arrangements with multiple deliverables are divided into separate units of accounting and revenue is allocated to these units based upon relative fair values with revenue recognition criteria considered separately for each unit.

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

The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon our estimates of the development period. We define the development period as the point from which research activities commence up to FDA approval of our submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should our clinical development plans change, as a result of regulatory or other matters, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period. Revenue from research and development services performed under collaboration agreements is generally recognized in the period when the services are performed. Payments received in excess of amounts earned are recorded as deferred revenue.

Research and Development Costs

Research and development ("R&D") costs including personnel costs, supplies, depreciation and other indirect costs are expensed as incurred. Costs are expensed the earlier of when amounts are due or when services are performed. R&D expenses consist of independent R&D costs and costs associated with collaborative R&D arrangements.

Equipment, Furniture and Leasehold Improvements

Equipment, furniture and leasehold improvements are stated at cost. Depreciation of equipment is provided using the straight-line basis generally over three years for equipment and 5 years for furniture and fixtures which represents 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. The current lease has less than one year remaining. Repair and maintenance costs are expensed as incurred.

Segment Information

The Company follows the requirements of SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." The Company has one operating segment, the development of oncology drugs.

Stock-Based Compensation

The Company adopted the requirements of SFAS No. 123 (revised 2004), "*Share-Based Payment,*" (or "SFAS 123R") on January 1, 2006, utilizing the "modified prospective" method. The Company uses the Black-Scholes-Merton option pricing model as the most appropriate fair-value method for its awards and recognizes compensation cost on a straight-line basis over its awards' vesting periods in accordance with the provisions of SFAS 123R. In valuing its options using the Black-Scholes-Merton option pricing model, the Company makes assumptions about risk-free interest rates, dividend yields, volatility and weighted average expected lives, including estimated forfeiture rates, of the options. Risk-free interest rates are derived from United States treasury securities as of the option grant date. Dividend yields are based on the Company's historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of the Company's common stock as traded on NASDAQ. Forfeiture rates are estimated using historical actual forfeiture rates that resulted over the estimated life of the option grant for options granted as of the beginning of the forfeiture measurement period. These rates are adjusted on a quarterly basis and any change in compensation expense is recognized in the period of the change. The weighted average expected life of the options is based on historical experience of option exercises and the average vesting option schedule. In November 2005, the FASB Staff Position No. 123R-3, *"Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards".* The Company has adopted the simplified method to calculate the beginning balance of the additional paid-in-capital (or "APIC") pool of excess tax benefit, and to determine the subsequent effect on the APIC pool and the Consolidated Statements of Cash Flows of the tax effects of stock-based compensation awards that were outstanding upon our adoption of FAS 123R.

For unvested awards granted prior to the adoption date, compensation expense is based on the original grant date fair value measurement under SFAS 123, "Accounting for Stock-Based Compensation".

Income Taxes

The Company utilizes the liability method of accounting for income taxes as required by SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Due to uncertainty of the Company's ability to generate taxable income, a full valuation allowance has been established as of December 31, 2006.

Comprehensive Income

In accordance with Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" (SFAS 130), the Company has reported comprehensive

income, defined as net income (loss) plus other comprehensive income, in the Statements of Stockholders' Equity. The total of other accumulated comprehensive income consists of unrealized gains and losses on certain cash equivalent and marketable securities.

Per Share Data

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

Use of Estimates and Reclassifications

The preparation of financial statement in conformity with U.S. 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.

Certain reclassifications of prior period amounts have been made to our consolidated financial statements to conform to the current period presentation.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. We are required to adopt this interpretation in the first quarter of 2007. The Company continues to evaluate the impact of FIN 48 on its financial position and results of operations. At this time, the effects of adoption have not yet been determined.

2. Collaboration and License Agreement with Bayer Schering

On October 17, 2005, the Company entered into a Collaboration and License Agreement with Bayer Schering, a German corporation, pursuant to which, among other things, the Company granted Bayer Schering an exclusive, worldwide license to its TOCOSOL Paclitaxel anti-cancer product candidate (the "Product"). With respect to the Product, Bayer Schering paid Sonus an upfront license fee of $20 million and pays Sonus for research and development services performed equal to 50% of eligible Product research and development costs (in certain cases the reimbursement rate is 100%). In addition, Bayer Schering may pay Sonus (i) product milestone payments of up to $132 million upon the achievement of certain U.S., European Union and Japanese clinical and regulatory milestones, (ii) sales milestone payments of up to $35 million upon the achievement of certain annual worldwide net sales, and (iii) upon commercialization, royalties ranging between 15-30% of annual net sales in the U.S., with the exact percentage to be determined based on the achievement of certain annual net sales thresholds, and royalties equal to 15% of the annual net sales outside the U.S. The parties have agreed to a development program consisting of the ongoing Phase 3 pivotal trial in metastatic breast cancer, and trials to support launch of the Product and planned trials for additional indications. The Company has retained an option to exercise co-promotion rights in the U.S. and has also granted Bayer Schering the right of first negotiation on the novel camptothecin molecule Sonus is currently developing that is in Phase 1 clinical testing. In connection with the Collaboration and Licensing Agreement, the Company and an affiliate of Bayer Schering entered into a Securities Purchase Agreement whereby the Company sold 3,900,000 shares of common stock for an aggregate of $15.7 million and warrants to purchase 975,000 shares of common stock for an aggregate purchase price of $122,000.

During the year ended December 31, 2006, the Company recognized revenue of $5.5 million as amortization of the upfront license fee and an additional $16.9 million related to research and development services performed for the Phase 3 trial for TOCOSOL Paclitaxel and related drug supply and manufacturing costs. The Company expects to recognize revenue related to amortization of the upfront fee and cost reimbursements through the end of the development period which is currently estimated as the end of 2008. The estimated development period represents the currently estimated date for FDA approval assuming no further research is required and the results of the Phase 3 trial successfully meet its endpoints. As the full clinical development program for TOCOSOL Paclitaxel, including other potential indications and geographic locations is still being finalized in collaboration with Bayer Schering, we cannot estimate the total costs or expected reimbursements at this time. The Company reduced the revenue to be recognized over the development period related to the $20 million upfront license payment by $2.3 million. This represented the excess fair value of the warrants purchased by an affiliate of Bayer Schering above the amount paid in connection with its equity investment in Sonus. This adjustment was made because both the equity investment and the upfront payment were considered to be a single unit of accounting. As of December 31, 2006, the Company had $11.1 million in deferred revenue related to the unamortized upfront payment (net of the adjustment for the warrant valuation) as well as $8.0 million in receivables from Bayer Schering on its balance sheet.

On March 2, 2006, in accordance with the Collaboration and License Agreement with Bayer Schering, Bayer Schering exercised their right to assume responsibility for the manufacturing of TOCOSOL Paclitaxel. In June 2006, we entered into a clinical supply agreement with Bayer Schering to provide clinical supplies of TOCOSOL Paclitaxel to Bayer Schering until such time as Bayer Schering establishes its own manufacturing capability.

On April 13, 2006, a wholly owned subsidiary of Bayer AG, a German corporation, or Bayer, submitted a formal tender offer to the stockholders of Schering AG to purchase all of the outstanding shares of Schering AG. The acquisition was essentially complete as of December 31, 2006 with only some minor activities remaining. We are not aware of any material effect the acquisition has had on our business, financial condition or results of operations but there can be no assurance that the acquisition will not have a material effect in the future.

3. Marketable Securities

Marketable securities consist of the following at December 31, 2006:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
2006:				
Corporate debt securities	$ 21,100,297	3,068	$ (1,111)	$ 21,102,254
Mortgage-backed securities	1,406,481	—	(2,649)	1,403,832
	$ 22,506,778	$ 3,068	$ (3,760)	$ 22,506,086

There were no significant realized or unrealized gains or losses on the sales of marketable securities in 2006, 2005 or 2004. All of the marketable securities held as of December 31, 2006 had maturities of one year or less. The Company only invests in A (or equivalent) rated securities with maturities of one year or less. The Company does not believe that there are any permanent impairments related to unrealized losses for the year ended December 31, 2006 given the quality of the investment portfolio and its short-term nature. The Company held no marketable securities as of December 31, 2005.

4. Equipment, Furniture and Leasehold Improvements

Equipment, furniture and leasehold improvements consist of the following:

	2006	2005
Laboratory equipment	$ 3,973,654	$ 3,595,440
Office furniture and equipment	1,584,861	1,257,729
Leasehold improvements	1,390,879	1,306,840
	6,949,394	6,160,009
Less accumulated depreciation and amortization	(5,763,220)	(5,153,606)
	$ 1,186,174	$ 1,006,403

We held laboratory equipment acquired under capital leases with an original cost of $392,968 as of December 31, 2006 and 2005. Accumulated depreciation on this equipment was $380,500 and $355,600 at December 31, 2006 and 2005, respectively.

5. Accrued Expenses

Accrued expenses consist of the following:

	2006	2005
Clinical trials	$ 8,497,278	$ 2,224,447
Product manufacturing	1,617,580	438,332
Compensation	1,459,128	1,455,329
Other	354,138	289,736
	$ 11,928,124	$ 4,407,844

6. Other assets

Other assets consist of the following:

	2006	2005
Deposit on facility lease	$ 439,822	$ 51,500
Long-term portion of prepaid insurance	20,895	52,239
	$ 460,717	$ 103,739

7. Income Tax

The Company recorded no income tax expense or benefit during 2006, 2005 or 2004.

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

	2006	2005	2004
Statutory tax rate	(34.00%)	(34.00%)	(34.00%)
Utilization of net operating loss carryforwards	—	—	—
Permanent difference	0.04	3.67	0.05
Change in valuation allowance	35.08	33.63	33.95
Federal tax (refund)	—	—	—
Other	(1.12)	(3.30)	—
Effective tax rate	—	—	—

Significant components of the Company's net deferred tax assets and liabilities as of December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets:		
Federal net operating loss carryforwards	$ 32,863,000	$ 23,782,000
Deferred Revenue	3,769,000	5,655,000
Accrued expenses	195,000	166,000
Research and development credits	3,119,000	2,651,000
Stock Options	739,000	—
Book in excess of tax depreciation expense	(62,000)	106,000
Gross deferred tax assets	40,623,000	32,360,000
Valuation allowance for net deferred tax assets	(40,623,000)	(32,360,000)
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, 2006 and 2005, a valuation allowance has been recognized for financial reporting purposes. The Company's valuation allowance for deferred tax assets increased $8.3 million and $7.1 million for the years ended December 31, 2006 and 2005, respectively. The increase in the deferred tax assets in 2006 is primarily the result of increasing net operating loss carryforwards.

At December 31, 2006 the Company has federal net operating loss carryforwards of approximately $96.8 million for income tax reporting purposes and research and development tax credit carryforwards of approximately $3.1 million. The federal operating loss carryforwards and research and development credits will expire between 2007 and 2027. To the extent

that net operating loss carryforwards, when realized, relate to stock option deductions of approximately $2.8 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 carryforward period and may result in the expiration of net operating loss carryforwards before utilization.

8. Stockholders' Equity

Common Stock

At December 31, 2006, the Company had shares of common stock reserved for possible future issuance as follows:

Stock options outstanding	4,756,890
Warrants outstanding	4,480,377
Shares available for future grant under stock plans	1,051,011
	10,288,278

Common Stock Issuances

In May 2006, the Company issued approximately 6.1 million shares of common stock in a registered direct offering for gross proceeds of $30.6 million (approximately $28.6 million net of transaction costs). The common stock was sold at a price of $5.00 per share and was previously registered through a shelf registration statement on Form S-3 that was declared effective by the SEC in April 2006.

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

In August 2005, the Company sold 4.7 million shares of common stock and warrants to purchase up to 2.3 million shares of common stock in a private placement transaction for gross proceeds of $17.8 million (approximately $16.6 million net of transaction costs). The common stock was sold at a price of $3.77 per share. The five-year warrants were sold at a price of $0.125 per share underlying each warrant, have an exercise price of $4.15 per share and expire in August 2010.

Stock Warrants

At December 31, 2006, there were warrants outstanding to purchase 4.5 million shares of common stock at exercise prices ranging from $4.09 to $9.40 per share and expiration dates ranging from January 2007 to October 2010. During 2006, the Company recorded $301,330 in proceeds from the issuance of 73,675 shares of common stock from the exercise of common stock warrants. During 2005, the Company recorded $2,351,750 in proceeds from the issuance of 575,000 shares of common stock from the exercise of common stock warrants.

Stock Options

The Company has stock option plans whereby shares of common stock are reserved for future issuance pursuant to stock option grants or other issuances. Under the 2000 Stock Incentive Plan, an incremental number of shares equal to four percent of the Company's common stock outstanding as of December 31 of each year commencing December 31, 2000 are made available for issuance under the plan up to a lifetime maximum of five million shares. The Company reached the lifetime cap in 2006. 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.

Adoption of SFAS 123R

The Company adopted the requirements of SFAS No. 123 (revised 2004), "*Share-Based Payment,*" (or "SFAS 123R") on January 1, 2006, utilizing the "modified prospective" method. The Company uses the Black-Scholes-Merton option pricing model as the most appropriate fair-value method for its awards and recognizes compensation cost on a straight-line basis over its awards' vesting periods in accordance with the provisions of SFAS 123R. In valuing its options using the Black-Scholes-Merton option pricing model, the Company makes assumptions about risk-free interest rates, dividend yields, volatility and weighted average expected lives, including estimated forfeiture rates, of the options. Risk-free interest rates are derived from United States treasury securities as of the option grant date. Dividend yields are based on the Company's historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of the Company's common stock as traded on NASDAQ. Forfeiture rates are estimated using historical actual forfeiture rates that resulted over the estimated life of the option grant for options granted as of the beginning of the forfeiture measurement period. These rates are adjusted on a quarterly basis and any change in compensation expense is recognized in the period of the change. The weighted average expected life of the options is based on historical experience of option exercises and the average vesting option schedule.

For unvested awards granted prior to the adoption date, compensation expense is based on the original grant date fair value measurement under SFAS 123, "Accounting for Stock-Based Compensation". We currently believe that the assumptions used to generate those fair values are appropriate and therefore have not revised those calculations.

Prior to the adoption of SFAS 123R

The Company previously applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and provided the required pro forma disclosures of SFAS No. 123.

The pro-forma information for the two annual periods ended December 31, 2005 was as follows:

	2005	2004
Net loss, as reported	$ (21,097,017)	$ (16,310,592)

Add: Stock-based employee compensation expense included in reported net loss		—
Deduct: Stock-based employee compensation expense determined under fair value based method	(1,629,317)	(1,528,401)
Pro forma net loss	$ (22,726,334)	$ (17,838,993)
Loss per share:		
Basic and diluted-as reported	$ (0.88)	$ (0.81)
Basic and diluted-pro forma	$ (0.95)	$ (0.88)

Impact of the adoption of SFAS 123R

The Company elected to implement SFAS 123R using the modified prospective application method. Accordingly, during the year ended December 31, 2006, the Company recorded stock-based compensation expense totaling the amount that would have been recognized had the fair value method been applied since the effective date of SFAS 123 for unvested options outstanding as of January 1, 2006 and recorded compensation expense under the provisions of SFAS 123R for options granted during the year ended December 31, 2006. Previously reported amounts have not been restated. As the Company uses a full valuation allowance with respect to deferred taxes, the adoption of SFAS 123R had no impact on deferred taxes or cash flow.

The effect of recording stock-based compensation for the year ended December 31, 2006 was as follows:

	2006
Stock-based compensation expense:	
General & administrative	$ (1,105,253)
Research & development	(1,068,126)
Total stock-based compensation expense	(2,173,379)
Tax effect on stock-based compensation	—
Net effect on income	$ (2,173,379)
Effect on earnings per share:	
Basic and diluted	$ (0.06)

As of January 1, 2006, the Company had an unrecorded deferred stock-based compensation balance related to stock options of $5.4 million before estimated forfeitures. In the Company's pro forma disclosures prior to the adoption of SFAS 123R, the Company accounted for forfeitures upon occurrence. SFAS 123R requires forfeitures to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates. Accordingly, as of January 1, 2006, the Company estimated that the stock-based compensation for the awards not expected to vest was $1.2 million, and therefore, the proforma deferred stock-based compensation balance related to stock options was adjusted to $4.2 million after estimated forfeitures.

As of December 31, 2006, the proforma deferred stock-based compensation balance related to stock options after adjusting for estimated forfeitures was $5.5 million and will be recognized over an estimated weighted average period of 2.7 years.

The fair value of each stock option used in the calculations under SFAS 123R is estimated using the Black-Scholes-Merton option pricing model. The assumptions used in this model include (1) the stock price at grant date, (2) the exercise price, (3) an estimated option life of four years, (4) no expected dividends for each period presented, (5) stock price volatility factor of 62.9%, 78.7% and 99.1% in 2006, 2005 and 2004, respectively, (6) forfeiture rate of 6.9% as of December 31, 2006, and (7) a risk-free interest rate of 4.6%, 4.4% and 3.5% in 2006, 2005 and 2004, respectively.

The Black-Scholes-Merton option pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The Company will evaluate its assumptions on a regular basis. These evaluations may result in changes to assumptions which may have a material effect on compensation expense recorded under SFAS 123R.

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

	Shares	Exercise Price		
Balance, December 31, 2003	2,588,652	$ 0.63	—	$ 44.00
Granted	926,575	2.86	—	7.84
Exercised	(136,670)	0.63	—	3.38
Canceled	(368,048)	0.88	—	8.08
Balance, December 31, 2004	3,010,509	0.63	—	44.00
Granted	1,039,000	2.87	—	5.10
Exercised	(60,998)	0.88	—	4.06
Canceled	(169,341)	2.03	—	8.19
Balance, December 31, 2005	3,819,170	0.63	—	44.00
Granted	1,023,650	4.48	—	6.11
Exercised	(53,720)	0.88	—	3.86
Canceled	(32,210)	2.30	—	20.50
Balance, December 31, 2006	4,756,890	0.63	—	44.00

Options exercisable at December 31, 2006, 2005, and 2004, were 2,618,765, 1,953,680 and 1,485,380, respectively. The weighted average exercise prices for those options for the years ended December 31, 2006, 2005 and 2004, were $4.72, $4.83 and $4.13, respectively.

The intrinsic value of options exercised during 2006, 2005 and 2004 was $178,220, $109,644 and $437,280, respectively. The estimated fair value of shares vested during 2006, 2005 and 2004 was $2,310,842, $2,186,496 and $1,715,998, respectively. The weighted-average estimated fair value of stock options granted during 2006, 2005 and 2004 was $2.89, $2.99 and $3.09, respectively, based on the assumptions in the Black-Scholes-Merton valuation model discussed above.

The following table summarizes information about stock options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price
$0.63 - $1.46	227,475	3.92	$ 0.73	227,475	3.92	$ 0.73
$1.46 - $3.72	1,057,947	7.07	$ 2.85	774,126	6.77	$ 2.75
$3.72 - $5.24	1,733,443	8.33	$ 4.93	653,234	7.51	$ 4.85
$5.24 - $6.94	1,529,738	6.98	$ 6.17	759,733	4.22	$ 6.27
$6.94 - $8.08	185,654	5.16	$ 7.97	181,564	5.12	$ 7.98
$8.08- $19.37	10,000	1.33	$ 19.38	10,000	1.33	$ 19.38
$19.37- $44.00	12,633	0.83	$ 39.77	12,633	0.83	$ 39.77
	4,756,890	7.25	$ 4.91	2,618,765		$ 4.72

At December 31, 2006, the aggregate intrinsic value of the outstanding options was $6,848,112 and the aggregate intrinsic value of the exercisable options was $4,731,813.

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 six-month offering period. Shares purchased under the plan were 13,642, 6,493 and 3,390 in 2006, 2005 and 2004, respectively. At December 31, 2006, a total of 86,358 shares remain available for purchase by employees under the plan. The previous plan expired on December 31, 2005 and a new plan was approved by the shareholders at the 2006 annual meeting with a ten year term.

401(k) Plan

The Company has a 401(k) plan for all employees under which it provides a specified percentage match on employee contributions. Currently, the Company match is made in shares of the Company's common stock. Shares issued as matching contributions under the plan were 17,191, 18,591 and 10,568 in 2006, 2005 and 2004, respectively. The related expense recorded on these matching contributions was $92,762, $66,767 and $44,381 in 2006, 2005 and 2004, respectively. At December 31, 2006, a total of 11,287 shares remain available for future issuances as matching contributions under the plan.

Shareholder Rights Plan

The Company has adopted a Shareholder Rights Plan ("Plan") which was amended in July 2002 and more recently in August 2006. Under the Plan, as amended, the Company's Board of Directors declared a dividend of one Preferred Stock Purchase Right ("Right") for each outstanding common share of the Company. The Rights have an exercise price of $140 per Right and provide the holders with the right to purchase, in the event a person or group acquires 15% or more of the Company's common stock, additional shares of the Company's common stock having a market value equal to two times the exercise price of the Right. The Rights expire in 2016.

9. Net Loss Per Share

The following table presents the computation of basic and diluted net loss per share:

	2006	2005	2004
Basic and diluted net loss per share:			
Net loss	$ (23,551,296)	$ (21,097,017)	$ (16,310,592)
Weighted average common shares	34,729,930	24,027,017	20,169,258
Basic and diluted net loss per share	$ (0.68)	$ (0.88)	$ (0.81)

As of December 31, 2006, 2005 and 2004 a total of 9,237,267, 8,373,222 and 4,838,625 options and warrants, respectively, have not been included in the calculation of potential common shares as their effect on diluted per share amounts would have been anti-dilutive.

10. Commitments and Contingencies

The Company has leased office space and equipment under three operating lease agreements, which expire in 2007. The Company signed a new facility lease in November 2006. The new facility lease has a term of 10 years with a provision for two additional five year renewals. The estimated commencement date for the new lease is October 2007. Future minimum lease payments under these leases are as follows:

2007	$ 1,096,483
2008	1,762,681
2009	1,807,079
2010	1,852,809
2011	1,899,911
Thereafter	11,906,566
	$ 20,325,529

Rental expense for the years ended December 31, 2006, 2005 and 2004 was $655,000, $644,000 and $647,000, respectively.

11. Quarterly Financial Information (unaudited)

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands, except per share data)			
2006				
Collaboration revenue from Bayer Schering Pharma AG	$ 4,054	$ 7,514	$ 4,931	$ 5,893
Operating expenses	$ 9,879	$ 13,136	$ 12,067	$ 13,596
Operating loss	$ (5,825)	$ (5,623)	$ (7,136)	$ (7,703)
Net loss	$ (5,310)	$ (4,935)	$ (6,293)	$ (7,013)
Net loss per share*:				
Basic and diluted	$ (0.17)	$ (0.14)	$ (0.17)	$ (0.19)
2005				
Collaboration revenue from Bayer Schering Pharma AG	$ —	$ —	$ —	$ 8,254
Operating expenses	$ 4,866	$ 4,165	$ 9,042	$ 11,991
Operating loss	$ (4,866)	$ (4,165)	$ (9,042)	$ (3,736)
Net loss	$ (4,775)	$ (4,091)	$ (8,908)	$ (3,323)
Net loss per share*:				
Basic and diluted	$ (0.22)	$ (0.19)	$ (0.37)	$ (0.11)

*Quarterly EPS may not add to annual figure due to rounding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIALDISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2006 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

As of December 31, 2006, management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2006.

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

Management's assessment of the effectiveness of its internal control over financial reporting as of December 31, 2006, has been audited by Ernst &Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sonus Pharmaceuticals, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Sonus Pharmaceuticals, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sonus Pharmaceuticals, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Sonus Pharmaceuticals, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Sonus Pharmaceuticals, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Sonus Pharmaceuticals, Inc. as of December 31, 2006 and December 31, 2005, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of Sonus Pharmaceuticals, Inc., and our report dated March 13, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
March 13, 2007

ITEM 9B. OTHER INFORMATION
Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

The information required hereunder is incorporated by reference from our Proxy Statement to be filed within 120 days of December 31, 2006 and delivered to stockholders in connection with our 2007 Annual Meeting of Stockholders to be held May 10, 2007.

ITEM 11. EXECUTIVE COMPENSATION

The information required hereunder is incorporated by reference from our Proxy Statement to be filed within 120 days of December 31, 2006 and delivered to stockholders in connection with our 2007 Annual Meeting of Stockholders to be held May 10, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2006:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders (1)	4,272,682	$ 4.88	1,036,793
Equity compensation plans not approved by security holders (2)	484,208	$ 5.05	2,931
Total	4,756,890		1,039,724

(1) Our 2000 Stock Incentive Plan was approved by security holders with 500,000 shares authorized under the plan. Stock options issued under the 2000 plan are generally granted at the fair market value on the date of grant and expire ten years from the date of grant. The plan also has an annual feature whereby an incremental number of shares equal to four percent of the Company's common stock outstanding as of December 31 of each year commencing December 31, 2000 are made available for issuance under the plan up to a lifetime maximum of five million shares. This lifetime maximum was reached in 2006. 950,435 shares were available for issuance as of December 31, 2006. The Company also had 86,358 shares available at December 31, 2006 for issuance under its Employee Stock Purchase Plan. This plan expires in 2016.

(2) Our 1999 Nonqualified Stock Incentive Plan (the "1999 Plan") is a broad-based plan for which shareholder approval was not required or obtained. A total of 900,000 shares are authorized under the 1999 Plan with 2,931 available for issuance as of December 31, 2006. Options to purchase 484,208 shares of common stock under the 1999 Plan were outstanding as of December 31, 2006 at a weighted average exercise price of $5.05. Stock options issued under the 1999 Plan are generally granted with an exercise price equal to fair market value on the date of grant, but in no event may be less than 85% of the then fair market value. Options under the 1999 Plan have various vesting schedules and expire ten years from the date of grant. The 1999 Plan also authorizes the issuance of restricted stock, although no restricted stock grants have been issued under the 1999 Plan. Shares underlying unexercised options that expire or are terminated become available again for future grants.

The remaining information required hereunder is incorporated by reference from our Proxy Statement to be filed within 120 days of December 31, 2006 and delivered to stockholders in connection with its 2007 Annual Meeting of Stockholders to be held May 10, 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required hereunder is incorporated by reference from our Proxy Statement to be filed within 120 days of December 31, 2006 and delivered to stockholders in connection with our 2007 Annual Meeting of Stockholders to be held May 10, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required hereunder is incorporated by reference from our Proxy Statement to be filed within 120 days of December 31, 2006 and delivered to stockholders in connection with its 2007 Annual Meeting of Stockholders to be held May 10, 2007.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

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

(3) Exhibits

Index to Exhibits

Exhibit No.	Description	Location
Exhibit No. 2: Plan of Acquisition		
2.1	Stock Purchase Agreement, dated November 3, 2004	(22)
2.2	Amended and Restated Stock Purchase Agreement, dated December 22, 2004.	(23)
Exhibit No. 3: Articles of Incorporation		
3.2	Amended and Restated Certificate of Incorporation of the Company.	(1)
3.3	Certificate of Amendment of Certificate of Incorporation of the Company.	(7)
3.4	Amended and Restated Bylaws of the Company.	(1)
3.5	Amended and Restated Certificate of Incorporation of the Company.	(20)
Exhibit No. 4: Instruments Defining the Rights of Security Holders		
4.1	Specimen Certificate of Common Stock.	(1)
4.2	Rights Agreement, dated as of August 23, 1996, between the Company and U.S. Stock Transfer Corporation.	(3)
4.3	First Amendment to Rights Agreement, dated as of August 23, 1996, between the Company and U.S. Stock Transfer Corporation.	(17)
4.4	Second Amendment to Amended and Restated Rights Agreement, dated August 10, 2006, between the Company and U.S. Stock Transfer Corporation, as Rights Agent.	(29)

Exhibit No. 10: Material Contracts

Compensation Plans and Arrangements		
10.1	Sonus Pharmaceuticals, Inc. Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan — 1991 (the "1991 Plan"), as amended.	(1)
10.2	Form of Incentive Stock Option Agreement pertaining to the 1991 Plan.	(1)
10.3	Form of Nonqualified Stock Option Agreement pertaining to the 1991 Plan.	(1)
10.4	Form of Restricted Stock Purchase Agreement pertaining to the 1991 Plan.	(1)
10.5	Sonus Pharmaceuticals, Inc. 1995 Stock Option Plan for Directors (the "Director Plan").	(1)
10.6	Form of Stock Option Agreement pertaining to the Director Plan.	(1)
10.7	1999 Nonqualified Stock Incentive Plan (the "1999 Plan").	(7)
10.8	Form of Stock Option Agreement pertaining to the 1999 Plan.	(7)
10.9	Form of Restricted Stock Purchase Agreement pertaining to the 1999 Plan.	(7)
10.10	2000 Stock Incentive Plan (the "2000 Plan").	(9)
10.11	Form of Stock Option Agreement pertaining to the 2000 Plan.	(9)
10.12	Sonus Pharmaceuticals, Inc. Employee Stock Purchase Plan.	(2)
10.13	Change in Control Agreement for Michael Martino, dated September 15, 1998.	(4)
10.14	Change in Control Agreement for Richard J. Klein, dated October 25, 2000.	(10)
10.15	Change in Control Agreement for Michael A. Martino, dated July 18, 2001.	(12)
10.16	Change in Control Agreement for Michael B. Stewart, dated May 1, 2003.	(18)
10.17	Change in Control Agreement for Michael A. Martino, dated October 10, 2003.	(19)
10.18	Change in Control Agreement for Richard J. Klein, dated October 10, 2003.	(19)
10.19	Change in Control Agreement for Michael B. Stewart, dated October 10, 2003.	(19)
10.20	Change in Control Agreement for Alan Fuhrman, dated September 15, 2004.	(22)
10.21	Amended and Restated Executive Compensation Program.	(25)
10.22	Form of Performance Award under Executive Compensation Program.	(25)
10.23	First Amendment to Sonus Pharmaceuticals, Inc. 2000 Stock Incentive Plan	(30)
10.24	Sonus Pharmaceuticals, Inc. Compensation Policy	(31)
10.25	Sonus Pharmaceuticals, Inc. Executive Compensation Program	(31)
Other Material Contracts		
10.20	Lease Agreement dated January 17, 1994 between the Company and WRC Properties, Inc.	(1)
10.21	Amendment 2 dated October 28, 1997 to Lease Agreement dated January 17, 1994.	(5)
10.22	Amendment 3 dated October 15, 1998 to Lease Agreement dated January 17, 1994.	(5)
10.23	Amendment 4 dated November 29, 2001 to Lease Agreement dated January 17, 1994.	(15)
10.24	Form of Indemnification Agreement for Officers and Directors of the Company.	(1)
10.25	License Agreement by and between Nycomed Amersham AS and the Company dated August 31, 1999.	(8)
10.26	License Agreement by and between Chugai Pharmaceutical Co. Ltd., Molecular Biosystems, Inc., and the Company, dated December 22, 2000.	(11)
10.27	Nycomed Assignment and Asset Transfer Agreement, dated August 3, 2001.	(13)
10.28	Supply Agreement dated January 22, 2002 between Indena SpA and Sonus Pharmaceuticals, Inc.	(14)
10.29	First Amendment dated May 5, 2003 to Supply Agreement dated January 22, 2002 between Indena SpA and Sonus Pharmaceuticals, Inc.	(18)
10.30	Manufacturing and Supply Agreement by and between the Company and Gensia Sicor Pharmaceutical Sales, Inc., dated June 26, 2002.	(16)
10.31	Securities Purchase Agreement, dated May 7, 2004.	(21)
10.32	Registration Rights Agreement, dated May 7, 2004.	(21)
10.33	Securities Purchase Agreement, dated August 15, 2005.	(26)

10.34	Registration Rights Agreement, dated August 15, 2005.	(26)
10.35	Collaboration and License Agreement by and between the Company and Bayer Schering Pharma AG, dated October 17, 2005.	(27)
10.36	Securities Purchase Agreement, dated October 17, 2005.	(27)
10.37	Registration Rights Agreement, dated October 17, 2005.	(27)
10.38	Form of Purchase Agreement, dated April 27, 2006	(28)
10.39	Lease Agreement dated November 21, 2006 between the Company and BMR-217TH Place LLC	(6)
10.40	Clinical Supply Agreement between the Company and Bayer Schering Pharma AG	(6)
Exhibit No. 23: Consents of Experts and Counsel		
23.1	Consent of Independent Registered Public Accounting Firm.	(6)
24.1	Power of Attorney (included on the Signature Page of this Annual Report on Form 10-K).	(6)
Certifications		
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a).	(6)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a).	(6)
32.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(b) or 15d-14(b).	(6)
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b).	(6)

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

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

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

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

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

(6) Filed herewith.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(27) Incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005.

(28) Incorporated by reference to the Company's Current Report on Form 8-K filed April 28, 2006.

(29) Incorporated by reference to the Company's Current Report on Form 8-K-A/A filed August 10, 2006.

(30) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006.

(31) Incorporated by reference to the Company's Current Report on Form 8-K filed December 15, 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Bothell, State of Washington, on March 16, 2007.

SONUS PHARMACEUTICALS, INC.

Dated: March 16, 2007

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

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

indicated below, any and all amendments thereto; and we do hereby ratify and confirm all that said attorneys and agents, shall do or cause to be done by virtue hereof.

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

/s/ Michael A. Martino Michael A. Martino	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2007
/s/ Alan Fuhrman Alan Fuhrman	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	March 16, 2007
/s/ Craig S. Eudy Craig S. Eudy	Vice President, Corporate Controller (Principal Accounting Officer)	March 16, 2007
/s/ Michelle Burris Michelle Burris	Director	March 16, 2007
/s/ George W. Dunbar, Jr. George W. Dunbar, Jr.	Director	March 16, 2007
/s/ Robert E. Ivy Robert E. Ivy	Director, Chairman of the Board of Directors	March 16, 2007
/s/ Dwight Winstead Dwight Winstead	Director	March 16, 2007

LEASE

by and between

BMR-217TH PLACE LLC,
a Delaware limited liability company

and

SONUS PHARMACEUTICALS, INC.
a Delaware corporation

LEASE

THIS LEASE (this "Lease") is entered into as of this 21st day of November, 2006 (the "Execution Date"), by and between BMR-217TH PLACE LLC, a Delaware limited liability company ("Landlord"), and SONUS PHARMACEUTICALS, INC., a Delaware corporation ("Tenant").

RECITALS

A. WHEREAS, Landlord has entered into a purchase agreement to acquire certain real property (the "Property") and the improvements thereon located at 1522 217th Place SE in Bothell, Washington, including the building located thereon (the "Building") in which the Premises (as defined below) are located; and

B. WHEREAS, provided Landlord acquires the Property, Landlord wishes to lease to Tenant, and Tenant desires to lease from Landlord, certain premises located in the Building (the "Premises"), consisting of approximately 37,699 rentable square feet of office and laboratory space, pursuant to the terms and conditions of this Lease, as detailed below.

AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, agree as follows:

1. Lease of Premises. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises, as generally shown on Exhibit A attached hereto. Tenant and its agents, servants, employees and invitees shall have unobstructed access to the Premises (subject to reasonable security measures, emergencies, casualties and other provisions of this Lease) twenty-four (24) hours a day, 365 or 366 days a year. The Property and all landscaping, parking facilities and other improvements and appurtenances related thereto, including, without limitation, the Building, are hereinafter collectively referred to as the "Project." All portions of the Project that are for the non-exclusive use of tenants of the Building, including, without limitation, driveways, sidewalks, parking areas, landscaped areas, service corridors, stairways, elevators, public restrooms and public lobbies, are hereinafter referred to as "Common Area." The Property is legally described on Exhibit F attached hereto.

2. Basic Lease Provisions. For the convenience of the parties, certain basic provisions of this Lease are set forth herein. The provisions set forth herein are subject to the remaining terms and conditions of this Lease and are to be interpreted in light of such remaining terms and conditions.

2.1. This Lease shall take effect upon the date of execution and delivery hereof by all parties hereto and, except as specifically otherwise provided within this Lease, each of the provisions hereof shall be binding upon and inure to the benefit of Landlord and Tenant from the date of execution and delivery hereof by all parties hereto.

2.2. In the definitions below, each Rentable Area (as defined below) is expressed in rentable square footage. Rentable Area and Tenant's Pro Rata Share are all

subject to adjustment as provided in this Lease.

Definition or Provision	Means the Following (As of the Term Commencement Date)
Rentable Area of Premises	37,699 square feet
Rentable Area of Building	67,340 square feet
Tenant's Pro Rata Share of Building	55.98%

2.3. Initial monthly and annual installments of Basic Annual Rent for the Premises ("Basic Annual Rent"), subject to adjustment under this Lease:

Rentable S.F.	Per Rentable S.F.	Total Annual	Total Monthly
37,699	$35	$1,319,465	$109,955.42

2.4. [Intentionally omitted]

2.5. Estimated Term Commencement Date: September 1, 2007

2.6. Estimated Term Expiration Date: September 30, 2017

2.7. Security Deposit: An amount equal to the first (Ist) four (4) months of Basic Annual Rent payable by Tenant, subject to increase or decrease in accordance with the terms hereof

2.8. Permitted Use: General office, research, development, all uses reasonably related to the development of pharmaceutical and biological drug products (including, without limitation, laboratory and vivarium use), manufacturing, production and distribution use in conformity with Applicable Laws (as defined below)

2.9. Address for Rent Payment:
BMR-217th Place LLC
17140 Bernardo Center Drive, Suite 222
San Diego, California 92128
Attn: Chief Accounting Officer

2.10. Address for Notices to Landlord:
BMR-217th Place LLC
17140 Bernardo Center Drive, Suite 222
San Diego, California 92128
Attn: General Counsel/Real Estate

2.11. Address for Notices to Tenant:
Sonus Pharmaceuticals, Inc.
22026 20th Avenue, SE
Bothell, Washington 98021
Attn: Alan Fuhrman, SVP/CFO

2.12. The following Exhibits are attached hereto and incorporated herein by reference:

Exhibit A	Premises
Exhibit B	Acknowledgement of Term Commencement Date and Term Expiration Date
Exhibit C	Tenant's Personal Property
Exhibit D	Rules and Regulations
Exhibit E	Form of Estoppel Certificate
Exhibit F	Legal Description of Property
Exhibit G	Work Letter
Exhibit H	Form of Letter of Credit

3. Term.

3.1. This Lease shall take effect upon the date of execution and delivery hereof by all parties hereto and, except as specifically otherwise provided within this Lease, each of the provisions hereof shall be binding upon and inure to the benefit of Landlord and Tenant from the date of execution and delivery hereof by all parties hereto.

3.2. The actual term of this Lease (the "Term") shall be that period from the actual Term Commencement Date (as defined in Section 4.2 below) through the last day of the one hundred twentieth (120th) calendar month following the month during which the actual Term Commencement Date occurs, which last day shall be the actual Term Expiration Date.

4. Possession and Commencement Date.

4.1. Landlord shall tender possession of the Premises to Tenant on the Estimated Term Commencement Date, with the work required of Landlord described in the Work Letter attached hereto as Exhibit G (the "Work Letter") to be Substantially Complete (as defined below); provided that such work shall not be required to be Substantially Complete during the Installation Period (as defined below). Tenant agrees that in the event such work is not Substantially Complete on or before the Estimated Term Commencement Date for any reason, then (a) this Lease shall not be void or voidable, (b) Landlord shall not be liable to Tenant for any loss or damage resulting therefrom, (c) the Term Expiration Date shall be extended accordingly and (d) Tenant shall not be responsible for the payment of any Rent (as defined below) until the actual Term Commencement Date as described in Section 4.2 occurs. The work required of Landlord described in the Work Letter (both Landlord's Work and the Shell and Core Work) shall be deemed Substantially Complete, as that term is used in this Article 4 and elsewhere in this Lease, if Landlord has (y) completed all of Landlord's Work and the Shell and Core Work (subject only to a punchlist of items that do not materially and substantially interfere with Tenant's use of the Premises) and provided to Tenant a certificate of Substantial Completion from the architect that

includes a certification to Tenant that the Tenant Improvements are substantially complete in accordance with the Approved Plans (as defined in the Work Letter), except for minor punch list items, and (z) received a temporary certificate of occupancy from the municipality(ies) in which the Property is located, or would have received the temporary occupancy certificate or certificate of Substantial Completion but for delays or failure of Tenant or Tenant's architect to deliver items in accordance with the Work Letter. The term "Substantially Complete" or "Substantial Completion" means that the Tenants Improvements satisfy the requirements of clauses (y) and (z) above.

4.2. The "Term Commencement Date" shall be the day Landlord tenders possession of the Premises to Tenant, but no earlier than the later of (a) the date on which the Tenant Improvements are Substantially Complete and (b) the date Tenant has had access to the Premises for four (4) weeks (the "Installation Period") solely to install furniture, fixtures and equipment in the Premises (during which period Tenant shall have no obligation to pay any Basic Annual Rent or Tenant's Pro Rata Share of Operating Expenses), not to occupy the Premises. Tenant shall execute and deliver to Landlord written acknowledgment of the actual Term Commencement Date and the Term Expiration Date, in the form attached as Exhibit B hereto, within forty (40) days after Tenant takes occupancy of the Premises. Failure to execute and deliver such acknowledgment, however, shall not affect the Term Commencement Date or Landlord's or Tenant's liability hereunder.

4.3. During the Installation Period and any other period prior to the Term Commencement Date that Landlord permits (such permission not to be unreasonably withheld, conditioned or delayed) Tenant to enter upon the Premises for the purpose of installing improvements or placing personal property, Tenant shall furnish to Landlord evidence reasonably satisfactory to Landlord that the insurance coverages required of Tenant under the provisions of Article 21 are in effect, and such entry shall be subject to all the terms and conditions of this Lease other than the payment of Basic Annual Rent or Additional Rent (as defined below), except as required under Section 4.2.

4.4. Possession of areas of the Premises reasonably necessary for utilities, services, safety and operation of the Building is reserved to Landlord.

5. Rent and Tenant Improvement Allowance.

5.1. Tenant shall pay to Landlord as Basic Annual Rent for the Premises, commencing on the Term Commencement Date, the sums set forth in Section 2.3, subject to the rental adjustments provided in Article 6 hereof. Basic Annual Rent and TI Rent (defined below) shall be paid in equal monthly installments (as set forth in Section 2.3 for Basic Annual Rent), subject to the rental adjustments provided in Article 6 hereof, each in advance on the first day of each and every calendar month during the Term.

5.2. Landlord shall cause to be constructed the tenant improvements in the Premises (the "Tenant Improvements") pursuant to the Work Letter at a cost to Landlord (the "Tenant Improvement Allowance") not to exceed Six Million Five Hundred Ninety-Seven Thousand Three Hundred Twenty-Five Dollars ($6,597,325) (based upon One Hundred Seventy-Five

Dollars ($175) per rentable square foot, as adjusted based on the finally determined Rentable Area of the Premises), which amount shall include the costs of (a) construction, (b) project management by Landlord (which fee shall equal three percent (3%) of the Tenant Improvement Allowance actually paid by Landlord but not less than 3% of the product of the Rentable Area of the Premises times One Hundred Twenty-Five Dollars ($125) per rentable square foot), (c) space planning, architect, engineering and other related services and (d) building permits and other planning and inspection fees. The Tenant Improvement Allowance shall consist of an allowance of (x) One Hundred Twenty-Five Dollars ($125) per rentable square foot, which shall be expended first, (y) an additional Twenty-Five Dollars ($25) per rentable square foot, which shall be expended second ("Tranche 2"), and (z) an additional Twenty-Five Dollars ($25) per rentable square foot, which shall be expended third ("Tranche 3"). If the total cost of the Tenant Improvements exceeds the Tenant Improvement Allowance, then the overage shall be paid by Tenant to Landlord prior to the Term Commencement Date. Tenant shall have until December 31, 2007, to expend the unused portion of the Tenant Improvement Allowance, after which date Landlord's obligation to fund such costs shall expire. Tenant shall pay to Landlord, as Additional Rent (the "TI Rent"), Tranche 2 or so much thereof as is actually paid by Landlord amortized over the final one hundred twenty (120) months of the initial Term at a rate of ten percent (10%) per annum, and Tranche 3 or so much thereof as is actually paid by Landlord amortized over the final one hundred twenty (120) months of the initial Term at a rate of twelve percent (12%) per annum.

5.3. The Tenant Improvement Allowance shall be paid by Landlord as provided in the Work Letter.

5.4. In addition to Basic Annual Rent, Tenant shall pay to Landlord as additional rent ("Additional Rent") at times hereinafter specified in this Lease (a) Tenant's pro rata share, as set forth in Section 2.2 ("Tenant's Pro Rata Share"), of Operating Expenses as provided in Article 7 and (b) any other amounts that Tenant assumes or agrees to pay under the provisions of this Lease that are owed to Landlord, including, without limitation, any and all other sums that may become due by reason of any default of Tenant or failure on Tenant's part to comply with the agreements, terms, covenants and conditions of this Lease to be performed by Tenant, after notice and the lapse of any applicable cure periods.

5.5. Basic Annual Rent, TI Rent and Additional Rent shall together be denominated "Rent." Rent shall be paid to Landlord, without abatement, deduction or offset, in lawful money of the United States of America at the office of Landlord as set forth in Section 2.10 or to such other person or at such other place as Landlord may from time designate in writing. In the event the Term commences or ends on a day other than the first day of a calendar month, then the Rent for such fraction of a month shall be prorated for such period on the basis of a thirty (30) day month and shall be paid at the then-current rate for such fractional month.

6. Rent Adjustments. The Basic Annual Rent and TI Rent shall be subject to an annual upward adjustment of three percent (3%) of the then-current Basic Annual Rent and TI Rent, respectively. The first such adjustment shall become effective commencing with that monthly rental installment that is due on the first (1st) day of the 13th calendar month following the month during which the actual Term Commencement Date occurs, and subsequent adjustments shall

become effective on every successive annual anniversary of the first adjustment for so long as this Lease continues in effect.

7. Operating Expenses.

7.1. As used herein, the term "Operating Expenses" shall include:

(a) Government impositions including, without limitation, property tax costs consisting of real and personal property taxes and assessments, including amounts due under any improvement bond upon the Building or the Project, including the parcel or parcels of real property upon which the Building and areas serving such Building are located or assessments in lieu thereof imposed by any federal, state, regional, local or municipal governmental authority, agency or subdivision (each, a "Governmental Authority") are levied; taxes on or measured by gross rentals received from the rental of space in the Building; taxes based on the square footage of the Premises, the Building or the Project, as well as any parking charges, utilities surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting

from Applicable Laws (as defined below) or interpretations thereof, promulgated by any Governmental Authority in connection with the use or occupancy of the Building or the parking facilities serving the Building; taxes on this transaction or any document to which Tenant is a party creating or transferring an interest in the Premises; any fee for a business license to operate an office building; and any expenses, including the reasonable cost of attorneys or experts, reasonably incurred by Landlord in seeking reduction by the taxing authority of the applicable taxes, less tax refunds obtained as a result of an application for review thereof. Operating Expenses shall not include any net income, franchise, capital stock, estate or inheritance taxes, or taxes that are the personal obligation of Tenant or of another tenant of the Project; and

(b) All other costs of any kind paid or incurred by Landlord in connection with the operation or maintenance of the Building and the Project including, by way of example and not of limitation, costs of repairs and replacements to improvements within the Project as appropriate to maintain the Project as required hereunder; costs of utilities furnished to the Common Areas; sewer fees; cable television; trash collection; cleaning, including windows; heating; ventilation; air-conditioning; maintenance of landscaping and grounds; maintenance of drives and parking areas; maintenance of the roof; security services and devices; building supplies; maintenance or replacement of equipment utilized for operation and maintenance of the Project; license, permit and inspection fees; sales, use and excise taxes on goods and services purchased by Landlord in connection with the operation, maintenance or repair of the Project or Building systems and equipment; telephone, postage, stationery supplies and other expenses incurred in connection with the operation, maintenance or repair of the Project; accounting, legal and other professional fees and expenses incurred in connection with the Project; costs of furniture, draperies, carpeting, landscaping and other customary and ordinary items of personal property provided by Landlord for use in Common Areas; capital expenditures, provided, however, that any capital expenditures in excess of One Hundred Thousand Dollars ($100,000) shall be amortized on a straight line basis over the useful life thereof in accordance with GAAP (but in no event longer than ten (10) years); costs of complying with all federal, state, municipal and local laws, codes, ordinances, rules and regulations of governmental authorities, committees, associations, or other regulatory committees, agencies or governing bodies having jurisdiction

over the Property, the Building, the Premises, Landlord or Tenant, including both statutory and common law and hazard waste rules and regulations ("Applicable Laws"); insurance premiums, including premiums for public liability, property casualty, earthquake and environmental coverages; portions of insured losses paid by Landlord as part of the deductible portion of a loss pursuant to the terms of insurance policies up to a maximum deductible amount of Two Hundred Fifty Thousand Dollars ($250,000) per occurrence for environmental insurance and Fifty Thousand Dollars ($50,000) per occurrence for all other policies; service contracts; costs of services of independent contractors retained to do work of a nature referenced above; and costs of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with the day-to-day operation and maintenance of the Project, its equipment, the adjacent walks, landscaped areas, drives and parking areas, including, without limitation, janitors, floor waxers, window washers, watchmen, gardeners, sweepers and handymen.

Notwithstanding the foregoing, Operating Expenses shall not include any leasing commissions, finder's fees, attorneys' fees, entertainment and travel expenses and other costs incurred by Landlord in leasing or attempting to lease space in the Building; expenses that relate to preparation, improvement, decoration, painting or redecorating of rental space for a tenant or other occupants of the Building; expenses of initial development and construction, including, but not limited to, grading, paving, landscaping and decorating (as distinguished from maintenance, repair and replacement of the foregoing); the cost of compliance with Applicable Laws in effect as of the Term Commencement Date to the extent the Building or Project was not in compliance as of the Term Commencement Date; the cost of compliance with Applicable Laws to the extent that such cost would not have been incurred but for the construction of additions to the Building involving the moving of perimeter walls of the Building, adding additional floors to the Building, or constructing additional buildings on the Property; expenses for the defense of Landlord's title to the Property or Building; the cost of maintenance, repair and replacement of the foundation and structural walls; any repair, rebuilding or other work necessitated by condemnation, fire, windstorm, act of terrorism, or other casualty or hazard, the cost of which exceeds Ten Thousand Dollars ($10,000), except to the extent of any insurance deductible payable by Tenant under this Lease; the cost of insurance premiums for insurance coverage not typically carried on buildings comparable to the Building in the greater Seattle area (provided that Landlord shall be allowed to include as Operating Expenses the costs of environmental and earthquake insurance); accounting, legal and other professional fees and expenses relating to other tenants or the refinance or sale of the Property; interest upon loans to Landlord or secured by a mortgage or deed of trust covering the Project or a portion thereof (provided that interest upon a government assessment or improvement bond payable in installments shall constitute an Operating Expense under Section 7.1); costs arising from Landlord's charitable or political contributions; salaries of executive officers of Landlord; Landlord's general corporate overhead, except as it relates to the specific management of the Building; any ground lease rental; costs incurred by Landlord with respect to goods and services other than parking (including utilities sold and supplied to tenants and occupants of the Building) to the extent that Landlord is reimbursed for such costs other than through the Operating Expense pass-through provisions of such tenants' leases; expenses in connection with services or other benefits that are not offered to Tenant or for which Tenant is charged directly and that are provided to another tenant or occupant of the Building; fines or

penalties incurred by Landlord due to the violation by Landlord of (i) any Applicable Laws (provided that costs of complying with Applicable Laws may be included unless otherwise specifically excluded herein) or (ii) the terms and conditions of any lease of space in the Building; overhead and profit increments paid to subsidiaries or affiliates of Landlord for services provided to the Building to the extent the cost of such services exceeds the costs that would generally be charged for such services if rendered on a competitive basis (based upon a standard of similar office buildings in the general market area of the Premises) by unaffiliated third parties capable of providing such service; advertising and promotional expenditures; depreciation of the Building or the improvements therein; costs resulting from the negligence or willful misconduct of Landlord; and depreciation claimed by Landlord for tax purposes (provided that this exclusion of depreciation is not intended to delete from Operating Expenses actual costs of repairs and replacements and reasonable reserves in regard thereto that are provided for in Section 7.1).

"Applicable Laws" means all laws, codes, ordinances, rules and regulations of governmental authorities having jurisdiction over the Property, the Building, the Premises, Landlord or Tenant.

7.2. Tenant shall pay to Landlord on the first day of each calendar month of the Term, as Additional Rent, (a) the Property Management Fee (as defined below) and (b) Landlord's estimate of Tenant's Pro Rata Share of Operating Expenses with respect to the Building and the Project, as applicable, for such month.

(x) The "Property Management Fee" shall equal two percent (2%) of the Basic Annual Rent due from Tenant.

(y) Within ninety (90) days after the conclusion of each calendar year (or such longer period as may be reasonably required by Landlord), Landlord shall furnish to Tenant a statement showing in reasonable detail the actual Operating Expenses and Tenant's Pro Rata Share of Operating Expenses for the previous calendar year. Any additional sum due from Tenant to Landlord shall be due and payable within thirty (30) days after Tenant's receipt of such statement. If the amounts paid by Tenant pursuant to this Section 7.2 exceed Tenant's Pro Rata Share of Operating Expenses for the previous calendar year, then Landlord shall credit the difference against the Rent next due and owing from Tenant; provided that, if the Lease term has expired, Landlord shall accompany said statement with payment for the amount of such difference.

(z) Any amount due under this Section 7.2 for any period that is less than a full month shall be prorated (based on a thirty (30)-day month) for such fractional month.

7.3. Landlord's annual statement shall be final and binding upon Tenant unless Tenant, within sixty (60) days after Tenant's receipt thereof, shall contest any

item therein by giving written notice to Landlord, specifying each item contested and the reasons therefor. If, during such sixty (60)-day period, Tenant reasonably and in good faith questions or contests the correctness of Landlord's statement of Tenant's Pro Rata Share of Operating Expenses, Landlord shall provide Tenant with reasonable access to Landlord's books and records to the extent

relevant to determination of Operating Expenses, and such information as Landlord reasonably determines to be responsive to Tenant's written inquiries. In the event that, after Tenant's review of such information, Landlord and Tenant cannot agree upon the amount of Tenant's Pro Rata Share of Operating Expenses, then Tenant shall have the right to have an independent public accounting firm hired by Tenant on an hourly basis and not on a contingent-fee basis (at Tenant's sole cost and expense) and approved by Landlord (which approval Landlord shall not unreasonably withhold**,** condition or delay) audit and review such of Landlord's books and records for the year in question as directly relate to the determination of Operating Expenses for such year (the "Independent Review"). Landlord shall make such books and records available at the location where Landlord maintains them in the ordinary course of its business. Landlord need not provide copies of any books or records but Tenant may copy those portions of the books or records provided by Landlord to Tenant at Tenant's expense. Tenant shall commence the Independent Review within fifteen (15) days after the date Landlord has given Tenant access to Landlord's books and records for the Independent Review. Tenant shall complete the Independent Review and notify Landlord in writing of Tenant's specific objections to Landlord's calculation of Operating Expenses (including Tenant's accounting firm's written statement of the basis, nature and amount of each proposed adjustment) no later than six (6) months after Landlord has first given Tenant access to Landlord's books and records for the Independent Review. Landlord shall review the results of any such Independent Review. The parties shall endeavor to agree promptly and reasonably upon Operating Expenses taking into account the results of such Independent Review. If, as of ninety (90) days after Tenant has submitted the Independent Review to Landlord, the parties have not agreed on the appropriate adjustments to Operating Expenses, then the parties shall engage a mutually agreeable independent third party accountant with at least ten (10) years' experience in commercial real estate accounting in Western Washington (the "Accountant"). If the parties cannot agree on the Accountant, each shall within ten (10) days after such impasse appoint an Accountant (different from the accountant and accounting firm that conducted the Independent Review) and, within ten (10) days after the appointment of both such Accountants, those two Accountants shall select a third (which cannot be the accountant and accounting firm that conducted the Independent Review). If either party fails to timely appoint an Accountant, then the Accountant the other party appoints shall be the sole Accountant. Within ten (10) days after appointment of the Accountant(s), Landlord and Tenant shall each simultaneously give the Accountants (with a copy to the other party) its determination of Operating Expenses, with such supporting data or information as each submitting party determines appropriate. Within ten (10) days after such submissions, the Accountants shall by majority vote select either Landlord's or Tenant's determination of Operating Expenses. The Accountants may not select or designate any other determination of Operating Expenses. The determination of the Accountant(s) shall bind the parties. If the parties agree or the Accountant(s) determine that Tenant's Pro Rata Share of Operating Expenses actually paid for the calendar year in question exceeded Tenant's obligations for such calendar year, then Landlord shall, at Tenant's option, either (a) credit the excess to the next succeeding installments of estimated Additional Rent or (b) pay the excess to Tenant within thirty (30) days after delivery of such results. If the parties agree or the Accountant(s) determine that Tenant's payments of Tenant's Pro Rata Share of Operating Expenses for such calendar year were less than Tenant's obligation for the calendar year, then Tenant shall pay the deficiency to the Landlord within thirty (30) days after delivery of such results. Tenant agrees to pay the cost of

such audit; provided that, if the audit reveals that Landlord's determination of Tenant's Pro Rata Share of Operating Expenses was at least five percent (5%) in error in Landlord's favor, Landlord shall pay the reasonable costs of such audit.

7.4. Tenant shall not be responsible for Operating Expenses attributable to the time period prior to the Term Commencement Date**;** provided, however, that if Landlord shall permit Tenant possession of the Premises prior to the Term Commencement Date (exclusive of the Installation Period), Tenant shall be responsible for Tenant's Pro Rata Share of Operating Expenses from such earlier date of possession. Tenant's responsibility for Tenant's Pro Rata Share of Operating Expenses shall continue to the latest of (a) the date of termination of the Lease or (b) the date Tenant has fully vacated the Premises.

7.5. Operating Expenses for the calendar year in which Tenant's obligation to share therein commences and for the calendar year in which such obligation ceases shall be prorated on a basis reasonably determined by Landlord. Expenses such as taxes, assessments and insurance premiums that are incurred for an extended time period shall be prorated based upon the time periods to which they apply so that the amounts attributed to the Premises relate in a reasonable manner to the time period wherein Tenant has an obligation to share in Operating Expenses.

8. Rentable Area.

8.1. The Rentable Area of the Project is determined by making separate calculations of the Rentable Area of each floor of all buildings and totaling the Rentable Area of all floors within the buildings. The Rentable Area of a floor is calculated by measuring to the outside finished surface of each permanent outer building wall where it intersects the floor. The full area calculated as set forth above is included as Rentable Area of the Project without deduction for (a) columns or projections, (b) vertical penetrations (including stairs, elevator shafts, flues, pipe shafts, vertical ducts, and the like) and their enclosing walls, (c) corridors, equipment rooms, restrooms, entrance ways, elevator lobbies and the like, and each of their enclosing walls, and (d) any other unusable area of any nature.

8.2. Promptly after Substantial Completion of the Tenant Improvements, Landlord's architect shall certify to Tenant the Rentable Area of the Premises and the Rentable Area of the Building and shall provide to Tenant a copy of the drawings and calculations upon which such Rentable Areas are based. If the Rentable Area of the Premises determined under this paragraph is different than the Rentable Area of the Premises set forth in Section 2.2, then the Basic Annual Rent under Section 2.3, the Security Deposit under Section 2.7 and the Tenant Improvement Allowance under Section 5 shall be adjusted to reflect the Rentable Area of the Premises determined under this paragraph.

8.3. Tenant's Pro Rata Share shall be recalculated in the event of any change in the Rentable Area of the Premises or the total Rentable Area in the Project. It is anticipated that Landlord may construct another building on the Property, in which event Tenant's Pro Rata Share shall be adjusted with respect to Operating Expenses benefiting the entire Property (e.g., real property taxes and insurance) such that all of the Rentable Area in the Project is taken into account. If the recalculation of Tenant's Pro Rata Share is certified by a licensed architect as

being correct, then Tenant shall be bound by such certification. Landlord shall provide to Tenant a copy of the drawings and calculations upon which the recalculation of Tenant's Pro Rata Share is based.

9. Security Deposit.

9.1. Tenant has deposited with Landlord the sum set forth in Section 2.7 (the "Security Deposit"), which sum shall be held by Landlord as security for the faithful performance by Tenant of all of the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the Term. If Tenant defaults with respect to any provision of this Lease, including, but not limited to, any provision relating to the payment of Rent, then Landlord may (but shall not be required to) use, apply or retain all or any part of the Security Deposit for the payment of any Rent or any other sum in default, or to compensate Landlord for any other loss or damage that Landlord may suffer by reason of Tenant's default. If any portion of the Security Deposit is so used or applied, then Tenant shall, within fifteen (15) days following demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount, and Tenant's failure to do so shall be a material breach of this Lease.

9.2. In the event of bankruptcy or other debtor-creditor proceedings against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for all periods prior to the filing of such proceedings.

9.3. Landlord may deliver to any purchaser of Landlord's interest in the Premises the funds deposited hereunder by Tenant, and thereupon Landlord shall be discharged from any further liability with respect to such deposit. This provision shall also apply to any subsequent transfers.

9.4. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, then the Security Deposit, or any balance thereof, shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) within thirty (30) days after the expiration or earlier termination of this Lease.

9.5. [Intentionally omitted]

9.6. If the Security Deposit shall be in cash, Landlord shall deposit the Security Deposit into an interest-bearing account at a banking organization selected by Landlord. All interest and dividends, if any, accruing on the Security Deposit, less a one percent (1%) per annum charge on the Security Deposit for administrative expenses (but in no event greater than the amount of interest actually accrued on the Security Deposit during such annual period), shall be added to, held and included within the term Security Deposit and, provided that no Default shall have occurred and be continuing, shall accrue to the account of Tenant and be disbursed to Tenant annually. Landlord shall not be required to credit Tenant with any interest for any period during which Landlord does not receive interest on the Security Deposit.

9.7. The Security Deposit may be in the form of cash, a letter of credit or any other security instrument acceptable to Landlord in its sole discretion. Tenant may at any time, except

during Default, deliver a letter of credit (the "L/C Security") as the entire Security Deposit, as follows.

(a) If Tenant elects to deliver L/C Security, then Tenant shall provide Landlord, and maintain in full force and effect throughout the Term, a letter of credit in the form of Exhibit H, or such other form as is reasonably acceptable to Landlord, issued by an issuer reasonably satisfactory to Landlord, in the amount of the Security Deposit, with an initial term of at least one (1) year. If, at the Term Expiration Date, any Rent remains uncalculated or unpaid, then: (a) Landlord shall with reasonable diligence complete any necessary calculations; (b) Tenant shall extend the expiry date of such L/C Security from time to time as Landlord reasonably requires; and (c) in such extended period, Landlord shall not unreasonably refuse to consent to an appropriate reduction of the L/C Security. Tenant shall reimburse Landlord's legal costs (as estimated by Landlord's counsel), not to exceed One Thousand Five Hundred Dollars ($1,500), in handling Landlord's acceptance of L/C Security or its replacement or extension.

(b) If Tenant delivers to Landlord satisfactory L/C Security in place of the entire Security Deposit, Landlord shall remit to Tenant any cash Security Deposit Landlord previously held.

(c) Landlord may draw upon the L/C Security, and hold and apply the proceeds in the same manner and for the same purposes as the Security Deposit, if: (a) an uncured Default exists; (b) as of the date thirty (30) days before any L/C Security expires (even if such scheduled expiry date is after the Term Expiration Date) Tenant has not delivered to Landlord an amendment or replacement for such L/C Security, reasonably satisfactory to Landlord, extending the expiry date to the earlier of (i) one (1) month after the then-current Term Expiration Date or (ii) the date one year after the then-current expiry date of the L/C Security; (c) the L/C Security provides for automatic renewals, Landlord asks Tenant and the issuer to confirm the current L/C Security expiry date, and the issuer fails to do so within thirty (30) business days; (d) Tenant fails to pay (when and as Landlord reasonably requires) any bank charges for Landlord's transfer of the L/C Security; or (e) the issuer of the L/C Security ceases, or announces that it will cease, to maintain an office in the city where Landlord may present drafts under the L/C Security. This paragraph does not limit any other provisions of this Lease allowing Landlord to draw the L/C Security under specified circumstances.

(d) Tenant shall not seek to enjoin, prevent, or otherwise interfere with Landlord's draw under L/C Security, even if it violates this Lease. Tenant acknowledges that the only effect of a wrongful draw would be to substitute a cash Security Deposit for L/C Security, causing Tenant no legally recognizable damage. Landlord shall hold the proceeds of any draw in the same manner and for the same purposes as a cash Security Deposit. In the event of a wrongful draw, the parties shall cooperate to allow Tenant to post replacement L/C Security simultaneously with the return to Tenant of the wrongfully drawn sums, and Landlord shall upon request confirm in writing to the issuer of the L/C Security that Landlord's draw was erroneous.

(e) If Landlord transfers its interest in the Premises, then Tenant shall at Tenant's expense, within five Business Days after receiving a request from Landlord, deliver (and, if the issuer requires, Landlord shall consent to) an amendment to the L/C Security naming

Landlord's grantee as substitute beneficiary. If the required Security changes while L/C Security is in force, then Tenant shall deliver (and, if the issuer requires, Landlord shall consent to) a corresponding amendment to the L/C Security.

10. Use.

10.1. Tenant shall use the Premises for the purpose set forth in Section 2.8 (the "Permitted Use"), and shall not use the Premises, or permit or suffer the Premises to be used, for any other purpose without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

10.2. Tenant shall not use or occupy the Premises in violation of Applicable Laws; zoning ordinances; or the certificate of occupancy issued for the Building, and shall, upon ten (10) days' written notice from Landlord, discontinue any use of the Premises that is declared or claimed by any Governmental Authority having jurisdiction to be a violation of any of the above, or that in Landlord's reasonable opinion violates any of the above. Tenant shall comply with any direction of any Governmental Authority having jurisdiction that shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to the Premises or with respect to the use or occupation thereof.

10.3. Tenant shall not do or permit to be done anything that will invalidate or increase the cost of any fire, environmental, extended coverage or any other insurance policy covering the Building and the Project, and shall comply with all rules, orders, regulations and requirements of the insurers of the Building and the Project, and Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charged for such policy by reason of Tenant's failure to comply with the provisions of this Article; provided, however, that no action of Tenant that increases the cost of any insurance shall constitute a Default so long as Tenant pays such increased cost.

10.4. Tenant shall keep all doors opening onto public corridors closed, except when in use for ingress and egress.

10.5. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by Tenant, nor shall any changes be made to existing locks or the mechanisms thereof without Landlord's prior written consent**,** which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall, upon termination of this Lease, return to Landlord all keys to offices and restrooms either furnished to or otherwise procured by Tenant. In the event any key so furnished to Tenant is lost, Tenant shall pay to Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall reasonably deem it necessary to make such change.

10.6. No awnings or other projections shall be attached to any outside wall of the Building. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord's standard window coverings. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without Landlord's prior written consent, nor shall any bottles, parcels or other

articles be placed on the windowsills. No equipment, furniture or other items of personal property shall be placed on any exterior balcony without Landlord's prior written consent.

10.7. No sign, advertisement or notice ("Signage") shall be exhibited, painted or affixed by Tenant on any part of the Premises or the Building without Landlord's prior written consent, not to be unreasonably withheld, conditioned or delayed. Interior signs on doors and the directory tablet shall be inscribed, painted or affixed for Tenant by Landlord at Tenant's sole cost and expense, and shall be of a size, color and type and be located in a place reasonably acceptable to Landlord. The directory tablet shall be provided exclusively for the display of the name and location of tenants only. Tenant shall not place anything on the exterior of the corridor walls or corridor doors other than Landlord's standard lettering. Tenant shall be entitled to Tenant's Pro Rata Share of the maximum Building façade Signage permitted by Applicable Laws, the cost of which shall be at Tenant's sole expense (which expense shall be included in the Costs (as defined in the Work Letter)). The design and placement of Tenant's Building façade Signage shall be reviewed and approved by Landlord and Tenant as part of Landlord's Work Plans and shall, if approved, be made part of the Approved Plans as defined in the Work Letter.

10.8. Tenant shall cause any office equipment or machinery to be installed in the Premises so as to reasonably prevent sounds or vibrations therefrom from extending into the Common Areas or other offices in the Building. Further, Tenant shall not place any equipment weighing one hundred (100) pounds or greater per square foot of equipment footprint within the Premises, other than on the ground floor thereto, without Landlord's prior written approval (which approval shall not be unreasonably withheld, conditioned or delayed), and such equipment shall be placed in a location designed to carry the weight of such equipment.

10.9. Tenant shall not (a) do or permit anything to be done in or about the Premises that shall in any way obstruct or interfere with the rights of other tenants or occupants of the Building or the Project, or injure or annoy them, or (b) use or allow the Premises to be used for immoral, unlawful or objectionable purposes, nor shall Tenant knowingly cause, maintain or permit any nuisance or waste in, on or about the Premises, the Building or the Project.

10.10. Notwithstanding any other provision herein to the contrary, Landlord shall correct, repair or replace any non-compliance of the Building exterior, the Tenant Improvements and the Common Area with all applicable building permits and codes in effect as of the Term Commencement Date, including, without limitation, the provisions of Title III of the Americans With Disabilities Act ("ADA") in effect as of the Term Commencement Date. Said costs of compliance shall be at Landlord's sole cost and shall not be part of Operating Expenses, but shall constitute Costs (as defined in the Work Letter) to the extent that such costs are part of the Approved Budget (as defined in the Work Letter) for the Tenant Improvements, as the Approved Budget may be amended pursuant to the Work Letter. Landlord shall correct, repair or replace any non-compliance of the Building exterior and the Common Area with any revisions or amendments to the ADA that become effective after the Term Commencement Date, provided that the cost of such repairs or replacements (amortized over the useful life thereof in accordance with GAAP, but in no event longer than ten (10) years) shall be included as Operating Expenses payable by Tenant. Tenant shall be responsible, at its sole cost and expense, for all other ADA compliance for the Premises, including, without limitation, in connection with Tenant's

construction of any alterations or other improvements in the Premises and the operation of Tenant's business and employment practices in the Premises. The repairs, corrections or replacements required of Landlord or of Tenant under the foregoing provisions of this Section 10.10 shall be made promptly following notice of non-compliance from any Governmental Authority. The provisions of this Section 10.10 shall survive the expiration or earlier termination of this Lease with respect to any obligation accrued under this Section 10.10 before the date of expiration or earlier termination of this Lease.

11. Brokers.

11.1. Tenant represents and warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease other than Flinn Ferguson ("Tenant's Broker"), and that it knows of no other real estate broker or agent that is or might be entitled to a commission in connection with this Lease. Landlord shall compensate Tenant's Broker in relation to this Lease pursuant to a separate agreement between Landlord and Tenant's Broker or Landlord's Broker (as defined below). Landlord represents and warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease other than EDG Commercial Real Estate ("Landlord's Broker"), and that it knows of no other real estate broker or agent that is or might be entitled to a commission in connection with this Lease. Landlord shall compensate Landlord's Broker in relation to this Lease pursuant to a separate agreement between Landlord and Landlord's Broker.

11.2. Tenant represents and warrants that no broker or agent has made any representation or warranty relied upon by Tenant in Tenant's decision to enter into this Lease, other than as contained in this Lease.

11.3. Tenant acknowledges and agrees that the employment of brokers by Landlord is for the purpose of solicitation of offers of leases from prospective tenants and that no authority is granted to any broker to furnish any representation (written or oral) or warranty from Landlord unless expressly contained within this Lease. Landlord is executing this Lease in reliance upon Tenant's representations, warranties and agreements contained within Sections 11.1 and 11.2.

11.4. Tenant agrees to indemnify, defend and hold Landlord harmless from any and all cost or liability for compensation claimed by any other broker or agent, other than Tenant's Broker, employed or engaged by it or claiming to have been employed or engaged by it.

11.5. Landlord agrees to indemnify, defend and hold Tenant harmless from any and all cost or liability for compensation claimed by any other broker or agent, other than Landlord's Broker, employed or engaged by it or claiming to have been employed or engaged by it.

12. Holding Over.

12.1. If, with Landlord's prior written consent, Tenant holds possession of all or any part of the Premises after the Term, Tenant shall become a tenant from month to month after the expiration or earlier termination of the Term, and in such case Tenant shall continue to pay (a) the Basic Annual Rent in accordance with Article 5, as adjusted in accordance with Article 6, and

(b) Tenant's Pro Rata Share of Operating Expenses. Any such month-to-month tenancy shall be subject to every other term, covenant and agreement contained herein.

12.2. Notwithstanding the foregoing, if Tenant remains in possession of the Premises after the expiration or earlier termination of the Term without Landlord's prior written consent, Tenant shall become a tenant at sufferance subject to the terms and conditions of this Lease, except that the monthly rent shall be equal to one hundred fifty percent (150%) of the Rent in effect during the last thirty (30) days of the Term.

12.3. Acceptance by Landlord of Rent after the expiration or earlier termination of the Term shall not result in an extension, renewal or reinstatement of this Lease.

12.4. The foregoing provisions of this Article 12 are in addition to and do not affect Landlord's right of reentry or any other rights of Landlord hereunder or as otherwise provided by Applicable Laws.

13. Taxes on Tenant's Property.

13.1. Tenant shall pay prior to delinquency any and all taxes levied against any personal property or trade fixtures placed by Tenant in or about the Premises.

13.2. If any such taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property or, if the assessed valuation of the Building or the Property is increased by inclusion therein of a value attributable to Tenant's personal property or trade fixtures, and if Landlord, after ten (10) days' written notice to Tenant, pays the taxes based upon any such increase in the assessed valued of the Building or the Project, then Tenant shall, within thirty (30) days after receipt of a written demand, repay to Landlord such increased portion of the taxes so paid by Landlord.

13.3. If any improvements in or alterations to the Premises, whether owned by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which improvements conforming to Landlord's building standards (the "Building Standard") in other spaces in the Building are assessed, then the real property taxes and assessments levied against Landlord or the Building by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 13.2 above. Any such excess assessed valuation due to improvements in or alterations to space in the Building leased by other tenants of Landlord shall not be included in the Operating Expenses defined in Article 7, but shall be treated, as to such other tenants, as provided in this Section 13.3. If the records of the County Assessor are available and sufficiently detailed to serve as a basis for determining whether said Tenant improvements or alterations are assessed at a higher valuation than the Building Standard, then such records shall be binding on both Landlord and Tenant.

14. Condition of Premises. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the condition of the Premises,

the Building or the Project, or with respect to the suitability of the Premises, the Building or the Project for the conduct of Tenant's business. Tenant's taking of possession of the Premises shall, except as otherwise agreed to in writing by Landlord and Tenant and as provided by the Work Letter, conclusively establish that the Premises, the Building and the Project were at such time in good, sanitary and satisfactory condition and repair. Notwithstanding the foregoing, Landlord shall use commercially reasonable efforts to enforce any warranties for the Core and Shell Work and Landlord's Work, and, provided that Tenant shall notify Landlord of deficiencies in the Core and Shell Work within sixty (60) days after the Term Commencement Date, Landlord shall correct any such deficiencies that existed as of the Term Commencement Date at Landlord's sole cost and expense.

15. Common Areas and Parking Facilities.

15.1. Tenant shall have the non-exclusive right, in common with others, to use the Common Areas, subject to the rules and regulations adopted by Landlord and attached hereto as Exhibit D, together with such other reasonable and nondiscriminatory rules and regulations as are hereafter promulgated by Landlord in its reasonable discretion (the "Rules and Regulations") so long as such Rules and Regulations do not materially interfere with or prevent Tenant from operating the Premises for the Permitted Use. Tenant shall faithfully observe and comply with the Rules and Regulations. Landlord shall not be responsible to Tenant for the violation or non-performance by any other tenant or any agent, employee or invitee thereof of any of the Rules and Regulations.

15.2. Tenant shall have a non-exclusive, revocable license, without charge, to use Tenant's Pro Rata Share of parking facilities serving the Building in common on an unreserved basis with other tenants of the Building and the Project. Landlord shall continuously provide Tenant with parking spaces located on the Property and sufficient in number to at least satisfy the minimum parking requirements of Applicable Laws. Landlord shall designate visitor parking stalls near the entrance of the Building for use by visitors of all tenants of the Building or the Property.

15.3. Tenant agrees not to unreasonably overburden the parking facilities and agrees to cooperate with Landlord and other tenants in the use of the parking facilities. Landlord reserves the right to reasonably determine that parking facilities are becoming overcrowded and to limit Tenant's use thereof. Upon such determination, Landlord may reasonably allocate parking spaces among Tenant and other tenants of the Building or the Project. Nothing in this Section, however, is intended to create an affirmative duty on Landlord's part to monitor parking.

15.4. Landlord reserves the right to modify the Common Areas, including the right to add or remove exterior and interior landscaping and to subdivide real property so long as such modifications do not materially interfere with or prevent Tenant from operating the Premises for the Permitted Use or materially increase Tenant's Pro Rata Share of Operating Expenses. Tenant acknowledges that Landlord specifically reserves the right to allow the exclusive use of corridors and restroom facilities located on specific floors to one or more tenants occupying such floors; provided, however, that Tenant shall not be deprived of the use of the corridors reasonably

required to serve the Premises or of restroom facilities serving the floor upon which the Premises are located.

16. Utilities and Services.

16.1. Tenant shall pay for all water (including the cost to service, repair and replace reverse osmosis, de-ionized and other treated water), gas, heat, light, power, telephone, internet service, cable television, other telecommunications and other utilities supplied to the Premises, together with any fees, surcharges and taxes thereon. To the extent permitted by the local utilities, all utilities serving the Premises shall be separately metered. All accounts for separately metered utilities shall be in Tenant's name, and Tenant shall be responsible for paying for such utilities directly to the provider thereof. If any such utility is not separately metered to Tenant, Tenant shall pay a reasonable proportion (to be determined by Landlord) of all charges of such utility jointly metered with other premises as part of Tenant's Pro Rata Share of Operating Expenses or, in the alternative, Landlord may, at its option, monitor the usage of such utilities by Tenant and charge Tenant with the cost of purchasing, installing and monitoring such metering equipment, which cost shall be paid by Tenant as Additional Rent.

16.2. Landlord shall not be liable for, nor shall any eviction of Tenant result from the failure to furnish any such utility or service, whether or not such failure is caused by accident; breakage; repair; strike, lockout or other labor disturbance or labor dispute of any character; act of terrorism; shortage of materials, which shortage is not unique to Landlord or Tenant, as the case may be; governmental regulation, moratorium or other governmental action; or Landlord's inability, despite the exercise of reasonable diligence to furnish any such utility or service (collectively, "Force Majeure"). In the event of such failure, Tenant shall not be entitled to any abatement or reduction of Rent, nor shall Tenant be relieved from the operation of any covenant or agreement of this Lease**.**

16.3. Tenant shall pay for, prior to delinquency of payment therefor, any utilities and services that may be furnished to the Premises during or, if Tenant occupies the Premises after the expiration or earlier termination of the Term, after the Term.

16.4. Tenant shall not, without Landlord's prior written consent (not to be unreasonably withheld, conditioned or delayed), use any device in the Premises (including, without limitation, data processing machines) that will in any way (a) increase the amount of ventilation, air exchange, gas, steam, electricity or water beyond the existing capacity of the Building as proportionately allocated to the Premises based upon Tenant's Pro Rata Share as usually furnished or supplied for the use set forth in Section 2.8 or (b) exceed Tenant's Pro Rata Share of the Building's capacity to provide such utilities or services.

16.5. If Tenant shall require utilities or services in excess of those usually furnished or supplied for tenants in similar spaces in the Building by reason of Tenant's equipment or extended hours of business operations, then Tenant shall first procure Landlord's consent (not to be unreasonably withheld, conditioned or delayed) for the use thereof, which consent Landlord may condition upon the availability of such excess utilities or services, and Tenant shall pay as Additional Rent an amount equal to the cost of providing such excess utilities and services.

16.6. Utilities and services provided by Landlord to the Premises that are separately metered shall be paid by Tenant directly to the supplier of such utility or service.

16.7. Landlord shall provide water in Common Areas for drinking and lavatory purposes only;provided, however, that if Landlord reasonably determines that Tenant requires, uses or consumes water for any purpose other than ordinary drinking and lavatory purposes, Landlord may install a water meter and thereby measure Tenant's water consumption for all purposes. Tenant shall pay Landlord for the actual costs of such meter and the installation thereof and, throughout the duration of Tenant's occupancy of the Premises, Tenant shall keep said meter and installation equipment in good working order and repair at Tenant's sole cost and expense. If Tenant fails to so maintain such meter and equipment, Landlord may repair or replace the same and shall collect the costs therefor from Tenant. Tenant agrees to pay for water consumed, as shown on said meter (at cost and without any mark-up by Landlord), within fifteen (15) days after Tenant's receipt of bills therefor. If Tenant fails to timely make such payments, Landlord may pay such charges and collect the same from Tenant. Any such costs or expenses incurred, or payments made by Landlord for any of the reasons or purposes hereinabove stated, shall be deemed to be Additional Rent payment by Tenant and collectible by Landlord as such.

16.8. Landlord reserves the right to stop service of the elevator, plumbing, ventilation, air conditioning and electric systems, when Landlord deems reasonably necessary or desirable, due to accident, emergency or the need to make repairs, alterations or improvements, until such repairs, alterations or improvements shall have been completed, and Landlord shall further have no responsibility or liability for failure to supply elevator facilities, plumbing, ventilation, air conditioning or electric service when prevented from doing so by Force Majeure or a failure by a third party to deliver gas, oil or another suitable fuel supply, or Landlord's inability by exercise of reasonable diligence to obtain gas, oil or another suitable fuel; provided, however, Landlord shall use commercially reasonable efforts to minimize interference with Tenant's use and operation of the Premises for the Permitted Use. Without limiting the foregoing, it is expressly understood and agreed that any covenants on Landlord's part to furnish any service pursuant to any of the terms, covenants, conditions, provisions or agreements of this Lease, or to perform any act or thing for the benefit of Tenant, shall not be deemed breached if Landlord is unable to furnish or perform the same by virtue of Force Majeure.

17. Alterations.

17.1. Tenant may make, at its expense and without Landlord's prior consent, such cosmetic improvements or alterations to the Premises (such as carpeting, painting, non-load-bearing partitions, and installation or relocation of freestanding workstations, and installation of Tenant's equipment) ("Cosmetic Improvements") that do not exceed Fifty Thousand Dollars ($50,000) in any one instance or Two Hundred Fifty Thousand Dollars ($250,000) in any twelve (12) month period. Except in accordance with the preceding sentence, Tenant shall make no alterations, additions or improvements in or to the Premises after the Term Commencement Date ("Alterations") without Landlord's prior written approval, which approval Landlord shall not unreasonably withhold, condition or delay; provided, however, that in the event any proposed Alteration affects (a) any structural portions of the Building, including exterior walls, roof, foundation or core of the Building, (b) the exterior of the Building or (c) any Building systems,

including elevator, plumbing, air conditioning, heating, electrical, security, life safety and power, then Landlord may withhold its approval with respect thereto in its sole and absolute discretion. Tenant shall, in making any such Alterations, use only those architects, contractors, suppliers and mechanics of which Landlord has given prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed. In seeking Landlord's approval, Tenant shall provide Landlord, at least fourteen (14) days in advance of any proposed construction, with plans, specifications, bid proposals, work contracts, requests for laydown areas and such other information concerning the nature and cost of the Alterations as Landlord may reasonably request.

17.2. Tenant shall not construct or permit to be constructed partitions or other obstructions that might interfere with free access to mechanical installation or service facilities of the Building, or interfere with the moving of Landlord's equipment to or from the enclosures containing such installations or facilities.

17.3. Tenant shall accomplish any work performed on the Premises or the Building in such a manner as to permit any fire sprinkler system and fire water supply lines to remain fully operable at all times.

17.4. Any work performed on the Premises or the Building by Tenant or Tenant's contractors shall be done at such times and in such manner as Landlord may from time to time reasonably designate. Tenant covenants and agrees that all work done by Tenant or Tenant's contractors shall be performed in full compliance with Applicable Laws. Within thirty (30) days after completion of any Alterations, Tenant shall provide Landlord with complete "as-built" drawing print sets and electronic CADD files on disc (or files in such other current format in common use as Landlord reasonably approves or requires) showing any changes in the Premises.

17.5. Before commencing any work, Tenant shall give Landlord at least fourteen (14) days' prior written notice of the proposed commencement of such work and shall, if required by Landlord, secure, at Tenant's own cost and expense, a completion and lien indemnity bond reasonably satisfactory to Landlord for said work.

17.6. All Alterations, attached equipment, decorations, fixtures, trade fixtures, additions and improvements, subject to Section 17.8, attached to or built into the Premises, made by either of the parties, including, without limitation, all floor and wall coverings, built-in cabinet work and paneling, sinks and related plumbing fixtures, laboratory benches, exterior venting fume hoods and walk-in freezers and refrigerators, ductwork, conduits, electrical panels and circuits, shall, unless, prior to such construction or installation, Landlord elects otherwise, become the property of Landlord upon the expiration or earlier termination of the Term, and shall remain upon and be surrendered with the Premises as a part thereof; provided, however, that all business and trade fixtures, machinery and equipment purchased at Tenant's expense (exclusive of those purchased from the Tenant Improvement Allowance) shall be the property of Tenant and may be removed by Tenant at the end of the Term. The Premises shall at all times remain the property of Landlord and shall be surrendered to Landlord upon the expiration or earlier termination of this Lease. All trade fixtures, equipment, Tenant Improvements, Alterations and Signage installed by or under Tenant shall be the property of Landlord, except as provided above.

17.7. Tenant shall repair any damage to the Premises caused by Tenant's removal of any property from the Premises. During any such restoration period, Tenant shall pay Rent to Landlord as provided herein as if said space were otherwise occupied by Tenant. The provisions of this Section shall survive the expiration or earlier termination of this Lease.

17.8. Except as to (a) those items listed on Exhibit C attached hereto, (b) other business and trade fixtures, machinery and equipment that are not affixed to the Building and that Tenant can prove were purchased at Tenant's expense, and (c) other business and trade fixtures, machinery and equipment that are affixed to the Building and that Tenant can prove were purchased at Tenant's expense and of which Tenant has delivered written notice to Landlord at the time the item is affixed to the Building, all business and trade fixtures, machinery and equipment, built-in furniture and cabinets, together with all additions and accessories thereto, installed in and upon the Premises shall be and remain the property of Landlord and shall not be moved by Tenant at any time during the Term. Tenant shall complete and deliver Exhibit C to Landlord within thirty (30) days after the Term Commencement Date, which Exhibit C shall be subject to Landlord's reasonable approval. Exhibit C may include both items located in the Premises at the time of delivery of Exhibit C and items which Tenant anticipates it will acquire during the Term. If Tenant acquires during the Term items listed (in the case of property affixed to a building, with particularity) in Exhibit C, then such items shall remain the property of Tenant and may be removed by Tenant from the Premises even if Tenant does not notify Landlord of the items at the time the items are affixed to the Building. If Tenant shall fail to remove any of its effects from the Premises prior to termination of this Lease, then Landlord may, at its option, remove the same in any manner that Landlord shall choose and store said effects without liability to Tenant for loss thereof or damage thereto, and Tenant shall pay Landlord, within fifteen (15) days after Tenant's receipt of a written demand, any costs and expenses incurred due to such removal and storage or Landlord may, at its sole option and without notice to Tenant, sell such property or any portion thereof at private sale and without legal process for such price as Landlord may obtain and apply the proceeds of such sale against any (a) amounts due by Tenant to Landlord under this Lease and (b) any expenses incident to the removal, storage and sale of said personal property.

17.9. Notwithstanding any other provision of this Article 17 to the contrary, in no event shall Tenant remove any improvement from the Premises as to which Landlord contributed payment, including, without limitation, the Tenant Improvements made pursuant to the Work Letter without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

17.10. Tenant shall pay to Landlord an amount equal to three percent (3%) of the cost to Tenant of all Alterations made by Tenant that require Landlord's approval to cover Landlord's overhead and expenses for plan review, coordination, scheduling and supervision thereof. For purposes of payment of such sum, Tenant shall submit to Landlord copies of all bills, invoices and statements covering the costs of such Alterations, accompanied by payment to Landlord of the fee set forth in this Section. Tenant shall reimburse Landlord for any extra reasonable expenses incurred by Landlord by reason of faulty work done by Tenant or its contractors, or by reason of delays caused by such work, or by reason of inadequate clean-up.

17.11. Within sixty (60) days after final completion of any Alterations performed by Tenant with respect to the Premises, Tenant shall submit to Landlord documentation showing the amounts expended by Tenant with respect to such Alterations performed by Tenant with respect to the Premises, together with supporting documentation reasonably acceptable to Landlord.

17.12. Tenant shall require its contractors and subcontractors performing work on the Premises to name Landlord and its affiliates and lenders as additional insureds on their respective insurance policies.

18. Repairs and Maintenance.

18.1. Landlord shall repair and maintain in good operating condition the structural and exterior portions and Common Areas of the Building and the Project, including, without limitation, roofing and covering materials, foundations, exterior walls, plumbing and plumbing fixtures, fire sprinkler systems (if any), heating, ventilating, air conditioning, elevators, and electrical systems, unless installed by Tenant (Landlord's Work, even if paid for by Tenant, shall not be deemed to be "installed by Tenant"). Except as otherwise provided under Article 7, any costs related to the repair or maintenance activities specified in this Section 18.1 shall be included as a part of Operating Expenses, unless such repairs or maintenance is required in whole or in part because of any act, neglect, fault or omissions of Tenant, its agents, servants, employees or invitees, in which case Tenant shall pay to Landlord the cost of such repairs and maintenance.

18.2. Except for services of Landlord, if any, required by Section 18.1, Tenant shall at Tenant's sole cost and expense maintain and keep the Premises and every part thereof in good condition and repair, damage thereto from ordinary wear and tear excepted. Tenant shall, upon the expiration or sooner termination of the Term, surrender the Premises to Landlord in as good of a condition as when received, ordinary wear and tear and casualty damage excepted. Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof, other than pursuant to the terms and provisions of the Work Letter.

18.3. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance that is an obligation of Landlord unless such failure shall persist for thirty (30) days (or such shorter time as may be reasonable in case of emergency) after Tenant provides Landlord with written notice of the need of such repairs or maintenance; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it commences performance within the thirty (30) day period and thereafter diligently pursues the cure to completion.

18.4. Repairs under this Article 18 that are obligations of Landlord are subject to allocation among Tenant and other tenants as Operating Expenses, except as otherwise provided in this Article 18.

18.5. This Article 18 relates to repairs and maintenance arising in the ordinary course of operation of the Building and the Project and any related facilities. In the event of fire,

earthquake, flood, vandalism, war, terrorism, natural disaster or similar cause of damage or destruction, Article 22 shall apply in lieu of this Article 18.

19. Liens.

19.1. Subject to the immediately succeeding sentence, Tenant shall keep the Premises, the Building and the Project free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant. Tenant further covenants and agrees that any mechanic's lien filed against the Premises, the Building or the Project for work claimed to have been done for, or materials claimed to have been furnished to, shall be discharged or bonded by Tenant within ten (10) days after Tenant's receipt of written notice of the filing thereof, at Tenant's sole cost and expense.

19.2. Should Tenant fail to discharge or bond against any lien of the nature described in Section 19.1 in compliance with such Section, Landlord may, at Landlord's election, pay such claim or post a bond or otherwise provide security to eliminate the lien as a claim against title, and Tenant shall reimburse Landlord for the costs thereof as Additional Rent within fifteen (15) days after Tenant's receipt of written notice thereof.

19.3. In the event that Tenant leases or finances the acquisition of office equipment, furnishings or other personal property of a removable nature utilized by Tenant in the operation of Tenant's business, Tenant shall ensure that any Uniform Commercial Code financing statement executed by Tenant shall, upon its face or by exhibit thereto, indicate that such financing statement is applicable only to removable personal property of Tenant located within the Premises. In no event shall the address of the Building be furnished on a financing statement without qualifying language as to applicability of the lien only to removable personal property located in an identified suite leased by Tenant. Should any holder of a financing statement executed by Tenant record or place of record a financing statement that constitutes a lien against any interest of Landlord or against equipment that may be located other than within an identified suite leased by Tenant, Tenant shall, within fifteen (15) days after its receipt of written notice of the filing of such financing statement, cause (a) a copy of the lender security agreement or other documents to which the financing statement pertains to be furnished to Landlord to facilitate Landlord's ability to demonstrate that the lien of such financing statement is not applicable to Landlord's interest and (b) Tenant's lender to amend such financing statement and any other documents of record to clarify that any liens imposed thereby are not applicable to any interest of Landlord in the Premises, the Building or the Project.

20. Indemnification and Exculpation.

20.1. Tenant agrees to indemnify, defend and save Landlord harmless from and against any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses (including, without limitation, reasonable attorneys' fees, charges and disbursements) incurred in investigating or resisting the same (collectively, "Claims") arising from injury or death to any person or injury to any property occurring within or about the Premises, the Building or the Property arising out of Tenant's or Tenant's employees', agents' or guests' use or occupancy of the Premises or a breach or default

by Tenant in the performance of any of its obligations hereunder, except to the extent, if any, caused by the willful misconduct or negligence of Landlord, its agents, employees or contractors.

20.2. Notwithstanding any provision of Section 20.1 to the contrary, Landlord shall not be liable to Tenant for, and Tenant assumes all risk of, damage to personal property or scientific research, including, without limitation, loss of records kept by Tenant within the Premises and damage or losses caused by fire, electrical

malfunction, gas explosion or water damage of any type (including, without limitation, broken water lines, malfunctioning fire sprinkler systems, roof leaks or stoppages of lines), unless any such loss is due to the gross negligence or willful misconduct of Landlord, its agents or employees. Tenant further waives any claim for injury to Tenant's business or loss of income relating to any such damage or destruction of personal property as described in this Section 20.2.

20.3. Landlord shall not be liable for any damages arising from any act, omission or neglect of any other tenant in the Building or the Project, or of any other third party.

20.4. Tenant acknowledges that security devices and services, if any, while intended to deter crime, may not in given instances prevent theft or other criminal acts. Landlord shall not be liable for injuries or losses caused by criminal acts of third parties, and Tenant assumes the risk that any security device or service may malfunction or otherwise be circumvented by a criminal. If Tenant desires protection against such criminal acts, then Tenant shall, at Tenant's sole cost and expense, obtain appropriate insurance coverage.

20.5. Notwithstanding anything in this Article 20 to the contrary, in the event of the concurrent negligence of Tenant, its agents, employees, subtenants, invitees, licensees, or contractors on the one hand, and that of Landlord, and Landlord's officers, directors or partners, contractors, employees and agents (including any management company and its employees) on the other hand, which concurrent negligence results in injury or damage to persons or property and relates to the construction, alteration, repair, addition to, subtraction from, improvement to or maintenance of the Premises, Common Areas or Building, each party's obligation to indemnify the other as set forth in this Article 20 shall be limited to the extent of the indemnifying party's negligence and that of its agents, employees, subtenants, invitees, licensees or contractors, including its proportional share of costs, reasonable attorneys' fees, and expenses incurred in connection with any claim, action or proceeding brought with respect to such injury or damage.

20.6. The provisions of this Article 20 shall survive the expiration or earlier termination of this Lease.

21. Insurance; Waiver of Subrogation.

21.1. Landlord shall maintain insurance for the Building and the Project in amounts equal to full replacement cost (exclusive of the costs of excavation, foundations and footings, and without reference to depreciation taken by Landlord upon its books or tax returns) or such lesser coverage as Landlord may elect, provided that such coverage shall not be less than ninety percent (90%) of such full replacement cost or the amount of such insurance Landlord's lender, mortgagee or beneficiary (each, a "Lender"), if any, requires Landlord to maintain, providing

protection against any peril generally included within the classification "Fire and Extended Coverage," together with insurance against sprinkler damage (if applicable), vandalism and malicious mischief. Landlord, subject to availability thereof, shall further insure, if Landlord deems it appropriate, coverage against flood, environmental hazard, earthquake, loss or failure of building equipment, rental loss during the period of repairs or rebuilding, workmen's compensation insurance and fidelity bonds for employees employed to perform services for the Building or the Property. Notwithstanding the foregoing, Landlord may, but shall not be deemed required to, provide insurance for any improvements installed by Tenant or that are in addition to the standard improvements customarily furnished by Landlord, without regard to whether or not such are made a part of or are affixed to the Building. Any costs incurred by Landlord pursuant to this Section 21.1 shall constitute a portion of Operating Expenses, subject to the limitations of Article 7.

21.2. In addition, Landlord shall carry public liability insurance with a single limit of not less than Two Million Dollars ($2,000,000) for death or bodily injury, or property damage with respect to the Project. Any costs incurred by Landlord pursuant to this Section 21.2 shall constitute a portion of Operating Expenses.

21.3. Tenant shall, at its own cost and expense, procure and maintain in effect, beginning on the Term Commencement Date or the date of occupancy, whichever occurs first, and continuing throughout the Term (and occupancy by Tenant, if any, after termination of this Lease) comprehensive general liability insurance with limits of not less than Five Million Dollars ($5,000,000) per occurrence and Five Million Dollars ($5,000,000) in the aggregate for death or bodily injury and property damage with respect to the Premises.

21.4. The insurance required to be purchased and maintained by Tenant pursuant to this Lease shall name Landlord, BioMed Realty, L.P., BioMed Realty Trust, Inc., and their respective officers, employees, agents, general partners, members and Lenders ("Landlord Parties") as additional insureds. Said insurance shall be with companies having a rating of not less than policyholder rating of A- and financial category rating of at least Class VII in "Best's Insurance Guide." Tenant shall obtain for Landlord from the insurance companies or cause the insurance companies to furnish certificates of coverage to Landlord. No such policy shall be cancelable or subject to reduction of coverage or other modification or cancellation except after thirty (30) days' prior written notice to Landlord from the insurer. All such policies shall be written as primary policies, not contributing with and not in excess of the coverage that Landlord may carry. Tenant's policy may be a "blanket policy" that specifically provides that the amount of insurance shall not be prejudiced by other losses covered by the policy. Tenant shall, at least ten (10) days prior to the expiration of such policies, furnish Landlord with renewal certificates of insurance. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and at its cost to be paid by Tenant as Additional Rent.

21.5. Tenant assumes the risk of damage to any fixtures, goods, inventory, merchandise, equipment and leasehold improvements, and Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom, relative to such damage, all as more particularly set forth within this Lease. Tenant shall, at Tenant's sole cost and expense, carry such insurance as

Tenant desires for Tenant's protection with respect to personal property of Tenant or business interruption.

21.6. In each instance where insurance is to name Landlord Parties as additional insureds, Tenant shall, upon Landlord's written request, also designate and furnish certificates evidencing such Landlord Parties as additional insureds to (a) any Lender of Landlord holding a security interest in the Building or the Project, (b) the landlord under any lease whereunder Landlord is a tenant of the real property upon which the Building is located if the interest of Landlord is or shall become that of a tenant

under a ground lease rather than that of a fee owner, and (c) any management company retained by Landlord to manage the Project.

21.7. Landlord and Tenant each hereby waive any and all rights of recovery against the other or against the officers, directors, employees, agents and representatives of the other on account of loss or damage occasioned by such waiving party or its property or the property of others under such waiving party's control, in each case to the extent that such loss or damage is insured against under any fire and extended coverage insurance policy that either Landlord or Tenant may have in force at the time of such loss or damage or that would have been insured against had the waiving party carried the insurance required under this Lease. Such waivers shall continue so long as their respective insurers so permit. Any termination of such a waiver shall be by written notice to the other party, containing a description of the circumstances hereinafter set forth in this Section 21.7. Landlord and Tenant, upon obtaining the policies of insurance required or permitted under this Lease, shall give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease. If such policies shall not be obtainable with such waiver or shall be so obtainable only at a premium over that chargeable without such waiver, then the party seeking such policy shall notify the other of such conditions, and the party so notified shall have ten (10) days thereafter to either (a) procure such insurance with companies reasonably satisfactory to the other party or (b) agree to pay such additional premium (in Tenant's case, in the proportion that the area of the Premises bears to the insured area). If the parties do not accomplish either (a) or (b), then this Section 21.7 shall have no effect during such time as such policies shall not be obtainable or the party in whose favor a waiver of subrogation is desired refuses to pay the additional premium. If such policies shall at any time be unobtainable, but shall be subsequently obtainable, then neither party shall be subsequently liable for a failure to obtain such insurance until a reasonable time after notification thereof by the other party. If the release of either Landlord or Tenant, as set forth in the first sentence of this Section 21.7, shall contravene Applicable Laws, then the liability of the party in question shall be deemed not released but shall be secondary to the other party's insurer.

21.8. Landlord may require insurance policy limits required under this Lease to be raised to conform with requirements of Landlord's Lender or to bring coverage limits to levels then being required of new tenants within the Project.

22. Damage or Destruction.

22.1. In the event of a partial destruction of the Building or the Project by fire or other perils covered by extended coverage insurance not exceeding twenty-five percent (25%) of the full insurable value thereof, and provided that (a) the damage thereto is such that the Building or

the Project may be repaired, reconstructed or restored within a period of six (6) months from the date of the happening of such casualty and (b) Landlord shall receive insurance proceeds sufficient to cover the cost of such repairs (except for any deductible amount provided by Landlord's policy, which deductible amount, if paid by Landlord, shall constitute an Operating Expense), Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration of the Building or the Project, as applicable, and this Lease shall continue in full force and effect.

22.2. In the event of any damage to or destruction of the Building or the Project other than as described in Section 22.1, Landlord may elect to repair, reconstruct and restore the Building or the Project, as applicable, in which case this Lease shall continue in full force and effect. If Landlord elects not to repair the Building or the Project, as applicable, then this Lease shall terminate as of the date of such damage or destruction.

22.3. Landlord shall give written notice to Tenant within forty-five (45) days following the date of damage or destruction of its election not to repair, reconstruct or restore the Building or the Project, as applicable, and if the notice states that Landlord elects to so repair, reconstruct or restore, the notice shall set forth the anticipated period for repairing the casualty damage and the date such repair will be complete. If the anticipated repair period will not be completed within a period of twelve (12) months from the date of the happening of such casualty and if the damage is so extensive as to reasonably prevent Tenant's substantial use and enjoyment of the Premises, then Tenant may elect to terminate this Lease by written notice to Landlord within ten (10) days following delivery of the written notice from Landlord.

22.4. Upon any termination of this Lease under any of the provisions of this Article 22, the parties shall be released thereby without further obligation to the other from the date possession of the Premises is surrendered to the Landlord, except with regard to (a) items occurring prior to the damage or destruction and (b) provisions of this Lease that, by their express terms, survive the expiration or earlier termination hereof.

22.5. In the event of repair, reconstruction and restoration as provided in this Article 22, all Rent to be paid by Tenant under this Lease shall be abated proportionately, beginning on the date of the damage or destruction of the Building or the Project, based on the extent to which Tenant's use of the Premises is impaired beginning on such date and continuing until substantial completion of such repair, reconstruction or restoration, unless Landlord provides Tenant with other space during the period of repair that, in Tenant's reasonable opinion, is suitable for the temporary conduct of Tenant's business.

22.6. Notwithstanding anything to the contrary contained in this Article 22, should Landlord be delayed or prevented from completing the repair, reconstruction or restoration of the damage or destruction to the Premises after the occurrence of such damage or destruction by Force Majeure, then the time for Landlord to commence or complete repairs shall be extended on a day-for-day basis; provided, however, that, at Landlord's election, Landlord shall be relieved of its obligation to make such repair, reconstruction or restoration. Tenant shall be released from any obligations under this Lease (except with regard to those provisions that, by their express terms, survive the expiration or earlier termination hereof) if, on the date that is twelve (12)

months after the date of damage or destruction, the repair, reconstruction or restoration required to be performed by Landlord to provide Tenant use of the Premises is not then Substantially Complete.

22.7. If Landlord is obligated to or elects to repair, reconstruct or restore as herein provided, then Landlord shall be obligated to make such repair, reconstruction or restoration only with regard to those portions of the Premises, the Building or the Project that were originally provided at Landlord's expense, including, without limitation, the Landlord's Work to the extent paid for out of the Tenant Improvement Allowance. The repair, reconstruction or restoration of improvements not originally provided by Landlord or at Landlord's expense shall be the obligation of Tenant. In the event Tenant has elected to upgrade certain improvements from the Building Standard, Landlord shall, upon the need for replacement due to an insured loss, provide only the Building Standard, unless Tenant again elects to upgrade such improvements and pay any incremental costs related thereto, except to the extent that excess insurance proceeds, if received, are adequate to provide such upgrades, in

addition to providing for basic repair, reconstruction and restoration of the Premises, the Building and the Project.

22.8. Notwithstanding anything to the contrary contained in this Article 22, Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises if the damage resulting from any casualty covered under this Article 22 occurs during the last eighteen (18) months of the Term or any extension hereof, or to the extent that insurance proceeds are not available therefor. Further, if the damage resulting from any casualty covered under this Article 22 occurs during the last eighteen (18) months of the Term or any extension hereof and if the damage is so extensive as to reasonably prevent Tenant's use and enjoyment of the Premises for three (3) months or more, Tenant may in its sole discretion terminate this Lease by written notice delivered to Landlord within thirty (30) days from the date of the happening of such casualty.

22.9. Landlord's obligation, should it elect or be obligated to repair or rebuild, shall be limited to the Property and the Building; provided that Tenant shall, at its expense, replace or fully repair all of Tenant's personal property and any alterations installed by Tenant existing at the time of such damage or destruction. If the Property or the Building is to be repaired in accordance with the foregoing, Landlord shall make available to Tenant any portion of insurance proceeds it receives that are allocable to the alterations constructed by Tenant pursuant to this Lease, provided Tenant is not then in default under this Lease.

23. Eminent Domain.

23.1. In the event the whole of the Premises, or such part thereof as shall substantially interfere with the Tenant's use and occupancy thereof, shall be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such taking, Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to said authority.

23.2. In the event of a partial taking of the Building or the Project, or of drives, walkways or parking areas serving the Building or the Project for any public or quasi-public purpose by any lawful power or authority by exercise of right of appropriation, condemnation, or eminent domain, or sold to prevent such taking, then, without regard to whether any portion of the Premises occupied by Tenant was so taken, Landlord may elect to terminate this Lease as of such taking if such taking is, in Landlord's reasonable opinion, of a material nature such as to make it uneconomical to continue use of the unappropriated portion for purposes of renting office or laboratory space.

23.3. Tenant shall be entitled to any award that is specifically awarded as compensation for (a) the taking of Tenant's personal property that was installed at Tenant's expense, (b) the value of the loss of Tenant's goodwill, (c) the costs of Tenant moving to a new location, and (d) other awards granted to it and not out of or part of Landlord's award. Except as set forth in the previous sentence, any award for such taking shall be the property of Landlord.

23.4. If, upon any taking of the nature described in this Article 23, this Lease continues in effect, then Landlord shall promptly proceed to restore the Premises, the Building and the Project, as applicable, to substantially their same condition prior to such partial taking. To the extent such restoration is feasible, as determined by Landlord in its sole and absolute discretion, the Rent shall be decreased proportionately to reflect the loss of any portion of the Premises no longer available to Tenant.

24. Defaults and Remedies.

24.1. Late payment by Tenant to Landlord of Rent and other sums due shall cause Landlord to incur costs not contemplated by this Lease, the exact amount of which shall be extremely difficult and impracticable to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges that may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Therefore, if any installment of Rent due from Tenant is not received by Landlord within five (5) days after the date such payment is due, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue Rent as a late charge; provided, however, that with respect to the first late payment in any twelve (12) month period, no late charge shall be due unless Tenant fails to pay the overdue amount within three (3) business days after written notice from Landlord. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord shall incur by reason of late payment by Tenant.

24.2. No payment by Tenant or receipt by Landlord of a lesser amount than the Rent payment herein stipulated shall be deemed to be other than on account of the Rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy provided in this Lease or in equity or at law. If a dispute shall arise as to any amount or sum of money to be paid by Tenant to Landlord hereunder, Tenant shall have the right to make payment "under protest," such payment shall not be regarded as a voluntary payment, and there shall

survive the right on the part of Tenant to institute suit for recovery of the payment paid under protest.

24.3. If Tenant fails to pay any sum of money required to be paid by it hereunder, or shall fail to perform any other act on its part to be performed hereunder, Landlord may, without waiving or releasing Tenant from any obligations of Tenant, but shall not be obligated to, make such payment or perform such act; provided that such failure by Tenant continues for five (5) days after Landlord delivers notice to Tenant demanding performance by Tenant; or provided that such failure by Tenant unreasonably interfered with the use of the Building by any other tenant or with the efficient operation of the Building, or resulted or could have resulted in a violation of Applicable Laws or the cancellation of an insurance policy maintained by Landlord. In addition to the late charge described in Section 24.1, Tenant shall pay to Landlord as Additional Rent all sums so paid or incurred by Landlord, together with interest thereon, from the date such sums were paid or incurred, at the annual rate equal to ten percent (10%) per annum or the highest rate permitted by Applicable Laws, whichever is less.

24.4. The occurrence of any one or more of the following events shall constitute a "Default" hereunder by Tenant:

(a) The abandonment or vacation of the Premises by Tenant;

(b) The failure by Tenant to make any payment of Rent, as and when due, where such failure shall continue for a period of five (5) days after written notice thereof from Landlord to Tenant;

(c) The failure by Tenant to observe or perform any obligation or covenant contained herein (other than described in Subsections 24.4(a) and 24.4(b)) to be performed by Tenant, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided that, if the nature of Tenant's default is such that it reasonably requires more than thirty (30) days to cure, Tenant shall not be deemed to be in default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute the same to completion; and provided, further, that such cure is completed no later than ninety (90) days from the date of Tenant's receipt of written notice from Landlord;

(d) Tenant makes an assignment for the benefit of creditors;

(e) A receiver, trustee or custodian is appointed to or does take title, possession or control of all or substantially all of Tenant's assets;

(f) Tenant files a voluntary petition under the United States Bankruptcy Code or any successor statute (the 'Bankruptcy Code");

(g) Any involuntary petition if filed against Tenant under any chapter of the Bankruptcy Code and is not dismissed within one hundred twenty (120) days;

(h) Failure to deliver an estoppel certificate in accordance with Article 29; or

(i) Tenant's interest in this Lease is attached, executed upon or otherwise judicially seized and such action is not released within one hundred twenty (120) days of the action.

Notices given under this Section 24.4 shall specify the alleged default and shall demand that Tenant perform the provisions of this Lease or pay the Rent that is in arrears, as the case may be, within the applicable period of time, or quit the Premises. No such notice shall be deemed a forfeiture or a termination of this Lease unless Landlord elects otherwise in such notice.

24.5. In the event of a Default by Tenant, and at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy that Landlord may have, Landlord shall be entitled to terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event, Landlord shall have the immediate right to re-enter and remove all persons and property, and such property may be removed and stored in a public warehouse or elsewhere at the cost and for the account of Tenant, all without service of notice or resort to legal process and without being deemed guilty of trespass or becoming liable for any loss or damage that may be occasioned thereby. In the event that Landlord shall elect to so terminate this Lease, then Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including, without limitation:

(a) The worth at the time of award of any unpaid Rent that had accrued at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent that would have accrued during the period commencing with termination of the Lease and ending at the time of award exceeds that portion of the loss of Landlord's rental income from the Premises that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds that portion of the loss of Landlord's rental income from the Premises that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom, including, without limitation, the cost of restoring the Premises to the condition required under the terms of this Lease; plus

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Laws.

As used in Subsections 24.5(a) and 24.5(b), "worth at the time of award" shall be computed by allowing interest at the rate specified in Section 24.1. As used in Subsection 24.5(c) above, the "worth at the time of the award" shall be computed by taking the present value of such amount,

using the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one (1) percentage point.

24.6. If Landlord does not elect to terminate this Lease as provided in Section 24.5, then Landlord may, from time to time, recover all Rent as it becomes due under this Lease. At any time thereafter, Landlord may elect to terminate this Lease and to recover damages to which Landlord is entitled.

24.7. In the event Landlord elects to terminate this Lease and relet the Premises, Landlord may execute any new lease in its own name. Tenant hereunder shall have no right or authority whatsoever to collect any Rent from such tenant. The proceeds of any such reletting shall be applied as follows:

(a) First, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord, including, without limitation, storage charges or brokerage commissions owing from Tenant to Landlord as the result of such reletting;

(b) Second, to the payment of the costs and expenses of reletting the Premises, including (i) alterations and repairs that Landlord deems reasonably necessary and advisable and (ii) reasonable attorneys' fees, charges and disbursements incurred by Landlord in connection with the retaking of the Premises and such reletting;

(c) Third, to the payment of Rent and other charges due and unpaid hereunder; and

(d) Fourth, to the payment of future Rent and other damages payable by Tenant under this Lease.

24.8. All of Landlord's rights, options and remedies hereunder shall be construed and held to be nonexclusive and cumulative. Landlord shall have the right to pursue any one or all of such remedies, or any other remedy or relief that may be provided by Applicable Laws, whether or not stated in this Lease. No waiver of any default of Tenant hereunder shall be implied from any acceptance by Landlord of any Rent or other payments due hereunder or any omission by Landlord to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect defaults other than as specified in said waiver.

24.9. Landlord's termination of (a) this Lease or (b) Tenant's right to possession of the Premises shall not relieve Tenant of any liability to Landlord that has previously accrued or that shall arise based upon events that occurred prior to the later to occur of (i) the date of Lease termination or (ii) the date Tenant surrenders possession of the Premises.

24.10. To the extent permitted by Applicable Laws, Tenant waives any and all rights of redemption granted by or under any present or future Applicable Laws if Tenant is evicted or dispossessed for any cause, or if Landlord otherwise obtains possession of the Premises due to Tenant's default hereunder.

24.11. Landlord shall not be in default under this Lease unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event shall such failure continue for more than thirty (30) days after written notice from Tenant specifying the nature of Landlord's failure; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the cure to completion.

24.12. In the event of any default by Landlord, Tenant shall give notice by registered or certified mail to any (a) beneficiary of a deed of trust or (b) mortgagee under a mortgage covering the Premises, the Building or the Project and to any landlord of any lease of land upon or within which the Premises, the Building or the Project is located, and shall offer such beneficiary, mortgagee or landlord a reasonable opportunity to cure the default, including time to obtain possession of the Building by power of sale or a judicial action if such should prove necessary to effect a cure; provided that Landlord shall furnish to Tenant in writing, upon written request by Tenant, the names and addresses of all such persons who are to receive such notices, and provided, further, that the terms of this paragraph shall not require Tenant to postpone the exercise of its remedies under this Lease or otherwise available at law or in equity in the event that the nature of Landlord's default materially interferes with or prevents Tenant from operating the Premises for the Permitted Use.

25. Assignment or Subletting.

25.1. Except as hereinafter expressly permitted, Tenant shall not, either voluntarily or by operation of Applicable Laws, directly or indirectly sell, hypothecate, assign, pledge, encumber or otherwise transfer this Lease, or sublet the Premises or any part hereof (each, a "Transfer"), without Landlord's prior written consent, which consent Landlord may not unreasonably withhold, condition or delay.

25.2. In the event Tenant desires to effect a Transfer, then, at least thirty (30) but not more than one hundred twenty (120) days prior to the date when Tenant desires the assignment or sublease to be effective (the "Transfer Date"), Tenant shall provide written notice to Landlord (the "Transfer Notice") containing information (including references) concerning the character of the proposed transferee, assignee or sublessee; the Transfer Date; any ownership or commercial relationship between Tenant and the proposed transferee, assignee or sublessee; and the consideration and all other material terms and conditions of the proposed Transfer, all in such detail as Landlord shall reasonably require. Tenant shall also tender to Landlord reasonable attorneys' fees and other costs or overhead expenses not to exceed One Thousand Five Hundred Dollars ($1,500) incurred by Landlord in reviewing Tenant's request for such Transfer.

25.3. Landlord, in determining whether consent should be given to a proposed Transfer, may give consideration to (a) the financial strength of such transferee, assignee or sublessee (notwithstanding Tenant remaining liable for Tenant's performance), and (b) any change in use that such transferee, assignee or sublessee proposes to make in the use of the Premises. In no event shall Landlord be deemed to be unreasonable for declining to consent to a Transfer to a transferee, assignee or sublessee of poor reputation, lacking financial qualifications (provided the

proposed transferee is of lesser creditworthiness than Tenant as of the Execution Date or the date of the proposed Transfer) or seeking a change in the Permitted Use. Notwithstanding anything contained in this Lease to the contrary, (w) no Transfer shall be consummated on any basis such that the rental or other amounts to be paid by the occupant, assignee, manager or other transferee thereunder would be based, in whole or in part, on the income or profits derived by the business activities of such occupant, assignee, manager or other transferee; (x) Tenant shall not furnish or render any services to an occupant, assignee, manager or other transferee with respect to whom transfer consideration is required to be paid, or manage or operate the Premises or any capital additions so transferred, with respect to which transfer consideration is being paid; (y) Tenant shall not consummate a Transfer with any person in which Landlord owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Internal Revenue Code (the "Revenue Code")); and (z) Tenant shall not consummate a Transfer with any person or in any manner that could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease, license or other arrangement for the right to use, occupy or possess any portion of the Premises to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Revenue Code, or any similar or successor provision thereto, or agree to perform services for a transferee, assignee or sublessee that would cause any other income of Landlord to fail to qualify as income described in Section 856(c)(2) of the Revenue Code.

25.4. As conditions precedent to Tenant subleasing the Premises or to Landlord considering a request by Tenant to Tenant's transfer of rights or sharing of the Premises, Landlord may require any or all of the following:

(a) Tenant shall remain fully liable under this Lease during the unexpired Term;

(b) Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord that the value of Landlord's interest under this Lease shall not be diminished or reduced by the proposed Transfer. Such evidence shall include, without limitation, evidence respecting the relevant business experience and financial responsibility and status of the proposed transferee, assignee or sublessee;

(c) Tenant shall reimburse Landlord for Landlord's actual costs and expenses, including, without limitation, reasonable attorneys' fees, charges and disbursements incurred in connection with the review, processing and documentation of such request;

(d) If Tenant's transfer of rights or sharing of the Premises provides for the receipt by, on behalf of or on account of Tenant of any consideration of any kind whatsoever (including, without limitation, a premium rental for a sublease or lump sum payment for an assignment, but excluding Tenant's reasonable costs in marketing and subleasing the Premises) in excess of the rental and other charges due to Landlord under this Lease, Tenant shall pay fifty percent (50%) of all of such excess to Landlord, after deductions for any transaction costs incurred by Tenant, including marketing expenses, tenant improvement or refurbishment allowances actually provided by Tenant, alterations, cash concessions, brokerage commissions,

attorneys' fees and free rent. If said consideration consists of cash paid to Tenant, payment to Landlord shall be made upon receipt by Tenant of such cash payment;

(e) The proposed transferee, assignee or sublessee shall agree that, in the event Landlord gives such proposed transferee, assignee or sublessee notice that Tenant is in default under this Lease, such proposed transferee, assignee or sublessee shall thereafter make all payments otherwise due Tenant directly to Landlord, which payments shall be received by Landlord without any liability being incurred by Landlord, except to credit such payment against those due by Tenant under this Lease, and any such proposed transferee, assignee or sublessee shall agree to attorn to Landlord or its successors and assigns should this Lease be terminated for any reason; provided, however, that in no event shall Landlord or its Lenders, successors or assigns be obligated to accept such attornment;

(f) Landlord's consent to any such Transfer shall be effected on Landlord's forms;

(g) Tenant shall not then be in default hereunder in any respect;

(h) Such proposed transferee, assignee or sublessee's use of the Premises shall be the same as the Permitted Use;

(i) Landlord shall not be bound by any provision of any agreement pertaining to the Transfer, except for Landlord's written consent to the same;

(j) Tenant shall pay all transfer and other taxes (including interest and penalties) assessed or payable for any Transfer;

(k) Landlord's consent (or waiver of its rights) for any Transfer shall not waive Landlord's right to consent to any later Transfer;

(l) Tenant shall deliver to Landlord one executed copy of any and all written instruments evidencing or relating to the Transfer; and

(m) A list of Hazardous Materials (as defined in Section 39.7 below), certified by the proposed transferee, assignee or sublessee to be true and correct, that the proposed transferee, assignee or sublessee intends to use or store in the Premises. Additionally, Tenant shall deliver to Landlord, on or before the date any proposed transferee, assignee or sublessee takes occupancy of the Premises, all of the items relating to Hazardous Materials of such proposed transferee, assignee or sublessee as described in Section 38.2.

25.5. Any Transfer that is not in compliance with the provisions of this Article 25 shall be void and shall, at the option of Landlord, terminate this Lease; provided, however, that Landlord shall first give Tenant ten (10) days' notice of the reason the Transfer is not in compliance and this Lease shall remain in full force and effect if Tenant, before expiration of such ten (10) days' notice, either corrects the reason the Transfer is not in compliance or terminates the Transfer.

25.6. The consent by Landlord to a Transfer shall not relieve Tenant or proposed transferee, assignee or sublessee from obtaining Landlord's consent to any further Transfer, nor shall it release Tenant or any proposed transferee, assignee or sublessee of Tenant from full and primary liability under this Lease.

25.7. Notwithstanding any Transfer, Tenant shall remain fully and primarily liable for the payment of all Rent and other sums due or to become due hereunder, and for the full performance of all other terms, conditions and covenants to be kept and performed by Tenant. The acceptance of Rent or any other sum due hereunder, or the acceptance of performance of any other term, covenant or condition thereof, from any person or entity other than Tenant shall not be deemed a waiver of any of the provisions of this Lease or a consent to any Transfer.

25.8. [Intentionally omitted]

25.9. If Tenant sublets the Premises or any portion thereof, Tenant hereby immediately and irrevocably assigns to Landlord, as security for Tenant's obligations under this Lease, all rent from any such subletting, and appoints Landlord as assignee and attorney-in-fact for Tenant, and Landlord (or a receiver for Tenant appointed on Landlord's application) may collect such rent and apply it toward Tenant's obligations under this Lease; provided that, until the occurrence of a Default by Tenant, Tenant shall have the right to collect such rent.

25.10. Notwithstanding anything to the contrary in this Article 25, Tenant may engage in the following Transfers (collectively, "Permitted Transfers") without the prior written consent of Landlord and without regard to the terms of Section 25.4 but subject to the terms of Section 25.7; provided (i) Tenant is not in default under this Lease; (ii) such proposed transferee uses the Premises for the Permitted Use; (iii) such proposed transferee is of equal or greater creditworthiness than Tenant as of the Execution Date and the date of the proposed Transfer and (iv) Tenant gives Landlord written notice at least thirty (30) days prior to the effective date of the proposed assignment or sublease:

(a) A Transfer to a parent, subsidiary, affiliate, division or other entity controlling, controlled by or under common control with Tenant;

(b) A Transfer to a successor entity related to Tenant by merger, consolidation, reorganization or government action; and

(c) A Transfer to an entity that acquires substantially all of the assets of Tenant.

25.11. For the purpose of this Lease, for so long as stock in Tenant is traded on a nationally recognized stock exchange, any sale or transfer of Tenant's capital stock, redemption or issuance of additional stock of any class shall not be deemed a Transfer of any kind; provided, however, that transfer of more than fifty percent (50%) of Tenant's capital stock in a single transaction or a single series of transactions pursuant to a resolution of the Board of Directors of Tenant shall be deemed to be a Permitted Transfer subject to the terms of Section 25.10, except

that the acquirer of the stock shall be the entity subject to the creditworthiness test under Section 25.10(iii).

26. Attorneys' Fees. If either party commences an action against the other party arising out of or in connection with this Lease, then the substantially prevailing party shall be entitled to have and recover from the other party reasonable attorneys' fees, charges and disbursements and costs of suit.

27. Bankruptcy. In the event a debtor, trustee or debtor in possession under the Bankruptcy Code, or another person with similar rights, duties and powers under any other Applicable Laws, proposes to cure any default under this Lease or to assume or assign this Lease and is obliged to provide adequate assurance to Landlord that (a) a default shall be cured, (b) Landlord shall be compensated for its damages arising from any breach of this Lease and (c) future performance of Tenant's obligations under this Lease shall occur, then such adequate assurances shall include any or all of the following, as designated by Landlord in its sole and absolute discretion:

27.1. Those acts specified in the Bankruptcy Code or other Applicable Laws as included within the meaning of "adequate assurance," even if this Lease does not concern a shopping center or other facility described in such Applicable Laws;

27.2. A prompt cash payment to compensate Landlord for any monetary defaults or actual damages arising directly from a breach of this Lease;

27.3. A cash deposit in an amount at least equal to the then-current amount of the Security Deposit; or

27.4. The assumption or assignment of all of Tenant's interest and obligations under this Lease.

28. Definition of Landlord. With regard to obligations imposed upon Landlord pursuant to this Lease, the term "Landlord," as used in this Lease, shall refer only to Landlord or Landlord's then-current successor-in-interest. In the event of any transfer, assignment or conveyance of Landlord's interest in this Lease or in Landlord's fee title to or leasehold interest in the Property, as applicable, the Landlord herein named (and in case of any subsequent transfers or conveyances, the subsequent Landlord) shall be automatically freed and relieved, from and after the date of such transfer, assignment or conveyance, from all liability for the performance of any covenants or obligations contained in this Lease thereafter to be performed by Landlord and, without further agreement, the transferee, assignee or conveyee of Landlord's interest in this Lease or in Landlord's fee title to or leasehold interest in the Property, as applicable, shall be deemed to have assumed and agreed to observe and perform any and all covenants and obligations of Landlord hereunder during the tenure of its interest in the Lease or the Property. Landlord or any subsequent Landlord may transfer its interest in the Premises or this Lease without Tenant's consent.

29. Estoppel Certificate. Tenant shall, within ten (10) business days of receipt of written notice from Landlord, execute, acknowledge and deliver a statement in writing substantially in

the form attached to this Lease as Exhibit E, or on any other form reasonably requested by a proposed Lender or purchaser, (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the dates to which rental and other charges are paid in advance, if any, (b) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed, and (c) setting forth such further information with respect to this Lease or the Premises as may reasonably be requested thereon. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part. Tenant's failure to deliver such statement within such the prescribed time shall, at Landlord's option, constitute a Default under this Lease, and, in any event, shall be binding upon Tenant that the Lease is in full force and effect and without modification except as may be represented by Landlord in any certificate prepared by Landlord and delivered to Tenant for execution.

30. Joint and Several Obligations. If more than one entity executes this Lease as Tenant, then:

30.1. Each of them is jointly and severally liable for the keeping, observing and performing of all of the terms, covenants, conditions, provisions and agreements of this Lease to be kept, observed or performed by Tenant; and

30.2. The term "Tenant" as used in this Lease shall mean and include each of them, jointly and severally. The act of, notice from, notice to, refund to, or signature of any one or more of them with respect to the tenancy under this Lease, including, without limitation, any renewal, extension, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted, so given or received such notice or refund, or so signed.

31. Limitation of Landlord's Liability.

31.1. If Landlord is in default under this Lease and, as a consequence, Tenant recovers a monetary judgment against Landlord, the judgment shall be satisfied only out of (a) the proceeds of sale received on execution of the judgment and levy against the right, title and interest of Landlord in the Building and the Project of which the Premises are a part, (b) rent or other income from such real property receivable by Landlord or (c) the consideration received by Landlord from the sale, financing,

refinancing or other disposition of all or any part of Landlord's right, title or interest in the Building or the Project of which the Premises are a part.

31.2. Subject to the remainder of this Section 31.2, only Landlord shall be liable for any deficiency due to Landlord's default under this Lease. If Landlord is a partnership or joint venture, then the partners of such partnership shall not be personally liable for Landlord's obligations under this Lease, and no partner of Landlord shall be sued or named as a party in any suit or action, and service of process shall not be made against any partner of Landlord except as may be necessary to secure jurisdiction of the partnership or joint venture. If Landlord is a corporation, then the shareholders, directors, officers, employees and agents of such corporation

shall not be personally liable for Landlord's obligations under this Lease, and no shareholder, director, officer, employee or agent of Landlord shall be sued or named as a party in any suit or action, and service of process shall not be made against any shareholder, director, officer, employee or agent of Landlord. If Landlord is a limited liability company, then the members of such limited liability company shall not be personally liable for Landlord's obligations under this Lease, and no member of Landlord shall be sued or named as a party in any suit or action, and service of process shall not be made against any member of Landlord except as may be necessary to secure jurisdiction of the limited liability company. No partner, shareholder, director, employee, member or agent of Landlord shall be required to answer or otherwise plead to any service of process, and no judgment shall be taken or writ of execution levied against any partner, shareholder, director, employee or agent of Landlord.

31.3. Each of the covenants and agreements of this Article 31 shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by Applicable Laws and shall survive the expiration or earlier termination of this Lease.

32. Project Control by Landlord.

32.1. Landlord reserves full control over the Building and the Project to the extent not inconsistent with (a) Tenant's enjoyment of the Premises as provided by this Lease and (b) Tenant's use of the Premises for the Permitted Use. This reservation includes, without limitation, Landlord's right to subdivide the Project, convert the Building and other potential buildings within the Project to condominium units, grant easements and licenses to third parties, and maintain or establish ownership of the Building separate from fee title to the Property. Landlord shall at all times during construction activity maintain reasonable access to the Premises and Common Areas serving the Premises.

32.2. Tenant and Landlord shall each, at the other's reasonable request, promptly execute such further documents as may be reasonably appropriate and necessary to enable the other to carry out its obligations under this Lease; provided that neither party shall have any obligation under this paragraph to execute any document that creates additional liability or cost for such party or that deprives Tenant of the quiet enjoyment and use of the Premises as provided by this Lease.

32.3. Landlord may, at any and all reasonable times during non-business hours (or during business hours if Tenant so requests), and upon twenty-four (24) hours' prior notice (provided that no time restrictions shall apply or advance notice be required if an emergency necessitates immediate entry), enter the Premises to (a) inspect the same and to determine whether Tenant is in compliance with its obligations hereunder, (b) supply any service Landlord is required to provide hereunder, (c) show the Premises to prospective purchasers or tenants during the final year of the Term, (d) post notices of nonresponsibility, (e) access the telephone equipment, electrical substation and fire risers and (f) alter, improve or repair any portion of the Building other than the Premises for which access to the Premises is reasonably necessary. In connection with any such alteration, improvement or repair as described in Subsection 32.3(f) above, Landlord may erect in the Premises or elsewhere in the Project scaffolding and other structures reasonably required for the alteration, improvement or repair work to be performed. In

no event shall Tenant's Rent abate as a result of Landlord's activities pursuant to this Section 32.3; provided, however, that all such activities shall be conducted in such a manner so as to cause as little interference to Tenant as is reasonably possible. Landlord shall at all times retain a key with which to unlock all of the doors in the Premises. If an emergency necessitates immediate access to the Premises, Landlord may use whatever force is necessary to enter the Premises, and any such entry to the Premises shall not constitute a forcible or unlawful entry to the Premises, a detainer of the Premises, or an eviction of Tenant from the Premises or any portion thereof.

33. Quiet Enjoyment. So long as Tenant is not in default under this Lease, Landlord or anyone acting through or under Landlord shall not disturb Tenant's occupancy of the Premises, except as permitted by this Lease. So long as Tenant is not in default under this Lease, Landlord warrants that Tenant shall hold and enjoy the Premises peaceably and quietly, except as permitted by this Lease. The foregoing express covenant shall be in addition to and not in derogation of any implied or other rights of quiet enjoyment Tenant may have under Applicable Laws. Nothing in this Section 33 shall prohibit Landlord from undertaking construction on the Property (including construction of additional buildings) in accordance with this Lease

34. Subordination and Attornment.

34.1. This Lease shall be subject and subordinate to the lien of any mortgage, deed of trust, or lease in which Landlord is tenant hereafter in force against the Building or the Project (collectively referred to as "Senior Interests") and to all advances made or hereafter to be made upon the security thereof without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination, so long as the holders of such Senior Interests do not disturb Tenant's possession of the Premises in violation of this Lease so long as Tenant performs its obligations under this Lease. Landlord represents to Tenant that, as of the Execution Date, there is no mortgage, deed of trust, or lease in which Landlord is tenant in force against the Building or the Project.

34.2. Notwithstanding the foregoing, Tenant shall execute and deliver upon demand such further instrument or instruments evidencing such subordination of this Lease to the lien of any such mortgage or mortgages or deeds of trust or lease in which Landlord is tenant as may be required by Landlord, on condition that the holder of the Senior Interest agrees to not disturb Tenant's possession of the Premises in violation of this Lease so long as Tenant performs its obligations under this Lease. However, if any such mortgagee, beneficiary or Landlord under lease wherein Landlord is tenant so elects, this Lease shall be deemed prior in lien to any such lease, mortgage, or deed of trust upon or including the Premises regardless of date and Tenant shall execute a statement in writing to such effect at Landlord's request. If Tenant fails to execute any document reasonably required from Tenant under this Section within fifteen (15) days after Tenant's receipt of written request therefor, Tenant hereby constitutes and appoints Landlord or its special attorney-in-fact to execute and deliver any such document or documents in the name of Tenant. Such power is coupled with an interest and is irrevocable.

34.3. [Intentionally omitted]

34.4. In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Premises, Tenant's possession of the Premises under this Lease shall continue undisturbed so long as Tenant performs its obligations under this Lease and the Tenant shall at the election of the purchaser at such foreclosure or sale attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease.

35. Surrender.

35.1. No surrender of possession of any part of the Premises shall release Tenant from any of its obligations hereunder, unless such surrender is accepted in writing by Landlord.

35.2. The voluntary or other surrender of this Lease by Tenant shall not effect a merger with Landlord's fee title or leasehold interest in the Premises, the Building or the Property, unless Landlord consents in writing, and shall, at Landlord's option, operate as an assignment to Landlord of any or all subleases.

35.3. The voluntary or other surrender of any ground or other underlying lease that now exists or may hereafter be executed affecting the Building or the Project, or a mutual cancellation thereof or of Landlord's interest therein by Landlord and its lessor shall not effect a merger with Landlord's fee title or leasehold interest in the Premises, the Building or the Property and shall, at the option of the successor to Landlord's interest in the Building or the Project, as applicable, operate as an assignment of this Lease.

36. Waiver and Modification. No provision of this Lease may be modified, amended or supplemented except by an agreement in writing signed by Landlord and Tenant. The waiver by Landlord of any breach by Tenant of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained.

37. Waiver of Jury Trial and Counterclaims. The parties waive trial by jury in any action, proceeding or counterclaim brought by the other party hereto related to matters arising out of or in any way connected with this Lease; the relationship between Landlord and Tenant; Tenant's use or occupancy of the Premises, the Building or the Project; or any claim of injury or damage related to this Lease or the Premises, the Building or the Project.

38. [Intentionally omitted]

39. Hazardous Materials.

39.1. Tenant shall not cause or permit any Hazardous Materials (as hereinafter defined) to be brought upon, kept or used in or about the Premises, the Building or the Project in violation of Applicable Laws by Tenant, its agents, employees, contractors or invitees. If Tenant breaches such obligation, or if the presence of Hazardous Materials as a result of such a breach results in contamination of the Premises, the Building, the Project or any adjacent property, or (only if Tenant leases the entire Building) if contamination of the Premises by Hazardous Materials otherwise occurs during the term of this Lease or any extension or renewal hereof or holding over

hereunder, then Tenant shall indemnify, save, defend and hold Landlord, its agents and contractors harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities and losses (including, without limitation, diminution in value of the Premises, the Building, the Project or any portion thereof; damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises or Project; damages arising from any adverse impact on marketing of space in the Premises, the Building or the Project; and sums paid in settlement of claims, attorneys' fees, consultants' fees and experts' fees) that arise during or after the Term as a result of such breach or contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any Governmental Authority because of Hazardous Materials present in the air, soil or groundwater above, on or under the Premises for which Tenant is liable under the terms of this Lease. Without limiting the foregoing, if the presence of any Hazardous Materials in, on, under or about the Premises, the Building, the Project or any adjacent property caused or permitted by Tenant results in any contamination of the Premises, the Building, the Project or any adjacent property, then Tenant shall promptly take all actions at its sole cost and expense as are necessary to return the Premises, the Building, the Project and any adjacent property to their respective condition existing as of the Term Commencement Date; provided that Landlord's written approval of such action shall first be obtained, which approval Landlord shall not unreasonably withhold, condition or delay; and provided, further, that it shall be reasonable for Landlord to withhold its consent if such actions could have a material adverse long-term or short-term effect on the Premises, the Building or the Project.

39.2. Landlord acknowledges that it is not the intent of this Article 39 to prohibit Tenant from operating its business as described inSection 2.8 above. Tenant may operate its business according to the custom of Tenant's industry so long as the use or presence of Hazardous Materials is strictly and properly monitored according to Applicable Laws. As a material inducement to Landlord to allow Tenant to use Hazardous Materials in connection with its business, Tenant agrees to deliver to Landlord prior to the Term Commencement Date a list identifying each type of Hazardous Material to be present on the Premises (which list may also include Hazardous Materials that Tenant anticipates may be present on the Premises in future) and setting forth any and all governmental approvals or permits required in connection with the presence of such Hazardous Material on the Premises (the "Hazardous Materials List"). Tenant shall deliver to Landlord an updated Hazardous Materials List on or prior to each annual anniversary of the Term Commencement Date and shall also deliver an updated Hazardous Materials List before any Hazardous Materials not already listed on the Hazardous Materials List are brought onto the Premises. Tenant shall deliver to Landlord true and correct copies of the following documents (hereinafter referred to as the "Documents") relating to the handling, storage, disposal and emission of Hazardous Materials prior to the Term Commencement Date or, if unavailable at that time, concurrent with the receipt from or submission to any Governmental Authority: permits; approvals; reports and correspondence; storage and management plans; notices of violations of Applicable Laws; plans relating to the installation of any storage tanks to be installed in or under the Premises, the Building or the Project (provided that installation of storage tanks shall only be permitted after Landlord has given Tenant its written consent to do so, which consent Landlord shall not unreasonably withhold, condition or

delay); and all closure plans or any other documents required by any and all Governmental Authority for any storage tanks installed in, on or under the Premises, the Building or the Project for the closure of any such storage tanks. Tenant shall not be required, however, to provide Landlord with any portion of the Documents containing information of a proprietary nature that, in and of themselves, do not contain a reference to any Hazardous Materials or activities related to Hazardous Materials. Upon Landlord's written request, Tenant agrees that it shall enter into a written agreement with other tenants of the Building and the Project concerning the equitable allocation of fire control areas (as defined in the Uniform Building Code as adopted by the city or municipality(ies) in which the Project is located (the "UBC")) within the Building and the Project for the storage of Hazardous Materials, provided that Tenant shall be entitled to no less than its Pro Rata Share of such fire control areas based on Tenant's Pro Rata Share of the Building or the Project, as applicable. In the event that Tenant's use of Hazardous Materials is such that it utilizes fire control areas in the Building or the Project in excess of Tenant's Pro Rata Share of the Building or the Project, as applicable, as set forth in Section 2.2, or the share to which it is entitled under any agreement with other tenants (if greater), Tenant agrees that it shall, at its sole cost and expense and upon Landlord's written request, establish and maintain a separate area of the Premises classified by the UBC as an "H" occupancy area for the use and storage of Hazardous Materials or take such other action as is necessary to ensure that its share of the fire control areas of the Building and the Project is not greater than Tenant's Pro Rata Share of the Building or the Project, as applicable, or the share to which it is entitled under any agreement with other tenants (if greater).

39.3. Notwithstanding the provisions of Section 39.1 above, if (a) Tenant or any proposed transferee, assignee or sublessee of Tenant has been required by any prior landlord, Lender or Governmental Authority to take remedial action in connection with Hazardous Materials contaminating a property if the contamination resulted from such party's action or omission or use of the property in question or (ii) Tenant or any proposed transferee, assignee or sublessee is subject to an enforcement order issued by any Governmental Authority in connection with the use, disposal or storage of Hazardous Materials, then Landlord shall have the right to terminate this Lease (with respect to any such matter involving Tenant), unless Tenant is diligently taking all action necessary to comply with all requirements of the applicable Governmental Authority and promptly achieves compliance, or withhold its consent to any proposed transfer, assignment or subletting (with respect to any such matter involving a proposed transferee, assignee or sublessee) unless such proposed transferee, assignee or sublessee has either already taken or is then diligently taking all action necessary to comply with all requirements of the applicable Governmental Authority.

39.4. Upon at least twenty-four (24) hours' prior notice to Tenant, prior to the expiration of the Term, Landlord shall have the right to conduct appropriate tests of the Premises, the Building and the Project during normal business hours to demonstrate that Hazardous Materials in violation of Applicable Laws are present due to Tenant or Tenant's agents, employees or invitees. Only if Hazardous Materials in violation of Applicable Laws are present due to Tenant or Tenant's agents, employees or invitees, Tenant shall pay all reasonable costs of such tests of the Premises.

39.5. If underground or other storage tanks presently located on the Premises or hereafter placed on the Premises are used by Tenant for the storage of Hazardous Materials, then Tenant shall monitor such storage tanks, maintain appropriate records, implement reporting procedures, properly close any such underground storage tanks, and take or cause to be taken all other steps necessary or required under the Applicable Laws.

39.6. Tenant's obligations under this Article 39 shall survive the expiration or earlier termination of the Lease. During any period of time needed by Tenant or Landlord after the termination of this Lease to complete the removal from the Premises of any such Hazardous Materials, Tenant shall continue to pay Rent in accordance with this Lease, which Rent shall be prorated daily.

39.7. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste that is or becomes regulated by any Governmental Authority. Landlord represents and warrants to Tenant that Landlord has no knowledge of any Hazardous Material on or about the Premises, Building or Property in violation of Applicable Laws except as may be disclosed in (a) that certain Phase I Environmental Site Assessment prepared by URS and dated as of September 13, 2006, (b) that certain letter regarding Results of Limited Lead Wipe Sampling from Environmental Resources Management dated as of October 4, 2006, and (c) that certain letter regarding Results of Limited Confirmation Lead Wipe Sampling from Environmental Resources Management dated as of November 7, 2006, a true and complete copy of each of which has been delivered to Tenant.

39.8. Notwithstanding anything to the contrary in this Lease, Tenant shall have no liability or responsibility with respect to any Hazardous Materials that (a) result from violations of Applicable Laws relating to the Premises, the Building or the Project, which violations existed as of the Term Commencement Date or (b) were present in, on, under or about any part of the Premises, Building or Project as of the Term Commencement Date or after the Term Commencement Date, and, with regards to (a) and (b), were not caused by Tenant or its agents, employees, consultants, contractors, licenses or invitees (collectively, "Pre-Existing Matters"). Landlord indemnifies Tenant with regard to any Claims related to the Pre-Existing Matters that arise from an enforcement action by any Governmental Authority. There shall not be included in Operating Expenses any site characterization, investigation, remediation or other costs relating to any Hazardous Material for which Tenant has no liability or responsibility under this paragraph.

40. [Intentionally omitted]

41. Miscellaneous.

41.1. Where applicable in this Lease, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The section headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

41.2. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for a lease, and shall not be effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

41.3. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

41.4. Each provision of this Lease performable by Tenant or Landlord shall be deemed both a covenant and a condition.

41.5. Whenever consent or approval of either party is required, that party shall not unreasonably withhold, condition or delay such consent or approval, except as may be expressly set forth to the contrary.

41.6. The terms of this Lease are intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and may not be contradicted by evidence of any prior or contemporaneous agreement.

41.7. Any provision of this Lease that shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all other provisions of this Lease shall remain in full force and effect and shall be interpreted as if the invalid, void or illegal provision did not exist.

41.8. Either party may, but shall not be obligated to, record a short form memorandum of this Lease without the other's consent. Neither party shall record this Lease. The party recording the memorandum shall be responsible for the cost of recording any memorandum of this Lease, including any transfer or other taxes incurred in connection with said recordation.

41.9. The language in all parts of this Lease shall be in all cases construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

41.10. Each of the covenants, conditions and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs; legatees; devisees; executors; administrators; and permitted successors, assigns, sublessees. Nothing in this Section 40.10 shall in any way alter the provisions of this Lease restricting assignment or subletting.

41.11. Any notice, consent, demand, bill, statement or other communication required or permitted to be given hereunder shall be in writing and shall be given by personal delivery, overnight delivery with a reputable nationwide overnight delivery service, or certified mail (return receipt requested), and if given by personal delivery, shall be deemed delivered upon receipt; if given by overnight delivery, shall be deemed delivered one (1) business day after deposit with a reputable nationwide overnight delivery service; and, if given by certified mail (return receipt requested), shall be deemed delivered three (3) business days after the time the notifying party deposits the notice with the United States Postal Service. Any notices given pursuant to this Lease shall be addressed to Tenant at the Premises, or to Landlord or Tenant at

the addresses shown in Sections 2.10 and 2.11, respectively. Either party may, by notice to the other given pursuant to this Section,specify additional or different addresses for notice purposes.

41.12. This Lease shall be governed by, construed and enforced in accordance with the laws of the State in which the Premises are located, without regard to such State's conflict of law principles.

41.13. That individual or those individuals signing this Lease guarantee, warrant and represent that said individual or individuals have the power, authority and legal capacity to sign this Lease on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf said individual or individuals have signed.

41.14. To induce Landlord to enter into this Lease, Tenant agrees that it shall promptly furnish to Landlord the most recent unaudited year-end financial statements reflecting Tenant's current financial condition (or audited, if available); provided, however, that Tenant shall have no obligation to provide such financial statements so long as Tenant is a publicly held company. Tenant represents and warrants that all financial statements, records and information furnished by Tenant to Landlord in connection with this Lease are true, correct and complete in all respects. Landlord shall not disclose any nonpublic information in such financial statements or give a copy of such financial statements to any third party, except (a) if required by Applicable Laws or in any judicial proceeding (provided that Landlord has given Tenant reasonable notice of such requirement, if feasible) or (b) to Landlord's attorneys, accountants and other bona fide consultants or advisers, lenders, and prospective purchasers of the Property.

41.15. This Lease may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document.

41.16. [Intentionally omitted]

41.17. This Lease is subject to any recorded covenants, conditions or restrictions on the Project or Property (the "CC&Rs"). Tenant shall comply with the CC&Rs on condition that (a) a copy of such CC&Rs is provided to Tenant and (b) with respect to CC&Rs entered into after the date hereof, that such CC&Rs do not materially interfere with Tenant's use and enjoyment of the Premises.

42. Option to Extend Term. Tenant shall have the option ("Option") to extend the Term of this Lease as to the entire Premises (and no less than the entire Premises) upon the following terms and conditions. Any extension of the Term pursuant to any Option shall be on all the same terms and conditions as this Lease, except as follows:

42.1. Tenant shall have two (2) options to extend the Term of this Lease by five (5) years (each an "Option Period") on the same terms and conditions as this Lease. Basic Annual Rent for each Option Period shall equal the fair market rental value ("FMV") of the Premises as of the first (1st) day of each Option Period, taking into account, among other things, base rent, annual rental rate increases, tenant improvements and leasing commissions for comparable

laboratory research buildings in the Bothell, Washington, area;provided, however, that in no event shall Basic Annual Rent for any Option Period equal less than one hundred three percent (103%) of the Basic Annual Rent at the expiration of the then-current Lease term. If Landlord and Tenant cannot agree on the FMV for purposes of any Option Period, then they shall engage a mutually agreeable independent third party appraiser with at least ten (10) years' experience in appraising the rental value of leased commercial premises (for research and development and laboratory uses) in the Bothell, Washington, area (the "Appraiser"). If the parties cannot agree on the Appraiser, each shall within ten (10) days after such impasse appoint an Appraiser and, within ten (10) days after the appointment of both such Appraisers, those two Appraisers shall select a third. If either party fails to timely appoint an Appraiser, then the Appraiser the other party appoints shall be the sole Appraiser. Within ten (10) days after appointment of all Appraiser(s), Landlord and Tenant shall each simultaneously give the Appraisers (with a copy to the other party) its determination of FMV, with such supporting data or information as each submitting party determines appropriate. Within ten (10) days after such submissions, the Appraisers shall by majority vote select either Landlord's or Tenant's FMV. The Appraisers may not select or designate any other FMV. The determination of the Appraiser(s) shall bind the parties.

42.2. The Option is not assignable separate and apart from this Lease.

42.3. The Option is conditional upon Tenant giving Landlord written notice of its election to exercise the Option at least nine (9) months prior to the end of the expiration of the initial term of this Lease or the prior Option Period, as applicable. Time shall be of the essence as to Tenant's exercise of any Option. Tenant assumes full responsibility for maintaining a record of the deadlines to exercise any Option. Tenant acknowledges that it would be inequitable to require Landlord to accept any exercise of any Option after the date provided for in this paragraph.

42.4. Notwithstanding anything contained in this Article 42, Tenant shall not have the right to exercise the Option:

(a) During the time commencing from the date Landlord delivers to Tenant a written notice that Tenant is in default under any provisions of this Lease and continuing until Tenant has cured the specified default to Landlord's reasonable satisfaction; or

(b) At any time after any Default as described in Article 24 of the Lease (provided, however, that, for purposes of this Subsection 42.4(b), Landlord shall not be required to provide Tenant with notice of such Default) and continuing until Tenant cures any such Default, if such Default is susceptible to being cured;

(c) Unless due to a Permitted Transfer, in the event that Tenant no longer occupies the entire Premises, or has assigned the Lease with respect to more than fifty percent (50%) of the Premises, or has sublet more than fifty percent (50%) of the Premises; or

(d) In the event that Tenant has defaulted in the performance of its obligations under this Lease two (2) or more times and a service or late charge has become payable under

Section 24.1 for each of such defaults during the twelve (12)-month period immediately prior to the date that Tenant intends to exercise the Option, whether or not Tenant has cured such defaults.

42.5. The period of time within which Tenant may exercise an Option shall not be extended or enlarged by reason of Tenant's inability to exercise such Option because of the provisions of Section 42.4.

42.6. All of Tenant's rights under the provisions of the Option shall terminate and be of no further force or effect even after Tenant's due and timely exercise of the Option if, after such exercise, but prior to the commencement date of the new term, (a) Tenant fails to pay to Landlord a monetary obligation of Tenant for a period of twenty (20) days after written notice from Landlord to Tenant, (b) Tenant fails to commence to cure a default (other than a monetary default) within thirty (30) days after the date Landlord gives notice to Tenant of such default or (c) Tenant has defaulted under this Lease two (2) or more times and a service or late charge under Section 24.1 has become payable for any such default, whether or not Tenant has cured such defaults.

43. Right of First Refusal. Tenant shall have a right of first refusal ("ROFR") as to any rentable premises in the Building or in any other building that Landlord may construct on the Property for which Landlord is seeking a tenant ("Available Premises"). To the extent that Landlord renews or extends a then-existing lease with any then-existing tenant of any space, or enters into a new lease with such then-existing tenant for the same premises, the affected space shall not be deemed to be Available Premises. In the event Landlord enters into a signed letter of intent for any Available Premises, Landlord shall provide written notice thereof to Tenant (the "Notice of Offer"), specifying the terms and conditions contained in such letter of intent.

43.1. Within ten (10) business days following its receipt of a Notice of Offer, Tenant shall advise Landlord in writing whether Tenant elects to lease the Available Premises on the terms and conditions set forth in the Notice of Offer. If Tenant fails to notify Landlord of Tenant's election within said ten (10) business day period, then Tenant shall be deemed to have elected not to lease the Available Premises.

43.2. If Tenant timely notifies Landlord that Tenant elects to lease the Available Premises on the terms and conditions set forth in the Notice of Offer, then Landlord shall lease the Available Premises to Tenant upon the terms and conditions set forth in the Notice of Offer.

43.3. If Tenant notifies Landlord that Tenant elects not to lease the Available Premises on the terms and conditions set forth in the Notice of Offer, or if Tenant fails to notify Landlord of Tenant's election within the ten (10) business day period described above, then Landlord shall have the right to consummate the lease of the Available Premises on the same terms as set forth in the Notice of Offer within one hundred eighty (180) days following Tenant's election (or deemed election) not to lease the Available Premises. If Landlord does not lease the Available Premises within said one hundred eighty (180)-day period, then Tenant's ROFR shall be fully reinstated, and Landlord shall not thereafter lease the Available Premises without first complying with the procedures set forth in this Article 43.

43.4. Notwithstanding anything in this Article 43 to the contrary, Tenant shall not exercise the ROFR during such period of time that Tenant is in default under any provision of this Lease. Any attempted exercise of the ROFR during a period of time in which Tenant is so in default shall be void and of no effect. In addition, Tenant shall not be entitled to exercise the ROFR if Landlord has given Tenant two (2) or more notices of default under this Lease, whether or not the defaults are cured, during the twelve (12) month period prior to the date on which Tenant seeks to exercise the ROFR.

43.5. Notwithstanding anything in this Lease to the contrary, except in connection with a Permitted Transfer, Tenant shall not assign or transfer the ROFR, either separately or in conjunction with an assignment or transfer of Tenant's interest in the Lease, without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

44. Authority. Tenant and each person executing this Lease on behalf of Tenant hereby covenants and warrants that (a) Tenant is duly incorporated or otherwise established or formed and validly existing under the laws of its state of incorporation, establishment or formation, (b) Tenant has and is duly qualified to do business in the state in which the Property is located, (c) Tenant has full corporate, partnership, trust, association or other appropriate power and authority to enter into this Lease and to perform all Tenant's obligations hereunder and (d) each person (and all of the persons if more than one signs) signing this Lease on behalf of Tenant is duly and validly authorized to do so.

45. Confidentiality. Tenant shall not disclose any terms or conditions of this Lease (including Rent) or give a copy of this Lease to any third party, and Landlord shall not release to any third party any nonpublic financial information or nonpublic information about Tenant's ownership structure that Tenant gives Landlord, except (a) if required by Applicable Laws or in any judicial proceeding, provided that the releasing party has given the other party reasonable notice of such requirement, if feasible, (b) to a party's attorneys, accountants, brokers and other bona fide consultants or advisers, provided such third parties agree to be bound by this paragraph or (c) to bona fide prospective assignees or subtenants of this Lease, provided they agree in writing to be bound by this paragraph. Landlord agrees that, upon prior (if possible) written notice to Landlord, Tenant may disclose this Lease and its terms to the extent necessary to comply with Securities and Exchange Commission disclosure requirements.

46. Odors and Exhaust. Tenant acknowledges that Landlord would not enter into this Lease with Tenant unless Tenant assured Landlord that under no circumstances will any other occupants of the Building or Project (including persons legally present in any outdoor areas of the Project) be subjected to odors or fumes (whether or not noxious), and that the Building and Project will not be damaged by any exhaust, in each case from Tenant's operations, including in Tenant's vivarium, if any. Landlord and Tenant therefore agree as follows:

46.1. Tenant shall not cause or permit (or conduct any activities that would cause) any release of any odors or fumes of any kind from the Premises.

46.2. If the Building has a ventilation system that in Landlord's reasonable judgment is adequate, suitable, and appropriate to vent the Premises in a manner that does not release odors

affecting any indoor or outdoor part of the Project, Tenant shall vent the Premises through such system. If Landlord at any time determines that any existing ventilation system is inadequate, or if no ventilation system exists, Tenant shall in compliance with Applicable Laws vent all fumes and odors from the Premises (and remove odors from Tenant's exhaust stream) as Landlord requires. The placement and configuration of all ventilation exhaust pipes, louvers and other equipment shall be subject to Landlord's approval, not to be unreasonably withheld, conditioned or delayed. Tenant acknowledges Landlord's legitimate desire to maintain the Project (indoor and outdoor areas) in an odor-free manner, and Landlord may reasonably require Tenant to abate and remove all odors in a manner that goes beyond the requirements of Applicable Laws.

46.3. Tenant shall, at Tenant's sole cost and expense, provide odor eliminators and other devices (such as filters, air cleaners, scrubbers and whatever other equipment may in Landlord's judgment be necessary or appropriate from time to time) to remove, eliminate and abate any odors, fumes or other substances in Tenant's exhaust stream that, in Landlord's reasonable judgment, emanate from Tenant's Premises. Any work Tenant performs under this paragraph shall constitute Alterations.

46.4. Tenant's responsibility to remove, eliminate and abate odors, fumes and exhaust shall continue throughout the Term. Landlord's approval of the Tenant Improvements shall not preclude Landlord from requiring additional measures to eliminate odors, fumes and other adverse impacts of Tenant's exhaust stream (as Landlord may designate in Landlord's discretion). Tenant shall install additional equipment as Landlord requires from time to time under the preceding sentence. Such installations shall constitute Alterations.

46.5. If Tenant fails to install satisfactory odor control equipment within ten (10) business days after Landlord's demand made at any time, then Landlord may, without limiting Landlord's other rights and remedies, require Tenant to cease and suspend any operations in the Premises that, in Landlord's reasonable determination, cause odors, fumes or exhaust. For example, if Landlord determines that Tenant's production of a certain type of product causes odors, fumes or exhaust, and Tenant does not install satisfactory odor control equipment within ten (10) business days after Landlord's request, then Landlord may require Tenant to stop producing such type of product in the Premises unless and until Tenant has installed odor control equipment satisfactory to Landlord.

47. HVAC. For the Premises, Landlord shall (a) maintain and operate the heating, ventilating and air conditioning systems ("HVAC"); and (b) furnish HVAC as reasonably required for reasonably comfortable occupancy and use of the Premises for the Permitted Use twenty-four (24) hours a day, 365 or 366 days a year.

48. Excavation. If any excavation shall be made upon land adjacent to or under the Building, or shall be reasonably authorized to be made by Landlord upon no less than five (5) days' prior written notice to Tenant (except in the event of an emergency), Tenant shall afford to the person causing or authorized to cause such excavation, license to enter the Premises for the purpose of performing such work as said person shall deem necessary or desirable to preserve and protect the Building from injury or damage and to support the same by proper foundations, without any

claim for damages or liability against Landlord and without reducing or otherwise affecting Tenant's obligations under this lease.

49. Names. Landlord reserves the right to change the name of the Project or the Building in its sole discretion.

50. Acquisition of Property. This Lease is subject to the condition precedent that Landlord successfully acquires fee ownership of the Property no later than December 15, 2007. Landlord shall promptly notify Tenant of the date that Landlord acquires fee ownership of the Property.

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

LANDLORD:

BMR-217TH PLACE LLC,
a Delaware limited liability company

By: /s/ Gary A Kreitzer
Name: Gary A Kreitzer
Title: Executive V.P.

TENANT:
SONUS PHARMACEUTICALS, INC.,
a Delaware corporation

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

ACKNOWLEDGEMENT

STATE OF _____ §
§
COUNTY OF _____ §

On , 200 , before me, a Notary Public in and for said state, personally appeared , personally known to me(or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, in that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

_____
, Notary Public

ACKNOWLEDGEMENT

STATE OF _____ §
§
COUNTY OF _____ §

On , 200 , before me, a Notary Public in and for said state, personally appeared , personally known to me(or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, in that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

_____
, Notary Public

EXHIBIT A

PREMISES

EXHIBIT B

ACKNOWLEDGEMENT OF TERM COMMENCEMENT DATE
AND TERM EXPIRATION DATE

THIS ACKNOWLEDGEMENT OF TERM COMMENCEMENT DATE AND TERM EXPIRATION DATE is entered into as of [ ], 20[ ], with reference to that certain Lease (the "Lease") dated as of November 21, 2006, by SONUS PHARMACEUTICALS, INC., a Delaware corporation ("Tenant"), in favor of BMR-217TH PLACE LLC, a Delaware limited liability company ("Landlord"). All capitalized terms used herein without definition shall have the meanings ascribed to them in the Lease.

Tenant hereby confirms the following:

1. Tenant accepted possession of the Premises on [ ], 20[ ].

2. To Tenant's knowledge, the Premises are in good order, condition and repair[, except [ ]].

3. The Tenant Improvements required to be constructed by Landlord under the Lease have been substantially completed.

4. All conditions of the Lease to be performed by Landlord as a condition to the full effectiveness of the Lease have been satisfied, and Landlord has fulfilled all of its duties in the nature of inducements offered to Tenant to lease the Premises [, except [ ]].

5. In accordance with the provisions of Section 4.2 of the Lease, the Term Commencement Date is [ ], 20[ ], and, unless the Lease is terminated prior to the Term Expiration Date pursuant to its terms, the Term Expiration Date shall be [ ], 20[ ].

6. Tenant commenced occupancy of the Premises for the Permitted Use on [ ], 20[ ].

7. The Lease is in full force and effect, and the same represents the entire agreement between Landlord and Tenant concerning the Premises[, except [ ]].

8. Tenant has no existing defenses against the enforcement of the Lease by Landlord, and there exist no offsets or credits against Rent owed or to be owed by Tenant.

9. The obligation to pay Rent is presently in effect and all Rent obligations on the part of Tenant under the Lease commenced to or shall commence to accrue on [ ], 20[ ].

10. The undersigned Tenant has not made any prior assignment, transfer, hypothecation or pledge of the Lease or of the rents thereunder or sublease of the Premises or any portion thereof.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Acknowledgment of Term Commencement Date and Term Expiration Date as of [ ], 20[ ].

TENANT:

SONUS PHARMACEUTICALS, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT C

TENANT'S PERSONAL PROPERTY

[To be attached]

EXHIBIT D

RULES AND REGULATIONS

NOTHING IN THESE RULES AND REGULATIONS ("RULES AND REGULATIONS") SHALL SUPPLANT ANY PROVISION OF THE LEASE. IN THE EVENT OF A CONFLICT OR INCONSISTENCY BETWEEN THESE RULES AND REGULATIONS AND THE LEASE, THE LEASE SHALL PREVAIL.

1. Except as specifically provided in the Lease to which these Rules and Regulations are attached, no sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside of the Premises or the Building without Landlord's prior written consent**,** not to be unreasonably withheld, conditioned or delayed. Landlord shall have the right to remove, at Tenant's sole cost and expense and without notice, any sign installed or displayed in violation of this rule.

2. If Landlord objects in writing to any curtains, blinds, shades, screens or hanging plants or other similar objects attached to or used in connection with any window or door of the Premises or placed on any windowsill, which window, door or windowsill is (a) visible from the exterior of the Premises and (b) not included in plans approved by Landlord, then Tenant shall promptly remove said curtains, blinds, shades, screens or hanging plants or other similar objects at its sole cost and expense.

3. Tenant shall not obstruct any sidewalks or entrances to the Building, or any halls, passages, exits, entrances or stairways within the Premises, in any case that are required to be kept clear for health and safety reasons.

4. No deliveries shall be made that impede or interfere with other tenants in or the operation of the Project.

5. Tenant shall not place a load upon any floor of the Premises that exceeds the load per square foot that (a) such floor was designed to carry or (b) that is allowed by Applicable Laws. Fixtures and equipment that cause noises or vibrations that may be transmitted to the structure of the Building to such a degree as to be objectionable to other tenants shall be placed and maintained by Tenant, at Tenant's sole cost and expense, on vibration eliminators or other devices sufficient to eliminate such noises and vibrations to levels reasonably acceptable to Landlord and other tenants of the Building.

6. Tenant shall not use any method of heating or air conditioning other than that shown in the Tenant Improvement plans.

7. Tenant shall not install any radio, television or other antenna, cell or other communications equipment, or any other devices on the roof or exterior walls of the Premises except to the extent shown on approved Tenant Improvements plans. Tenant shall not interfere with radio, television or other communications from or in the Premises or elsewhere.

8. Canvassing, peddling, soliciting and distributing handbills or any other written material within, on or around the Project (other than within the Premises) are prohibited, and Tenant shall cooperate**,** at no cost or expense to Tenant, to prevent such activities.

9. Tenant shall store all of its trash, garbage and Hazardous Materials within its Premises or in designated receptacles outside of the Premises. Tenant shall not place in any such receptacle any material that cannot be disposed of in the ordinary and customary manner of trash, garbage and Hazardous Materials disposal.

10. The Premises shall not be used for any improper, immoral or objectionable purpose. No cooking shall be done or permitted on the Premises;provided, however, that Tenant may use (a) equipment approved in accordance with the requirements of insurance policies that Landlord or Tenant is required to purchase and maintain pursuant to the Lease for brewing coffee, tea, hot chocolate and similar beverages, (b) microwave ovens for employees' use and (c) equipment shown on Tenant Improvement plans approved by Landlord; provided, further, that any such equipment and microwave ovens are used in accordance with Applicable Laws.

11. Tenant shall not, without Landlord's prior written consent, not to be unreasonably withheld, conditioned or delayed,use the name of the Project, if any, in connection with or in promoting or advertising Tenant's business except as Tenant's address.

12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any Governmental Authority.

13. Tenant assumes any and all responsibility for protecting the Premises from theft, robbery and pilferage, which responsibility includes keeping doors locked and other means of entry to the Premises closed.

14. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of Tenant or any other tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Project, including Tenant.

15. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms covenants, agreements and conditions of the Lease.

16. Landlord reserves the right to make such other and reasonable rules and regulations as, in its judgment, may from time to time be needed for safety and security, the care and cleanliness of the Project, or the preservation of good order therein; provided, however, that Landlord shall provide written notice to Tenant of such rules and regulations prior to them taking effect; and provided, further, that such rules and regulations do not materially interfere with or prevent Tenant from operating the Premises for the Permitted Use. Tenant agrees to abide by these Rules and Regulations and any additional rules and regulations issued or adopted by Landlord.

17. Tenant shall be responsible for the observance of these Rules and Regulations by Tenant's employees, agents, clients, customers, invitees and guests.

EXHIBIT E

FORM OF ESTOPPEL CERTIFICATE

To: BMR-217TH PLACE LLC
17140 Bernardo Center Drive, Suite 222
San Diego, CA 92128
Attention: General Counsel/Real Estate

BioMed Realty, L.P.
c/o BioMed Realty Trust, Inc.
17140 Bernardo Center Drive, Suite 222
San Diego, CA 92128

Re: Suite [ ] (the "Premises") at 1522 217th Place SE, Bothell, Washington (the "Property")

The undersigned tenant ("Tenant") hereby certifies to you as follows:

1. Tenant is a tenant at the Property under a lease (the "Lease") for the Premises dated as of November 21, 2006. The Lease has not been cancelled, modified, assigned, extended or amended [except as follows: [ ]], and there are no other agreements, written or oral, affecting or relating to Tenant's lease of the Premises or any other space at the Property. The lease term expires on [ ], 20[ ].

2. Tenant took possession of the Premises, currently consisting of [ ] square feet, on [ ], 20[ ], and commenced to pay rent on [ ], 20[ ]. Tenant has full possession of the Premises, has not assigned the Lease or sublet any part of the Premises, and does not hold the Premises under an assignment or sublease[, except as follows: [ ]].

3. All base rent, rent escalations and additional rent under the Lease have been paid through [ ], 20[ ]. There is no prepaid rent[, except $[ ]][, and the amount of security deposit is $[ ] [in cash][in the form of a letter of credit]]. Tenant currently has no right to any future rent abatement under the Lease.

4. Base rent is currently payable in the amount of $[ ] per month.

5. Tenant is currently paying estimated payments of additional rent of $[ ] per month on account of real estate taxes, insurance, management fees and common area maintenance expenses.

6. All work to be performed for Tenant under the Lease has been performed as required under the Lease and has been accepted by Tenant[, except [ ]], and all allowances to be paid to Tenant, including allowances for tenant improvements, moving expenses or other items, have been paid.

7. The Lease is in full force and effect, free from default and free from any event that could become a default under the Lease, and Tenant has no claims against the landlord or offsets or defenses against rent, and there are no disputes with the landlord [, except [ ]]. Tenant has received no notice of prior sale, transfer, assignment, hypothecation or pledge of the Lease or of the rents payable thereunder[, except [ ]].

8. [Tenant has the following expansion rights or options for the Property: [ ].][Tenant has no rights or options to purchase the Property.]

9. To Tenant's knowledge, no hazardous wastes have been generated, treated, stored or disposed of by or on behalf of the Tenant in, on or around the Premises or the Project in violation of any environmental laws.

10. The undersigned has executed this Estoppel Certificate with the knowledge and understanding that [INSERT NAME OF LANDLORD, PURCHASER OR LENDER, AS APPROPRIATE] or its assignee is acquiring the Property in reliance on this certificate and that the undersigned shall be bound by this certificate. The statements contained herein may be relied upon by [INSERT NAME OF PURCHASER OR LENDER, AS APPROPRIATE], [LANDLORD], BioMed Realty, L.P., BioMed Realty Trust, Inc., and any mortgagee of the Property and their respective successors and assigns.

Any capitalized terms not defined herein shall have the respective meanings given in the Lease.

Dated this [ ] day of [ ], 20[ ].

[ ],

a [ ]

By: _____
Name: _____
Title: _____

EXHIBIT F

LEGAL DESCRIPTION OF PROPERTY

[See attached]

EXHIBIT G

WORK LETTER

This Work Letter (the "Work Letter") is made and entered into as of the 21st day of November, 2006, by and between BMR-217TH PLACE LLC, a Delaware limited liability company ("Landlord"), and SONUS PHARMACEUTICALS, INC., a Delaware corporation ("Tenant"), and is attached to and made a part of that certain Lease dated as of November 21, 2006 (the "Lease"), by and between Landlord and Tenant for the Premises located at 1522 217th Place SE in Bothell, Washington. All capitalized terms used but not otherwise defined herein shall have the meanings given them in the Lease.

1. General Requirements.

1.1. Tenant's Authorized Representative. Tenant designates Alan Fuhrman and Wayne Rebich (each a "Tenant's Authorized Representative") as the persons authorized to initial all plans, drawings, change orders and approvals pursuant to this Work Letter. Landlord shall not be obligated to respond to or act upon any such item until such item has been initialed by one of Tenant's Authorized Representatives. Neither Tenant nor Tenant's Authorized Representatives shall be authorized to direct Landlord's contractors in the performance of Landlord's Work (as defined below).

1.2. Schedule. The schedule for design and development of Landlord's Work (as defined below), including, without limitation, the time periods for preparation and review of construction documents, approvals and performance, shall generally be in accordance with that certain schedule prepared by Landlord and Tenant attached as Exhibit A to this Work Letter (the "Schedule"). The Schedule shall be subject to adjustment as mutually agreed upon in writing by the parties, or as provided in this Work Letter.

1.3. Architects, Consultants and Contractors. The architect, engineering consultants, design team, general contractor and subcontractors responsible for the construction of Landlord's Work shall be selected by Landlord and approved by Tenant. Tenant's approval of the same shall not be unreasonably withheld, conditioned or delayed. Tenant hereby approves of SAB Architects as Landlord's architect and Sierra Construction as Landlord's general contractor.

2. Landlord's Work.

2.1. Landlord's Work Plans. All Tenant Improvements shall be performed by Landlord ("Landlord's Work") at Tenant's sole cost and expense and without cost to Landlord (except for the Tenant Improvement Allowance) and in accordance with the Approved Plans (as defined below). Landlord's Work shall be completed in a good and workmanlike manner of a nature and character not less than the quality of tenant improvements in a Class A laboratory research building in the Bothell area. The design drawings, plans and specifications listed on Schedule 2.1 to this Work Letter (the "Landlord's Work Plans") are the initial list of plans that Landlord shall develop and submit to Tenant for approval. Landlord shall prepare and submit to Tenant for approval an initial draft of Landlord's Work Plans that are sufficiently complete to

apply for a building permit for Landlord's Work (the "Draft Plans") no later than February 12, 2007. The Draft Plans shall contain sufficient information and detail to accurately describe Landlord's proposed design to Tenant and such other information as Tenant may reasonably request. Tenant shall be solely responsible for ensuring that the Landlord's Work Plans and the Draft Plans satisfy Tenant's requirements for the Tenant Improvements.

2.2. Tenant Approval of Plans. Tenant shall notify Landlord in writing within five (5) business days after receipt of the first draft of the Draft Plans whether Tenant approves or objects to the Draft Plans and of the manner, if any, in which the Draft Plans are unacceptable. Tenant shall not object to any Draft Plans that satisfy the requirements set forth in Section 2.1. If Tenant properly objects to the Draft Plans, then Landlord shall revise the Draft Plans and cause Tenant's objections to be remedied in the revised Draft Plans (the "Approved Plans"). Landlord shall promptly deliver to Tenant a copy of the Approved Plans with a statement in writing identifying them as the Approved Plans. If Tenant believes that Tenant's objections to the Draft Plans have not been appropriately remedied in the Approved Plans, then Tenant shall notify Landlord in writing within five (5) business days after receipt of the Approved Plans of the manner in which the Approved Plans are unacceptable. Landlord shall revise the Approved Plans and cause Tenant's proper objections to be remedied.

2.3. Completion of Landlord's Work. Landlord shall perform and complete Landlord's Work (a) in strict conformance with the Approved Plans, except for Minor Variations (as defined below), (b) otherwise in compliance with the Lease and (c) in accordance with Applicable Laws, Landlord's insurance carriers and the board of fire underwriters having jurisdiction over the Project and the Premises. Landlord shall exercise commercially reasonable efforts to complete construction of Landlord's Work

within the Approved Budget (defined below), including, without limitation, competitive bidding by subcontractors and vendors (when Landlord deems it appropriate), prudent job oversight, enforcement of the obligations of Landlord's contractor, and regular reviews of performance against the Schedule and Approved Budget. Within thirty (30) days after completion of Landlord's Work, Landlord shall provide Tenant with any available "as-built" or construction (if no as-built available) drawing print sets and electronic CADD files on disc (or files in such other current format in common use) showing the Premises.

2.4. Conditions to Performance of Landlord's Work. Prior to the commencement of Landlord's Work, Landlord shall submit to Tenant for Tenant's approval (which approval Tenant shall not unreasonably withhold) a list (the "Contractor List") of project managers, contractors and subcontractors that will perform Landlord's Work. Tenant shall give Landlord notice in writing of its approval or disapproval of the Contractor List within five (5) business days after Tenant's receipt of the same. If Tenant properly disapproves of one or more parties on the Contractor List within such five (5) business day period, Landlord shall revise the Contractor List and resubmit the same to Tenant for Tenant's approval in accordance with the preceding two sentences.

2.5. Requests for Consent. Unless a different time period is expressly provided, Tenant and Landlord shall each respond to all requests for consents, approvals or directions

pursuant to this Work Letter within five (5) business days following receipt of such request. Failure to respond within such five (5) business day period shall be deemed approval.

2.6. Shell and Core Work. Landlord's Work/Tenant Improvements shall not include renovations to be made to the Building by Landlord before performance of the Landlord's Work and at Landlord's sole cost and expense ("Shell and Core Work"). The Shell and Core Work is described in Schedule 2.6 to this Work Letter.

3. Each Party's Obligations. Each of Landlord and Tenant shall perform promptly such of its obligations contained in this Work Letter as are to be performed by it. Tenant shall also observe and perform all of its obligations under this Lease from the Term Commencement Date. The parties acknowledge that the Approved Budget, the Approved Plans and the Contractor's List must be completed and approved not later than April 23, 2007, in order for Landlord's Work to be Substantially Complete by September 1, 2007. Landlord shall generally hold a weekly construction (or pre-construction, as applicable) meeting beginning promptly after the Execution Date and attended by key personnel (e.g., Landlord representative, Landlord's architect, contractor, project manager, consultants, etc., as may be appropriate from time to time) to discuss and coordinate matters related to the Tenant Improvements, including, without limitation: the status of the design work and permit applications, the status of the contracting and purchasing, the schedule for the performance of the Tenant Improvements, decisions regarding selection of contractors and vendors, the status of construction, change order requests, construction issues, selection of materials, and Costs incurred and estimated to be incurred compared to the Approved Budget. Tenant is invited and encouraged to attend all of the weekly construction meetings. Landlord shall promptly provide to Tenant on Tenant's request any information reasonably requested by Tenant concerning the status of construction or any other aspect of the Tenant Improvements including the Costs (defined below). Tenant shall diligently and promptly review all information provided to it concerning the Tenant Improvements, attend meetings as requested by Landlord, and timely respond to Landlord requests, including making itself available to Landlord to discuss construction matters as they arise.

4. Completion of Landlord's Construction Obligations.

4.1. The date on which Landlord's Work is Substantially Complete shall be referred to as the "TI Substantial Completion Date." Tenant shall accept the Premises in the condition in which they exist as of the TI Substantial Completion Date. Tenant's taking possession and acceptance of the Premises shall not constitute a waiver of any warranty of any construction defect in regard to workmanship (including installation of equipment) or materials (exclusive of equipment provided by manufacturers) of the Premises completed by or on behalf of Landlord, any noncompliance of Landlord's Work with Applicable Laws, or the failure of Landlord's Work to be completed substantially in accordance with the Approved Plans (subject to Minor Variations and such other Changes as are permitted hereunder). Tenant shall have until twelve (12) months after the TI Substantial Completion Date within which to notify Landlord of any such construction defect or non-compliance with Approved Plans discovered by Tenant, and Landlord shall timely correct the same. Landlord shall use reasonable efforts to cause the applicable contractor to remedy any such construction defect or non-compliance within thirty (30) days thereafter. Notwithstanding the foregoing, Landlord shall not be in default under the

Lease if (a) by the nature of such defect or noncompliance, more than thirty (30) days are required to correct and remedy such construction defect or noncompliance and Landlord commences its remedial action within such thirty (30) day period and thereafter diligently and continuously prosecutes such curative and remedial action to completion or (b) the applicable contractor, despite Landlord's efforts, fails to remedy such defect or non-compliance within such thirty (30) day period, but Landlord otherwise, at Landlord's expense with respect to any such construction defect or noncompliance with Approved Plans, thereafter commences remedial action diligently and continuously prosecutes such curative and remedial action to completion. Tenant shall be entitled to receive the benefit of all construction warranties and manufacturer's equipment warranties relating to equipment installed in the Premises. If requested by Tenant, Landlord shall attempt to obtain extended warranties from manufacturers and suppliers of such equipment, but the cost of any such extended warranties shall be borne solely by Tenant. Landlord shall diligently pursue any claims arising out of latent defects in the Landlord's Work. Landlord shall promptly undertake and complete, or cause to be completed, all punch list items. Prior to commencing Landlord's Work, Landlord shall provide, or shall cause Landlord's contractors and subcontractors to provide, to Tenant, in addition to any insurance required of Landlord pursuant to the Lease, statutory Workers' Compensation insurance as required by Applicable Laws.

5. Tenant Improvement Allowance.

5.1. Application of Tenant Improvement Allowance. All costs, expenses and fees incurred by or on behalf of Landlord to any third party arising from, out of, or in connection with the Tenant Improvements (collectively, the "Costs"), including the costs of (a) construction, (b) space planning, architect, engineering and other related services and (c) building permits and other planning and inspection fees, shall, subject to the terms of this paragraph regarding Excess TI Costs, be deducted from the Tenant Improvement Allowance. The Costs shall also include a project management fee payable to Landlord in an amount equal to three percent (3%) of the Tenant Improvement Allowance, which fee shall be paid monthly in an amount equal to three percent (3%) of the Tenant Improvement Allowance disbursed the previous month. If at any time the Costs exceed the Tenant Improvement Allowance or if the aggregate amount of the Approved Budget exceeds the Tenant Improvement Allowance, then Tenant shall deposit in an escrow account bearing interest in favor of Tenant, pursuant to escrow instructions reasonably acceptable to Landlord, and as a condition precedent to Landlord's obligation to complete the Tenant Improvements, one hundred percent (100%) of the then-current Costs or Approved Budget, as the case may be, in excess of the Tenant Improvement Allowance (the "Excess TI Costs"). If Tenant timely fails to deposit any sum due to Landlord under this Work Letter, Landlord shall have all of the rights and remedies set forth in the Lease for nonpayment of Rent (including, but not limited to, the right to interest at the Default Rate and the right to assess a late charge), and for purposes of any litigation instituted with regard to such amounts the same will be considered Rent. Funds so deposited in escrow by Tenant shall be disbursed to pay for Costs in excess of the Tenant Improvement Allowance following disbursement by Landlord of the full amount of the Tenant Improvement Allowance, and any amount on deposit in escrow that is not required to pay any such excess Costs following the final completion of the Landlord's Work

(including all punch list items) shall be promptly returned to Tenant. Landlord shall disburse the Tenant Improvement Allowance to pay the Costs as such Costs are due.

5.2. Approval of Budget for Landlord's Work. Notwithstanding anything to the contrary set forth elsewhere in this Work Letter or the Lease, Landlord shall not have any obligation to commence construction of the Tenant Improvements or to advance any portion of the Tenant Improvement Allowance until Tenant shall have approved in writing the budget for the Landlord's Work (the "Approved Budget") and the Approved Plans. Landlord shall not be obligated to pay for costs or expenses relating to Landlord's Work that exceed the amount of the Tenant Improvement Allowance, and all such excess costs and expenses shall be paid by Tenant pursuant to Section 5.1. Notwithstanding the foregoing, Landlord shall pay all excess costs and expenses arising due to a breach by Landlord of construction contracts or supplier agreements with respect to Landlord's Work.

5.3. Cost Statements. Each month Landlord shall prepare, approve and submit to Tenant (a) a statement setting forth the total amount of Costs expended and the total amount applied against the Tenant Improvement Allowance and the total amount funded from the escrow (if any) described in Section 5.1, (b) a detailed summary of the Landlord's Work performed, including percentage of Landlord's Work completed, using AIA standard form Application for Payment (G 702) executed by the general contractor and by the architect, and (c) the estimated Costs to complete Landlord's Work and the source of funds to pay such Costs. Landlord shall provide Tenant with copies of the draw requests from Landlord's construction loan, if any.

5.4. Application of the Tenant Improvement Allowance. Landlord may apply the Tenant Improvement Allowance for the payment of Costs of the Tenant Improvements within the Premises (including, without limitation, construction of standard laboratory improvements; finishes; building fixtures; building permits; and architectural, engineering, design and consulting fees), in each case as reflected in the Approved Budget and the Approved Plans and for any Minor Variations. In no event shall the Tenant Improvement Allowance be applied to any costs of the Tenant Improvements relating to the purchase of any furniture, personal property or other non-building system equipment.

6. Changes. Any changes to Landlord's Work (each, a "Change") requested by Landlord or Tenant after Tenant approves the Approved Plans in writing shall be requested and instituted in accordance with the provisions of this Section 6 and shall be subject to the reasonable written approval of the other party, except for any Minor Variations.

6.1. Changes Requested by Landlord.

(a) Landlord may request Changes after Tenant approves the Approved Plans by notifying Tenant thereof in writing in substantially the same form as the AIA standard change order form (a "Landlord Change Order Request"), which Landlord Change Order Request shall detail the nature and extent of any requested Changes. If the nature of a Change requires revisions to the Approved Plans, then Landlord shall be solely responsible for the cost and expense of such revisions (except for Minor Variations).

(b) Tenant shall reject any Landlord Change Order Requests by written notice to Landlord within the later of (i) five (5) business days after receipt of the Landlord Change Order Request and (ii) five (5) business days after receipt of the information to be provided by Landlord under Section 6.3, which notice shall detail the manner in which the Landlord Change Order Request is unacceptable. If Tenant properly rejects any Landlord Change Order Request, then Landlord shall revise the Landlord Change Order Request and cause Tenant's objections to be remedied. If Tenant does not timely reject in writing a Landlord Change Order Request, then such Landlord Change Order Request shall be deemed approved by Tenant.

(c) In recognition and consideration of the fact that the Premises and Tenant Improvements have not been constructed as of the date hereof, it is hereby agreed by the parties hereto that the Landlord may make Minor Variations (as herein defined) in the size, design, engineering, configuration and siting of Landlord's Work, and such Minor Variations shall not render the Lease void or voidable, nor shall any such Minor Variations entitle the Tenant to any reduction or abatement in Rent, anything herein contained and any rule of law or equity to the contrary notwithstanding (except as provided in this Lease with respect to re-measurement of Rentable Area). "Minor Variations" shall mean any non-material modifications to Landlord's Work which do not require any material change to the Schedule or Approved Budget, to the extent such modifications are reasonably required to (i) comply with Applicable Laws or to obtain or comply with any required permit, (ii) comply with any request by Tenant for modifications to Landlord's Work, (iii) comport with good design, engineering and construction practices (provided such variations are not material) or (iv) make reasonable adjustments for field deviations encountered in the construction of Landlord's Work.

6.2. Changes Requested by Tenant. Tenant may request Changes after Tenant approves the Approved Plans by notifying Landlord thereof in writing in substantially the same form as the AIA standard change order form (a "Tenant Change Order Request"), which Tenant Change Order Request shall detail the nature and extent of any requested Changes. If the nature of a Change requires revisions to the Approved Plans, then Tenant shall be solely responsible for the cost and expense of such revisions. To the extent that the Tenant Improvement Allowance is insufficient to pay for the cost of such Change, Tenant shall reimburse Landlord for all additional costs and expenses payable by Landlord to complete Landlord's Work due to a Tenant-requested Change in accordance with the payment provisions of this Work Letter. Tenant Change Order Requests shall be signed by Tenant's Authorized Representative.

6.3. Preparation of Estimates. Landlord shall, before proceeding with any Change, use commercially reasonable efforts **to** prepare as soon as is reasonably practicable (but in no event more than five (5) business days after delivering a Landlord Change Order Request to Tenant or receipt of a Tenant Change Order Request) an estimate of the increased costs or savings that would result from such Change, as well as an estimate of such Change's effects on the Schedule. Subject to Section 6.1(c), Tenant shall have five (5) business days after receipt of such information from Landlord to (a) in the case of a Landlord Change Order Request, approve or reject such Landlord Change Order Request in writing or (b) in the case of a Tenant Change Order Request, notify Landlord in writing of Tenant's decision either to proceed with or abandon the Tenant-requested Change.

7. Miscellaneous.

7.1. Headings, Etc. Where applicable in this Work Letter, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The section headings of this Work Letter are not a part of this Work Letter and shall have no effect upon the construction or interpretation of any part hereof.

7.2. Time of the Essence. Time is of the essence with respect to the performance of every provision of this Work Letter in which time of performance is a factor.

7.3. Covenants. Each provision of this Work Letter performable by Landlord shall be deemed both a covenant and a condition.

7.4. Consent. Whenever consent or approval of either party is required, that party shall not unreasonably withhold, condition or delay such consent or approval, except as may be expressly set forth to the contrary.

7.5. Entire Agreement. The terms of this Work Letter are intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and may not be contradicted by evidence of any prior or contemporaneous agreement, other than the Lease.

7.6. Invalid Provisions. Any provision of this Work Letter that shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all other provisions of this Work Letter shall remain in full force and effect and shall be interpreted as if the invalid, void or illegal provision did not exist.

7.7. Construction. The language in all parts of this Work Letter shall be in all cases construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

7.8. Assigns. Each of the covenants, conditions and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs; legatees; devisees; executors; administrators; and permitted successors, assigns, sublessees. Nothing in this Section 7.8 shall in any way alter the provisions of the Lease restricting assignment or subletting.

7.9. Authority. That individual or those individuals signing this Work Letter guarantee, warrant and represent that said individual or individuals have the power, authority and legal capacity to sign this Work Letter on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf said individual or individuals have signed.

7.10. Counterparts. This Work Letter may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter to be effective on the date first above written.

LANDLORD:

BMR-217TH PLACE LLC,
a Delaware limited liability company

By: /s/ Gary A Kreitzer
Name: Gary A Kreitzer
Title: Executive V.P.

TENANT:

SONUS PHARMACEUTICALS, INC.,
a Delaware corporation

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

EXHIBIT A

SCHEDULE

[To be attached]

SCHEDULE 2.1

LANDLORD'S WORK PLANS

Architectural Drawings

1. Floor and reflected ceiling plans
2. Elevations (exterior and interior)
3. Sections (building and wall)
4. Details (exterior and interior)
5. Schedules (doors, windows, finishes, etc.)

Engineering Drawings

1. Mechanical
2. Plumbing
3. Electrical
4. Fire protection

SCHEDULE 2.6

SHELL AND CORE WORK

Sitework

· The existing interior improvements shall be completely demolished. This shall include all walls, flooring, and ceilings. The interior shall be taken back to a broom finish shell condition.

· The traffic gates and tire device shall be demolished.

· Cut-in tilt panels for 4 new windows shall be added.

· Landscaping cleanup, tree removal for 15 trees and other visual appealing work shall be performed.

· The existing parking lot shall be restriped and seal coated and minor asphalt patching shall occur. Extruded curbs shall be replaced.

· The existing sidewalks shall be pressure washed.

· A shallow footing drain shall be added along the south side of building to improve the drainage.

· Cut & patch for new power upgrade primary service run from transformer to loading dock shall be installed.

· The main water service shall be upsized to 3".

· A double detector check valve shall be added to the existing fire water line if required.

· A loop fire water line around building shall be added/improved if required.

Concrete

· An allowance for footings/grade beams for 4 concrete brace frames shall be included.

Masonry

· Minor tuck-point and repair of masonry cracks shall occur.

Metals

· 4 steel brace frames for lateral structural upgrades shall occur.

Carpentry

· We will construct a new electrical room exterior to the building at the loading dock. Metal stud framed, exterior plywood covered in EIFS/stucco and a new door and frame shall be added.

Thermal and Moisture Protection

· We shall remove and replace the built-up roofing. This includes increasing roof insulation to R-21.

· We shall replace roof cap flashings.

· Minor caulking repair shall occur.

Doors & Windows

· 4 new cut-in windows shall be added.

· A framed covered walkway at the main building entry shall be added.

Finishes

· We shall clean and repaint exterior concrete walls and the roof screen. We shall clean and reseal brick. This includes epoxy repair of cracking at loading dock spandrel panels.

· Main entry lobby upgrades, including new stair, flooring, finishes, and lighting shall be performed.

Elevators

· We shall add a new passenger elevator at main lobby entry area, which includes pit, shaft walls, and electrical work.

Mechanical

· We shall demolish two old existing rooftop HVAC units

Electrical

· We shall upgrade the existing electrical service to 3000A, by adding a new 3000A MDP at the new electrical room (off loading dock), then re-feed the existing 2000A switchboard and 800A switchboard from the new service.

EXHIBIT H

FORM OF LETTER OF CREDIT

[On letterhead or L/C letterhead of Issuer.]

LETTER OF CREDIT

Date: , 200

_____ (the "Beneficiary")

_____

_____

Attention: _____
L/C. No.: _____
Loan No. : _____

Ladies and Gentlemen:

We establish in favor of Beneficiary our irrevocable and unconditional Letter of Credit numbered as identified above (the "L/C") for an aggregate amount of $, expiring at :00 p.m. on or, if such day is not a Banking Day, then the next succeeding Banking Day (such date, as extended from time to time, the "Expiry Date"). "Banking Day" means a weekday except a weekday when commercial banks in are authorized or required to close.

We authorize Beneficiary to draw on us (the "Issuer") for the account of (the "Account Party"), under the terms and conditions of this L/C.

Funds under this L/C are available by presenting the following documentation (the "Drawing Documentation"): (a) the original L/C and (b) a sight draft substantially in the form of Exhibit A, with blanks filled in and bracketed items provided as appropriate. No other evidence of authority, certificate, or documentation is required.

Drawing Documentation must be presented at Issuer's office at on or before the Expiry Date by personal presentation, courier or messenger service, or fax. Presentation by fax shall be effective upon electronic confirmation of transmission as evidenced by a printed report from the sender's fax machine. After any fax presentation, but not as a condition to its effectiveness, Beneficiary shall with reasonable promptness deliver the original Drawing Documentation by any other means. Issuer will on request issue a receipt for Drawing Documentation.

We agree, irrevocably, and irrespective of any claim by any other person, to honor drafts drawn under and in conformity with this L/C, within the maximum amount of this L/C, presented

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to us on or before the Expiry Date, provided we also receive (on or before the Expiry Date) any other Drawing Documentation this L/C requires.

We shall pay this L/C only from our own funds by check or wire transfer, in compliance with the Drawing Documentation.

If Beneficiary presents proper Drawing Documentation to us on or before the Expiry Date, then we shall pay under this L/C at or before the following time (the "Payment Deadline"): (a) if presentment is made at or before noon of any Banking Day, then the close of such Banking Day; and (b) otherwise, the close of the next Banking Day. We waive any right to delay payment beyond the Payment Deadline. If we determine that Drawing Documentation is not proper, then we shall so advise Beneficiary in writing, specifying all grounds for our determination, within one Banking Day after the Payment Deadline.

Partial drawings are permitted. This L/C shall, except to the extent reduced thereby, survive any partial drawings.

We shall have no duty or right to inquire into the validity of or basis for any draw under this L/C or any Drawing Documentation. We waive any defense based on fraud or any claim of fraud.

The Expiry Date shall automatically be extended by one year (but never beyond the "Outside Date") unless, on or before the date 30 days before any Expiry Date, we have given Beneficiary notice that the Expiry Date shall not be so extended (a "Nonrenewal Notice"). We shall promptly upon request confirm any extension of the Expiry Date under the preceding sentence by issuing an amendment to this L/C, but such an amendment is not required for the extension to be effective. We need not give any notice of the Outside Date.

Beneficiary may from time to time without charge transfer this L/C, in whole but not in part, to any transferee (the "Transferee"). Issuer shall look solely to Account Party for payment of any fee for any transfer of this L/C. Such payment is not a condition to any such transfer. Beneficiary or Transferee shall consummate such transfer by delivering to Issuer the original of this L/C and a Transfer Notice substantially in the form of Exhibit B, purportedly signed by Beneficiary, and designating Transferee. Issuer shall promptly reissue or amend this L/C in favor of Transferee as Beneficiary. Upon any transfer, all references to Beneficiary shall automatically refer to Transferee, who may then exercise all rights of Beneficiary. Issuer expressly consents to any transfers made from time to time in compliance with this paragraph.

Any notice to Beneficiary shall be in writing and delivered by hand with receipt acknowledged or by overnight delivery service such as FedEx (with proof of delivery) at the above address, or such other address as Beneficiary may specify by written notice to Issuer. A copy of any such notice shall also be delivered, as a condition to the effectiveness of such notice, to: (or such replacement as Beneficiary designates from time to time by written notice).

No amendment that adversely affects Beneficiary shall be effective without Beneficiary's written consent.

This L/C is subject to and incorporates by reference: (a) the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 500 (the "UCP"); and (b) to the extent not inconsistent with the UCP, Article 5 of the Uniform Commercial Code of the State of New York.

Very truly yours,

[Issuer Signature]

EXHIBIT A

FORM OF SIGHT DRAFT

[BENEFICIARY LETTERHEAD]

TO:

[Name and Address of Issuer]

SIGHT DRAFT

AT SIGHT, pay to the Order of , the sum of United States Dollars ($). Drawn under [Issuer] Letter of Credit No. dated .

[Issuer is hereby directed to pay the proceeds of this Sight Draft solely to the following account: .]

[Name and signature block, with signature or purported signature of Beneficiary]

Date:

EXHIBIT B

FORM OF TRANSFER NOTICE

[BENEFICIARY LETTERHEAD]

TO:

[Name and Address of Issuer] (the "Issuer")

TRANSFER NOTICE

By signing below, the undersigned, Beneficiary (the "Beneficiary") under Issuer's Letter of Credit No. dated (the "L/C"), transfers the L/C to the following transferee (the "Transferee"):

[Transferee Name and Address]

The original L/C is enclosed. Beneficiary directs Issuer to reissue or amend the L/C in favor of Transferee as Beneficiary. Beneficiary represents and warrants that Beneficiary has not transferred, assigned, or encumbered the L/C or any interest in the L/C, which transfer, assignment, or encumbrance remains in effect.

[Name and signature block, with signature or purported signature of Beneficiary]

Date:]

CLINICAL SUPPLY AGREEMENT

THIS CLINICAL SUPPLY AGREEMENT (the "Agreement") is entered into as of the 1st day of June, 2006 (the "Effective Date") by and between **SCHERING AKTIENGESELLSCHAFT**, a German corporation having a principal place of business at Müllerstraße 178, D-13342 Berlin, Germany ("Schering") and **SONUS PHARMACEUTICALS, INC.**, a Delaware corporation having a principal place of business at 22026 20th Avenue SE, Bothell, Washington 98021 ("Sonus"). Schering and Sonus are referred to individually as a "Party" and collectively as "Parties."

WHEREAS, Schering and Sonus have entered into a Collaboration and License Agreement having an effective date of October 17, 2005 (the "License Agreement") for the development and commercialization of the Product in the Territory (each as defined below);

WHEREAS, pursuant to the License Agreement, Sonus has granted to Schering exclusive rights to develop and commercialize the Product in the Territory, which rights include, among other rights, the right to elect to make the Product and have the Product made on its behalf;

WHEREAS, Schering gave written notice of its election to assume responsibility for manufacture and supply of Product on March 2, 2006, but has not yet established internal or external manufacturing capabilities for the Product, and the Parties desire that Sonus supply Schering with clinical supplies of the Product pursuant to the MSA (as defined below) until Schering establishes such manufacturing capabilities; and

WHEREAS, pursuant to Section 7.02 of the License Agreement, the Parties wish to provide for each Party's rights and responsibilities in connection with the clinical supply of the Product to Schering by Sonus as set forth in the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, the Parties agree as follows:

1. Definitions.

Capitalized terms used in this Agreement (other than the headings of the Articles and Sections), whether used in the singular or plural, shall have the meaning set forth below, or, if not listed below, the meaning as designated in the text of this Agreement.

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

"**API**" or "**Active Pharmaceutical Ingredient**" means any component of the Product that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the

body of man or animals, but does not include intermediates used in the synthesis of such ingredients.

"**Certificate of Analysis**" means a certificate that accompanies each shipment of Product certifying that the Product meets the Specifications.

"**Certificate of Compliance**" means a certificate that accompanies each shipment of Product certifying that the Product has been manufactured according to cGMP.

"**cGMP**" means current Good Manufacturing Practices regulations promulgated by FDA, as they may be amended from time to time. cGMP also includes published standards of FDA (or other standards of FDA that are generally recognized within the United States pharmaceutical industry) that relate to the testing, manufacturing, processing, packaging, holding or distribution of drug substances and finished drugs. cGMP also includes similar standards, guidelines and regulations promulgated or otherwise required by the European Commission, and published standards of the European Commission (and other standards of the European Commission that are generally recognized within the European pharmaceutical industry), including the Guide to Good Manufacturing Practices for Medicinal Products as promulgated under European Directive 91/356/EEC, as amended from time to time, that relate to the testing, manufacturing, processing, packaging, holding or distribution of drug substances and finished drugs..

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

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

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

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

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

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

"**Contract Manufacturing Agreement**" means an agreement between Sonus and a Third Party contract manufacturer regarding the manufacture of all or part of the clinical supply of the

Product. For the avoidance of doubt, the MSA and the Quality Agreement shall be considered Contract Manufacturing Agreements.

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

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

"**FD&C Act**" means the United States Federal Food, Drug and Cosmetic Act, as amended.

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

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

"**MSA**" means the Manufacturing and Supply Agreement between Sonus and Gensia Sicor Pharmaceutical Sales, Inc. (now known as Sicor Pharmaceuticals, Inc.), effective as of June 26, 2002.

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

"**NDA Support Trial**" means any clinical study with respect to the Product in the Field that will be part of the initial NDA (as defined in the License Agreement) submission, excluding the Pivotal Trial (as defined in the License Agreement).

"**Product**" means the product known as TOCOSOL® Paclitaxel, as more particularly described in the License Agreement.

"**Quality Agreement**" means the Quality Agreement for the Manufacturing and Supply of Tocosol® Paclitaxel Injectable Emulsion between Sonus and Sicor Pharmaceuticals, Inc., effective as of February 1, 2005. A complete copy of the Quality Agreement is attached hereto as Exhibit A.

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

"**ROW Registrational Trial**" means any clinical study with respect to the Product in the Field that will be part of an application for approval by any regulatory authority in the ROW.

"**Schering Sponsored Study**" or "**CSS**" means any non-registrational clinical study with respect to the Product in the Field where the sponsor of the study is Schering or its Affiliates.

"**Specifications**" means the regulatory, manufacturing, quality control and quality assurance procedures, processes, practices, standards, instructions and any other attributes that the Parties agree upon, or that are otherwise required, in connection with the manufacture of the Product, as may be amended by the Parties from time to time. A complete copy of the Specifications, as agreed by the Parties, is attached hereto as Exhibit B.

"**Term**" has the meaning specified in Section 6.1 of this Agreement.

"**Territory**" means the entire world.

"**Third Party**" means any entity other than Schering, Sonus or any of their Affiliates.

2. Supply of Product

2.1 Clinical Supply. Pursuant to the terms hereof, Sonus shall, during the term of this Agreement, manufacture, either by itself of through a Third Party, and supply to Schering clinical supply of the Product necessary to support ISS, CSS, NDA Support Trials, ROW Registrational Trials, and any other investigational study sponsored or conducted by Schering.

2.2 Quality of Product. All Product manufactured and supplied to Schering by Sonus hereunder shall comply with the Quality Agreement.

2.3 Supply Approval. Batches of Product will be manufactured consistent with the MSA and as approved by the Steering Committee. Each Party agrees to adhere to their respective pharmaceutical responsibilities concerning supply of Product as set forth in the Agreement on Responsibility Defined Regarding Manufacture and Quality Control attached hereto as Exhibit C.

2.4 Delivery/Risk of Loss. Sonus shall deliver all quantities of the clinical supply of the Product purchased hereunder F.O.B. the Product manufacturing point. The Product shall be packaged, labeled, stored, and shipped in a manner that assures that the Product meets the Specifications upon delivery. Each shipment of Product shall be accompanied by a Certificate of Analysis, a Certificate of Compliance, and copies of the manufacturing and packaging batch records.

2.5 Testing, Acceptance and Rejection. Upon Schering's receipt of each batch of clinical supply of the Product, Schering or its designee shall have thirty (30) days to inspect such batch to determine its compliance with the Specifications. If Schering does not notify Sonus of Schering's rejection of a batch of said Product within such thirty (30) day period, such Product shall be deemed accepted subject to Product warranties under Section 7.1. If Schering rejects any batch of Product ("Defective Product"), Sonus shall promptly notify Schering in writing if it either: (a) agrees with the rejection, in which event Sonus shall promptly replace such Defective Product with Product complying with the Specifications to the extent it is able to do so under the

MSA and shall request in writing that Schering either return or destroy the rejected batch of Product at no additional cost to Schering; or (b) dispute Schering's rejection. If Sonus disputes Schering's rejection, then the Parties shall engage a mutually acceptable Third Party laboratory to make a final and binding determination if the rejection was proper. The fees and expenses of such laboratory testing shall be borne entirely by the Party against whom such findings are made. If such laboratory determines that such batch of Product has not been reasonably rejected, then such batch shall automatically be deemed to have been accepted by Schering, and if it has not already done so, Schering will pay the amount for the batch of Product initially rejected by Schering. If such laboratory determines that such batch of Product has been reasonably rejected, or if Sonus agrees with Schering's rejection, then Sonus shall promptly replace such Defective Product with Product complying with the Specifications.

2.6 Schering Inspections and Information Rights. Sonus agrees that Schering will have access to Sonus' facilities and any Third Party contract manufacturing facilities (subject to any restrictions under any agreements between Sonus and its Third Party contractors) at all reasonable times for purposes of inspecting such facilities and monitoring activity relating to Sonus' obligations under this Agreement.

3. Price and Payments.

3.1 Price. The price for each batch of Product shall be the cost of Product to Sonus for any Product manufactured by a Third Party and shall include, but not be limited to, the purchase price paid to such Third Party for Product, any actual costs incurred by Sonus under its Contract Manufacturing Agreement with such Third Party, and costs incurred by Sonus for API and excipients.

3.2 Payments. Sonus shall invoice Schering quarterly in arrears for Product released by the manufacturer. All payments due hereunder to Sonus shall be paid in U.S. dollars not later than thirty (30) days following the receipt date of the invoice. Upon request, Sonus agrees to promptly provide documentation that reasonably supports any amount invoiced hereunder. Schering will pay any and all taxes (other than taxes based upon Sonus' income), duties, assessments and other charges and expenses imposed by any government authority in connection with the delivery and sale of the Product to Schering.

3.3 Cost Sharing. Any cost sharing for supply of Product provided for under Article V of the License Agreement shall be reconciled quarterly as provided in the License Agreement.

4. Regulatory

4.1 Regulatory Inspections. If a facility that manufactures the Product is inspected by representatives of any supra-national, national, federal, state or local regulatory agency in connection with manufacture of the Product, Sonus shall notify Schering promptly (by telephone and in writing) upon learning of such inspection, and shall supply Schering with copies of any related correspondence or other documentation, or portions thereof, in the possession of Sonus relating to the Product. Schering may send representatives to such facilities and participate fully

in any portion of such inspection, subject to agreement by the Third Party manufacturer where such agreement by the Third Party manufacturer is required. Promptly upon Sonus' receipt thereof, Sonus shall provide Schering with a copy of any regulatory letter or comments from any federal, state or local regulatory agency in connection with the manufacture of the Product, including any Form 483 (Inspectional Observations) or warning letter.

4.2 Records. Sonus shall keep complete, accurate and authentic accounts, notes, data and records of the work performed under this Agreement (including, without limitation, batch records for the Product). All such records relating to the manufacture of the Product shall be maintained for such period of time as may be required by applicable laws, rules or regulations and, in any event, for a period of time not less than seven (7) years. Prior to the destruction of any record, Sonus shall give advance written notice to Schering of Sonus' intention to destroy any such record; Schering shall then have the right to request, receive and retain such records with no further compensation to Sonus.

5. Confidentiality. The Parties each agree that the obligations of confidentiality, non-use and non-disclosure set forth in the License Agreement are incorporated into this Agreement for purposes of determining the Parties' rights and obligations with respect to Confidential Information disclosed by each Party under this Agreement.

6. Term And Termination

6.1 Term. The term of this Agreement shall commence on the Effective Date and shall continue until the earlier to occur of (i) Product Launch (as defined in the License Agreement); or (ii) the effective date of termination of the MSA.

6.2 Termination for Cause. Either Party may terminate this Agreement (i) if the other Party is in material breach of this Agreement and such breach is not cured within ninety (90) days following receipt by the breaching Party of written notice from the other Party specifying the breach in reasonable detail and demanding its cure; provided, however, that, if said breach cannot be cured during such ninety (90) day period using diligent efforts, the breaching Party shall be allowed an additional ninety (90) day period to cure such breach provided the breaching Party has commenced a cure promptly after receipt of the aforementioned written notice from the other party and is diligently pursuing completion of such cure; or (ii) if the other Party experiences a Bankruptcy Event (as defined in the License Agreement).

6.3 Automatic Termination. This Agreement shall automatically terminate effective on the effective date of any termination of the License Agreement.

6.4 Effect of Early Termination By Schering. In the event of a Bankruptcy Event or a material breach of this Agreement by Sonus under Section 6.2 (which breach is not cured as provided therein), Schering may elect to either (a) terminate this Agreement in its entirety, or (b) continue to exercise its rights under this Agreement, in which case Sonus shall: (i) at Schering's request, assign and transfer to Schering Sonus' rights and obligations under any Contract Manufacturing Agreement(s) and take whatever actions are reasonably required under such agreement(s) to effectuate such assignment and transfer; (ii) provide Schering with access to

Sonus' facilities and personnel as reasonably required by Schering to transition all manufacturing activity for the Product to Schering, its Third Party contract manufacturers or any other designee; and (iii) use diligent efforts to cooperate with Schering, its Third Party contract manufacturers and any other designee to effect a prompt and orderly transition to Schering of any activities being conducted by or on behalf of Sonus. Schering shall be entitled to set off any reasonable expenses Schering incurs as a result of the early transition of manufacturing responsibilities hereunder first, against any milestone payments owed to Sonus under the License Agreement and, second, against any royalties owed to Sonus under the License Agreement.

6.5 Surviving Obligations. Termination or expiration of this Agreement shall not affect any rights or obligations of either Party that may have accrued up to the date of such termination or expiration. In addition to any other remedies provided in this Agreement, each Party may institute any other legal action or pursue any other remedy against the other Party permitted by applicable law. The rights and obligations set forth in this Agreement shall extend beyond the expiration or termination of this Agreement to the extent that the survival of such rights or obligations is necessary to permit their complete fulfillment or discharge. Without limiting in any way the generality of the foregoing, the following provisions of this Agreement, strictly and only in accordance with their express terms, shall survive termination or expiration of this Agreement: Sections 1, 4.2, 5, 6.4, 6.5, 7.4, 7.5, 8, and 9.

7. Representations, Warranties and Covenants.

7.1 Product Warranty. Sonus represents and warrants that all Product supplied by it pursuant to this Agreement: (a) shall be manufactured and packaged in

compliance with cGMP and other applicable laws, rules and regulations; (b) shall conform to the Specifications in effect at the time of delivery; (c) shall not be adulterated or misbranded within the meaning of the FD&C Act, and (d) at the time of delivery, shall be free and clear of any lien or encumbrance.

7.2 Qualified Personnel. Sonus shall engage and employ only professionally qualified personnel to perform the services contemplated hereunder. Sonus represents and warrants that it shall not use the services of any person in connection with activities under this Agreement who has either been (a) debarred or suspended under the FD&C Act, or (b) charged with a violation of any laws or regulations relating to the regulation of any drug product under the FD&C Act or any similar law or regulation in force in any country of the Territory.

7.3 Compliance with Laws. Sonus represents and warrants that it shall comply, and shall contractually require that it's Affiliates and Third Party contract manufacturers comply, with all applicable laws, guidelines, regulations, rules and other requirements of any government or any regulatory authority in performing its obligations hereunder.

7.4 Disclaimer of Warranties. EXCEPT FOR THE WARRANTIES SET FORTH IN SECTIONS 7.1, 7.2, AND 7.3 ABOVE, NEITHER PARTY GRANTS, AND EACH PARTY HEREBY EXPRESSLY DISCLAIMS, ALL WARRANTIES OF ANY KIND, EXPRESS, STATUTORY OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF DESIGN, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT OF THIRD PARTY RIGHTS.

7.5 Limitation of Liability. Except for liability for breach of Section 5, neither Party shall be entitled to recover from the other Party any special, incidental, consequential or punitive damages in connection with this Agreement or a Parties' performance of its obligations hereunder; provided, however, that this Section 7.5 shall not be construed to limit either Party's indemnification rights or obligations under Section 8.

8. Indemnification.

8.1 Indemnification by Sonus. Sonus shall indemnify, defend and hold Schering, its Affiliates and their officers, directors, employees, and agents (the "Schering Indemnitees") harmless from and against any and all Third Party claims, suits, proceedings, damages, expenses (including court costs and reasonable attorneys' fees and expenses) and recoveries (collectively, "Claims") to the extent that such Claims arise out of, are based on, or result from: (a) allegations by Third Parties that the use of the Product manufactured by or on behalf of Sonus caused personal injury or death; (b) Sonus' breach of its obligations, representations or warranties under this Agreement; or (c) the willful misconduct or negligent acts of Sonus or its directors, officers, agents, and employees. The foregoing indemnity obligation shall not apply to the extent that any Claim arises from, is based on, or results from: (i) the willful misconduct or negligent acts of any of the Schering Indemnitees; or (ii) a breach by Schering of its obligations, representations or warranties under the Agreement.

8.2 Indemnification by Schering. Schering shall indemnify, defend and hold Sonus and Sonus' officers, directors, employees, and agents (the "Sonus Indemnitees") harmless from and against any and all Claims to the extent that such Claims arise out of, are based on, or result from: (a) Schering's breach of its obligations, representations or warranties under the Agreement; or (b) the willful misconduct or negligent acts of any of the Schering Indemnitees. The foregoing indemnity obligation shall not apply to the extent that any Claim arises from, is based on, or results from: (i) allegations by Third Parties that the use of the Product manufactured by or on behalf of Sonus caused personal injury or death; (ii) the willful misconduct or negligent acts or omissions of any of the Sonus Indemnitees; or (iii) a breach by Sonus of its obligations, representations or warranties under the Agreement.

8.3 Indemnification Procedures. A person or entity that intends to claim indemnification under this Section 8 (the "Indemnitee") shall promptly notify the other Party (the "Indemnitor") of any Claim in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee, whether or not such Claim is rightfully brought; provided, however, that an Indemnitee shall have the right to retain its own counsel, at its own expense. The indemnity agreement in this Section 8 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the consent of the Indemnitor, which consent shall not be withheld or delayed unreasonably. The failure to deliver notice to the Indemnitor within a reasonable time after the commencement of any such Claim, only to the extent prejudicial to its ability to defend such action, shall relieve such Indemnitor of liability to the Indemnitee under this Section 8, but the omission so to deliver notice to the Indemnitor will not relieve it of any liability that it may have to any Indemnitee otherwise than under this Section 8. The Indemnitee under this Section 8, its employees and agents, shall reasonably cooperate with the Indemnitor

and its legal representatives in the investigations of any Claim covered by this indemnification. Any actions taken or payments made by an Indemnitor hereunder shall be without prejudice to the Indemnitor's right to contest the Indemnitee's right to indemnification and subject to refund if the Indemnitor is ultimately held not to be obligated to indemnify the Indemnitee.

9. Miscellaneous.

9.1 Assignment. Schering may assign any of its rights or obligations under this Agreement in any country to any of its Affiliates, provided that such assignment does not relieve Schering of its obligations hereunder or otherwise result in a novation. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, either Party can sell, transfer or assign its rights under the Agreement to any Third Party as part of a sale of all or substantially all of the assets of such Party or in connection with a merger or consolidation; provided that such Third Party expressly agrees in writing to assume and perform all of the duties and obligations of such Party under this Agreement. The rights and obligations of the Parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be null and void, and of no legal effect.

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

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

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

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

9.6 **Notices**. All notices and other communications provided for hereunder shall be in writing and shall be mailed by first-class, registered or certified mail, postage paid, or delivered

personally, by overnight delivery service addressed as follows:

If to Sonus:	Sonus Pharmaceuticals, Inc. 22026 20th Avenue, S.E. Bothell, Washington 98021 Attention: President
Copy to:	K. C. Schaaf, Esq. Stradling Yocca Carlson & Rauth 660 Newport Center Drive, Suite 1600 Newport Beach, CA 92660 Telephone: (949) 725-4000 Facsimile: (949) 725-4100
If to Schering:	Schering Aktiengesellschaft Müllerstraße 178 13342 Berlin Germany Attn: Head of Legal department
Copy to:	Berlex Pharmaceuticals, an Operating Unit of Berlex, Inc. 340 Changebridge Road Montville, New Jersey 07045 Attn: Head of Oncology Global Business Unit
Copy to:	Berlex Pharmaceuticals, an Operating Unit of Berlex, Inc. 340 Changebridge Road Montville, New Jersey 07045 Attn: General Counsel

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

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

9.8 **Affiliates; Subcontractors.** Each Party may use Affiliates to perform such Party's obligations under this Agreement; provided, however, that such Party contractually binds such Affiliate to the terms and conditions of this Agreement and the original Party guarantees the

performance of its Affiliate. Each Party shall have the right to engage Third Party subcontractors or consultants to perform certain of its obligations under this Agreement; provided, however, that such subcontractors or consultants are contractually bound to the terms and conditions of this Agreement and the original Party guarantees the performance of such subcontractor or consultants.

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

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

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

9.12 **Publicity**. Schering and Sonus shall consult with each other before issuing any press release with respect to this Agreement or the transactions contemplated hereby and neither shall issue any such press release or make any such public statement without the prior consent of the other, which consent shall not be unreasonably withheld; provided, however, (i) that a Party may, without the prior consent of the other Party, issue such press release or make such public statement as may upon the advice of counsel be required by law or the rules and regulations of the Nasdaq or any stock exchange, or under applicable securities laws, if it has used reasonable efforts to consult with the other Party prior thereto, and (ii) such consent shall be deemed to have been given if the recipient of the press release or public statement fails to respond to the other Party within forty-eight (48) hours after the recipient's receipt of such press release or public statement delivered in accordance with the terms of Section 9.6. No such consent of the other Party shall be required to release information which has previously been made public.

9.13 **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall

constitute one and the same instrument.

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

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives on the day and year first above written.

SCHERING AKTIENGESELLSCHAFT

By: /s/ Joachim Schmidt

Name: Joachim Schmidt

Title: Head R&D Quality and Operations

By: /s/ Dr. Michael Hildebrand

Name: Dr. Michael Hildebrand

Title: Head Global Pharmaceutical Development

SONUS PHARMACEUTICALS, INC.

By: /s/ Michael A. Martino

Name: Michael A. Martino

Title: President and CEO

EXHIBIT A

QUALITY AGREEMENT FOR THE MANUFACTURING AND SUPPLY

OF TOCOSOL® PACLITAXEL INJECTABLE EMULSION

Between

Sonus Pharmaceuticals, Inc.

And

Sicor Pharmaceuticals, Inc.

(Effective as of February 1, 2005)

EXHIBIT B

FINISHED PRODUCT SPECIFICATION

TOCOSOL® PACLITAXEL INJECTABLE EMULSION, 10 mg/mL

Test	Description	Specification
Color and Appearance	Visual	White /off-white to pale yellow milky, opalescent liquid
Paclitaxel ID Assay	HPLC	RT matches reference 9.0 — 11.0 mg/mL (90% to 110% of label claim)

Paclitaxel Purity	HPLC	Degradation Products,% NMT 0.8% Baccatin III NMT 0.8% 10-Deacetylpaclitaxel NMT 0.5% 10-Deacetyl-7epipaclitaxel NMT 0.6% 7-Epipaclitaxel For Information Only PEG Ester Side Chain Impurities,% For Information Only Cephalamannine For Information Only Paclitaxel C For Information Only 7 Epi-Cephalomannine For Information Only N Methyl Taxol C NMT 0.1% Any Other NMT 3.0% Total Degradants + Impurities + Any Other
Vitamin E ID Assay (Target)	HPLC	RT matches ref. Report value (70 — 90 mg/mL)
TPGS ID Assay (Target)	HPLC	RT matches ref. Report value (40 — 60 mg/mL)
Mean Particle Diameter	Polarization Intensity Differential Scattering	NMT 150 nm
Distribution Limits Particle% volume	Diffraction	1.261µm to 4.655µm, NMT 5% > 4.655µm, None Detected
pH	H^+ Electrode	4.0 — 7.0
Particulate Matter	Microscopic Count	NMT 3,000 ≥ 10 µm (particles per container), and NMT 300 ≥ 25 µm (particles per container)
Volume in Container	Volumetric	Volume not less than labeled volume
Sterility	USP	No microbial growth
Endotoxin	LAL	≤ 0.4 EU/mg

EXHIBIT C

Agreement on Responsibility Defined
Regarding Manufacture and Quality Control

Attachment C to the Clinical Supply Agreement

between

SCHERING AKTIENGESELLSCHAFT
("SCHERING")

and

SONUS Pharmaceuticals Inc.

covering the clinical supply of

TOCOSOL® Paclitaxel

	SONUS	Schering
I. MATERIALS		
1. *STARTING MATERIALS* (without active ingredients)		
· Quality *Specifications*, Testing Standards	x	
· Purchase	x	
· Testing and release of *starting materials* supplied by third parties	x	
· Retention of reserve samples	x	
· Shipment responsibility	x	
2. ACTIVE PHARMACEUTICAL INGREDIENTS		
· Quality *Specifications*, Testing Standards	x	
· Purchase	x	
· Testing and release of active pharmaceutical ingredient(s) supplied by third parties	x	

· Retention of *batch* documentation	x	
· Retention of reserve samples	x	
· Shipment responsibility	x	
3. *PACKAGING MATERIALS*		
A. Primary Packaging		
· Quality *Specifications*, Testing Standards	x	
· Purchase	x	
· Approval of master for printed *packaging materials*	x	x
· Testing and release of *packaging materials*	x	
· Retention of *batch* documentation	x	
· Retention of reserve samples	x	
B. Secondary Packaging		
· Quality *Specifications*, Testing Standards		x
· Purchase		x
· Testing and release of *packaging materials*		x
· Retention of *batch* documentation		x
· Retention of reserve samples		x

4. *BULK PRODUCT*		
· Quality *Specifications*, Testing Standard	x	
· Retention of reserve samples	x	
· Shipment responsibility	x	
5. *FINISHED PRODUCT*		
· Bill of materials	x	
· Quality *Specifications*, Testing Standard		x
· Identity testing and release of *Bulk product* supplied by SONUS		x
· Retention of reserve samples		x
· Follow-up-Stability	x	
· Certificate of Analysis	x	
· Certificate of Compliance	x	
II. PROCESSES, PROCEDURES		
6. BULK *PRODUCTION*		
· Processing Instructions	x	
· *In-process controls*	x	
· Testing and release of *Bulk product*	x	
· Retention of original *batch* documentation	x	
· Copy of *batch* documentation		x
7. PACKAGING		
· *Packaging* instructions	x	
· Filling in primary *packaging materials* including IPC	x	
· Labeling of primary *packaging materials* including IPC	x	x
· Packaging in secondary *packaging material* including IPC		x
· Labeling of secondary *packaging material* including IPC		x
· *Packaging* of Product for distribution		x
· Testing and final release for clinical trials		x
· Distribution to clinical trial sites		x

8. COMPLAINTS		
· Registration of complaints		x
· Investigation of complaints	x	x
· Corrective actions	x	x
· Answer to complainant		x
· Documentation	x	x
9. OTHERS		
· Shipment instructions		x

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-80623) pertaining to the Sonus Pharmaceuticals, Inc., Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan-1991;

(2) Registration Statement (Form S-8 No. 333-36093) pertaining to the Sonus Pharmaceuticals, Inc., Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan-1991;

(3) Registration Statement (Form S-8 No. 333-56933) pertaining to the Sonus Pharmaceuticals, Inc., Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan-1991;

(4) Registration Statement (Form S-8 No. 333-87897) 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, and1999 Nonqualified Stock Incentive Plan;

(5) Registration Statement (Form S-8 No. 333-49892) pertaining to the Sonus Pharmaceuticals, Inc., 1999 Nonqualified Stock Incentive Plan and 2000 Stock Incentive Plan;

(6) Registration Statement (Form S-8 No. 333-56704) pertaining to the Sonus Pharmaceuticals, Inc., 2000 Stock Incentive Plan and 401(k) Profit Sharing Plan and Trust;

(7) Registration Statement (Form S-8 No. 333-135697) pertaining to the Sonus Pharmaceuticals, Inc., 2000 Stock Incentive Plan;

(8) Registration Statement (Form S-8 No. 333-136393) pertaining to the Sonus Pharmaceuticals, Inc., 2006 Employee Stock Purchase Plan;

(9) Registration Statement (Form S-3 No. 333-115876, No. 333-64966, No. 333-82414, No. 333-107987, No. 333-123763, and No. 333-128030) pertaining to the registration for resale of shares of common stock of Sonus Pharmaceuticals, Inc. and in the related Prospectuses;

of our reports dated March 13, 2007, with respect to the financial statements of Sonus Pharmaceuticals, Inc., Sonus Pharmaceuticals, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Sonus Pharmaceuticals, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ ERNST & YOUNG LLP

Seattle, Washington
March 13, 2007

Exhibit 31.1

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

I, Michael A. Martino, certify that:

1. I have reviewed this annual report on Form 10-K of Sonus Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/ Michael A. Martino
Michael A. Martino
President and Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

I, Alan Fuhrman, certify that:

1. I have reviewed this annual report on Form 10-K of Sonus Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and U.S.C. Section 1350

I, Michael A. Martino, President and Chief Executive Officer of Sonus Pharmaceuticals, Inc. (the "Company"), certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2007

/s/ Michael A. Martino
Michael A. Martino
President and Chief Executive Officer

EXHIBIT 32.2

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and U.S.C. Section 1350

I, Alan Fuhrman, Senior Vice President and Chief Financial Officer of Sonus Pharmaceuticals, Inc. (the "Company"), certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2007

/s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President and Chief Financial Officer