U.S. SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number 0-26866

Sonus Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-4343413**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

22026 20th Ave. SE, Bothell, Washington 98021
(Address of Principal Executive Offices)

(425) 487-9500
(Registrant's Telephone Number, Including Area Code)

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Class	Outstanding at July 31, 2001
Common Stock, $.001 par value	11,385,292

Exhibit Index appears on Page 12

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Part I. Financial Information

Item 1. Financial Statements

Sonus Pharmaceuticals, Inc.
Balance Sheets

	June 30, 2001	December 31, 2000
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 4,708,190	$ 6,696,610
Short-term investments	7,301,704	6,765,854
Other current assets	415,686	345,696
Total current assets	12,425,580	13,808,160
Equipment, furniture and leasehold improvements, net of accumulated depreciation of $3,592,376 and $3,474,027	372,819	501,660
Total assets	$ 12,798,399	$ 14,309,820
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank line of credit	$ —	$ 5,000,000
Other current liabilities	2,247,744	800,343
Total current liabilities	2,247,744	5,800,343
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.001 par value; 5,000,000 authorized; no shares issued or outstanding	—	—
Common stock; $.001 par value; 30,000,000 shares authorized; 11,379,042 and 9,603,520 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively	42,590,268	38,077,469
Notes receivable	(350,000)	(350,000)
Accumulated deficit	(31,699,835)	(29,219,041)
Accumulated other comprehensive loss	10,222	1,049

Total stockholders' equity	10,550,655	8,509,477
Total liabilities and stockholders' equity	$ 12,798,399	$ 14,309,820

See accompanying notes.

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Sonus Pharmaceuticals, Inc.
Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues:				
License agreements	$ —	$ —	$ 1,000,000	$ —
Royalties	91,188	44,969	186,716	44,969
Total revenues	91,188	44,969	1,186,716	44,969
Operating expenses:				
Research and development	1,325,132	1,288,089	2,493,193	2,378,659
General and administrative	615,824	1,136,107	1,312,540	2,521,288
Total operating expenses	1,940,956	2,424,196	3,805,733	4,899,947
Operating loss	(1,849,768)	(2,379,227)	(2,619,017)	(4,854,978)
Other income (expense):				
Interest income	110,197	196,889	252,081	352,595
Interest expense	(3,650)	(12,153)	(13,858)	(18,750)
Other income	—	4,250,000	—	4,250,000
Income (loss) before taxes	(1,743,221)	2,055,509	(2,380,794)	(271,133)
Income taxes	—	—	100,000	(176,939)
Net income (loss)	$(1,743,221)	$ 2,055,509	$(2,480,794)	$ (94,194)
Net income (loss) per common share:				
Basic	$ (0.18)	$ 0.22	$ (0.27)	$ (0.01)
Diluted	$ (0.18)	$ 0.22	$ (0.27)	$ (0.01)
Shares used in computation of per share amounts:				
Basic	9,507,221	9,155,897	9,355,069	9,112,787
Diluted	9,507,221	9,184,625	9,355,069	9,112,787

See accompanying notes.

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Sonus Pharmaceuticals, Inc.
Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2001	2000
Operating activities:		
Net loss	(2,480,791)	$ (94,194)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash compensation expense	50,214	—
Depreciation and amortization	154,348	216,657

Amortization of premium (discount) on marketable securities	10,111	—
Changes in operating assets and liabilities:		
Other current assets	(69,990)	68,430
Other current liabilities	1,447,401	(229,083)
Net cash used in operating activities	(888,707)	(38,190)
Investing activities:		
Purchases of equipment, furniture and leasehold improvements	(24,507)	(5,173)
Purchases of marketable securities	(6,973,789)	(5,977,254)
Proceeds from sale of marketable securities	1,735,320	499,995
Proceeds from maturities of marketable securities	4,700,681	6,899,268
Net cash provided by (used in) investing activities	(562,295)	1,416,836
Financing activities:		
Proceeds from bank line of credit	5,000,000	10,000,000
Repayment of bank line of credit	(10,000,000)	(10,000,000)
Proceeds from issuance of common stock	4,462,582	576,771
Net cash provided by (used in) investing activities	(537,418)	576,771
Increase (decrease) in cash and cash equivalents for the period	(1,988,420)	1,955,417
Cash and cash equivalents at beginning of period	6,696,610	5,894,194
Cash and cash equivalents at end of period	4,708,190	7,849,611
Marketable securities at end of period	7,301,704	9,494,433
Total cash, cash equivalents and marketable securities	$ 12,009,894	$ 17,344,044
Supplemental cash flow information:		
Interest paid	$ 18,958	$ 13,542
Income taxes paid	$ 100,000	$ —

See accompanying notes.

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Sonus Pharmaceuticals, Inc.
Notes to Financial Statements
(Unaudited)

1. Basis of Presentation

The unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required to be presented for complete financial statements. The accompanying financial statements reflect all adjustments (consisting only of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented.

The financial statements and related disclosures have been prepared with the assumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Form 10-K for the year ended December 31, 2000 and filed with the Securities and Exchange Commission on March 7, 2001.

2. Contingencies

The Company is party to certain litigation related to its business. See “Part II, Item 1. Legal Proceedings.”

3. Patent License Agreement

In January 2001, the Company entered into a patent licensing agreement with Chugai Pharmaceutical, Co., Ltd. (Chugai) and Molecular Biosystems, Inc. (MBI) that gave Chugai and MBI non-exclusive rights under certain Sonus ultrasound contrast patents in Japan, South Korea, and Taiwan. The Company received an initial non-refundable license fee of $1.0 million in January 2001 and a second $1.0 million payment in June 2001. The second $1.0 million payment will be non-refundable if any claims of a Sonus Japanese patent application are allowed within a period of two years from the signing of the agreement. If no claims are allowed on the Japanese patent application within this two-year period, the Company will repay to Chugai the second $1.0 million payment.

4. Subsequent Event

In August 2001, the Company entered into an agreement with Nycomed Amersham (Nycomed) whereby the Company sold substantially all of its ultrasound contrast intellectual property assets to Nycomed for $6.5 million. In addition, the Company assigned to Nycomed its interest in the ultrasound contrast patent license agreement with Chugai and MBI.

Sonus and Nycomed previously entered into an agreement in September 1999 whereby Nycomed received an exclusive license to certain of the Company’s ultrasound contrast patents in the U.S. and Europe. In exchange, Nycomed paid the Company an initial license fee of $10.0 million, assumed the responsibility and costs of applicable

patent litigation, and paid royalties to the Company on sales of an approved product covered by the licensed patents. This patent license agreement terminated concurrent with the execution of the asset purchase agreement.

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Item 2. 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:

- Market acceptance of our products and the potential size of these markets;

- Our anticipated future capital requirements and the terms of any capital financing;
- The progress and results of clinical trials;
- The timing and amount of future contractual payments, product revenues and operating expenses; and
- The anticipated outcome or financial impact of legal matters.

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

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

- Dependence on the development and commercialization of products;

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

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MD&A Overview

In Management's Discussion and Analysis 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 periods;
- The capital resources we currently have and possible sources of additional funding for future capital requirements; and
- Certain factors that may affect our business and future results.

Business Overview

We are engaged in the research and development of therapeutic drug delivery and blood substitute products utilizing our core technology in emulsion formulations and surfactant chemistry. Based on this proprietary core technology, we have developed the TOCOSOL™ drug delivery system to solubilize drugs that are poorly soluble in water. We are developing a cancer therapy product, S-8184, and a cardiovascular therapy product, S-2646, using the TOCOSOL technology. We are also developing a blood substitute product, S-9156, based on our core emulsion formulation technology that utilizes stabilized fluorocarbon gas microbubbles to more efficiently transport oxygen to body tissues.

S-8184 — Cancer Therapy

The first application of our TOCOSOL drug delivery technology is an injectable paclitaxel emulsion formulation, S-8184. Paclitaxel is the active ingredient in the world's leading cancer drug, which is indicated for the treatment of breast, ovarian and non-small cell lung cancer. We filed an Investigational New Drug Application, or IND, with the U.S. Food and Drug Administration in late 2000 and initiated our Phase 1 human clinical study in December 2000. To date, we have enrolled patients with breast, ovarian, lung and colon cancers and are encouraged by indications that our formulation may provide significant advantages for both patients and physicians including a reduction in side effects, a reduction or elimination of premedications and a reduction in the administration time using a single, quick injection in a matter of minutes compared to the hours of infusion with existing formulations of paclitaxel. We also believe that there may be other potential advantages of our paclitaxel formulation including tumor targeting, sustained drug release and a ready-to-use formulation that may position S-8184 as a potentially more effective and convenient product. We expect to complete patient enrollment in the S-8184 Phase 1 study in the second half of 2001.

S-2646 — Cardiovascular Treatment

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

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dosing through the use of a conventional intravenous line in the arm. We expect to complete preclinical studies with S-2646 and file an IND with the U.S. Food and Drug Administration by the end of 2001.

S-9156 — Blood Substitute

We are also developing a synthetic blood substitute product, S-9156, for use in therapeutic applications. This product utilizes stabilized gas microbubbles, formed from our fluorocarbon emulsion technology, for transporting oxygen to the body's tissues. In pre-clinical studies, S-9156 was shown to carry large volumes of oxygen adequate to sustain life at doses that are many times lower than liquid fluorocarbon products that are currently under development by others. This may present important clinical advantages because many of the side effects associated with administration of large volumes of liquid fluorocarbons could be minimized with S-9156. Potential applications for S-9156 include use in trauma situations to provide immediate tissue oxygenation when there is no availability or time for typing and cross-matching blood for transfusion or for oxygenation of solid tumors to increase the effectiveness of radiotherapy. We expect to complete preclinical studies with S-9156 and file an IND with the U.S. Food and Drug Administration in 2002.

Results of Operations

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

- Timing of payments under contractual and license agreements with third-parties;
- Entering into additional contractual agreements;
- Timing and costs of product development, clinical trials and patent prosecution; and
- Timing of regulatory approvals.

Revenues in the second quarter of 2001 was $91,000 compared to $45,000 for the second quarter of 2000. Revenues for each period represent royalty income under an ultrasound contrast patent license agreement with Nycomed Amersham plc. For the six months ended June 30, 2001, revenue was $1.2 million compared to $45,000 for the prior year period. Included in 2001 is the $1.0 million non-refundable license fee payment received under our ultrasound contrast patent license agreement with Chugai.

Total operating expenses were $1.9 million for the second quarter of 2001 compared with $2.4 million for the prior year. The decrease from the prior year was primarily due to lower general and administrative expenses ($0.6 million the second quarter of 2001 compared to $1.1 million in the second quarter of 2000) resulting from the cost-reduction measures implemented in October 2000. Research and development expenses in the second quarter of 2001 were consistent with the prior year ($1.3 million in each second quarter of 2001 and 2000) reflecting the continued investment in our product research and clinical trial programs. For the first six months of 2001, total operating expenses were $3.8 million compared to $4.9 million for the prior year period, with the decrease primarily due to lower general and administrative expenses resulting from the cost-reduction measures implemented in October 2000.

We anticipate total operating expenses for the next several quarters will be consistent with or slightly higher than the second quarter of 2001 as we continue to invest in current and future product development activities.

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Interest income, net of interest expense of $4,000, was $106,000 for the second quarter of 2001 compared with $185,000, net of interest expense of $12,000, for the same period of the prior year and $238,000 and $334,000 for the six months ended June 30, 2001 and 2000, respectively. The decrease in net interest income was primarily due to lower levels of invested cash in the current year.

Net loss for the second quarter of 2001 was $1.7 million compared with net income of $2.1 million for the same period of the prior year. Net loss for the six months ended June 30, 2001 and 2000, was $2.5 million and $0.1 million, respectively. The prior year results include other income of $4.25 million from payments received under patent litigation and insurance settlements.

Liquidity and Capital Resources

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

At June 30, 2001, we had cash, cash equivalents and short-term investments of $12.0 million compared to $13.5 million at December 31, 2000. The decrease was primarily due to the pay-off of the bank line of credit and funding of operations, offset in part by the $4.5 million of net proceeds from the private placement of common stock.

We have a bank loan agreement which provides for a $5.0 million revolving line of credit facility and bears interest at the prime rate plus 1.0% per annum. At June 30, 2001, we had no outstanding borrowings under the line of credit. The line of credit expires in August 2001 and is secured by tangible assets. We are required to maintain a minimum of $5.0 million of cash in order to borrow under the line of credit, and the borrowed funds are required to be held at the bank. We cannot give assurance that we will be able to maintain the minimum balances necessary to borrow under the line of credit.

We expect that our cash needs will increase in future periods due to planned clinical trials and other product development costs associated with our drug delivery and blood substitute products. Based on our current operating plan, including planned clinical trials and other product development costs, we estimate that existing cash and short-term investments will be sufficient to meet our cash requirements for at least 18 months. However, we intend to seek additional funding through available means, which may include debt and/or equity financing or funding under additional third party agreements. Our future capital requirements depend on many factors including:

- The ability to attract and retain new collaborative agreement partners;

- The ability to obtain funding under contractual and licensing agreements;
- The progress of our research and development programs and clinical trials;
- The time and costs required to gain regulatory approvals;
- The costs of filing, prosecuting and enforcing patents, patent applications, patent claims and trademarks; and
- The cost of defending, and any damages or settlement payments that may be paid pursuant to existing legal proceedings.

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

Item 3. Market Risk

The market risk inherent in our short-term investment portfolio represents the potential loss that could arise from adverse changes in interest rates. If market rates hypothetically increase immediately and uniformly by 100 basis points from levels at June 30, 2001, the decline in the fair value of the investment portfolio would not be material. Because we have the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates.

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Part II. Other Information

Item 1. Legal Proceedings

a. In July 2000, DuPont Pharmaceuticals Company, DuPont Contrast Imaging, Inc., E.I. DuPont de Nemours & Co., Inc. and DuPont Pharma, Inc. (collectively "DuPont") filed a complaint in the United States District Court for the District of Massachusetts against us and certain Nycomed Amersham-related entities ("Nycomed"). DuPont's complaint seeks a declaratory judgment that certain ultrasound patents we have transferred to Nycomed are invalid and not infringed by DuPont. We and Nycomed believe DuPont's complaint is without merit and intend to vigorously defend against the complaint. At the request of Nycomed and us, the Massachusetts action was transferred to the United States District Court for the Western District of Washington.

Under our agreement with Nycomed, Nycomed has the right to enforce the patents in the field of non-perfluoropentane ultrasound contrast agents on behalf of Nycomed and us, at Nycomed's expense. Pursuant to this right, in July 2000, Nycomed and we filed an action in the United States District Court for the Western District of Washington alleging that DuPont's contrast agent "Definity" infringes patents we have transferred to Nycomed. The patent infringement action filed in district court in Washington involves the same questions of patent infringement and validity that were raised in DuPont's Massachusetts action. Both the Massachusetts action and the Washington action have been assigned to the same District Judge, who has ordered the cases consolidated and to proceed as one action. Nycomed has filed a motion for summary judgment of infringement and for a preliminary injunction enjoining the sale of Definity following final FDA approval. Pursuant to our agreement with Nycomed, Nycomed will bear all costs and expenses associated with the litigation against DuPont.

b. In 1998, various class action complaints were filed against us and certain of our officers and directors, alleging violations of Washington State and U.S. securities laws. In July 2000, with the consent of our insurance carrier, we entered into a Memorandum of Understanding with plaintiffs to settle the complaints for an amount within our directors and officers' insurance policy limits. In November 2000, the parties filed with the Court a Stipulation of Settlement and related exhibits. On February 20, 2001, the Court approved the Stipulation of Settlement and entered an order dismissing with prejudice all claims against the defendants. Given the uncertainties of litigation, we believe that this settlement, which is covered by our insurance carrier, is in the best interests of our shareholders.

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Item 2. Changes in Securities and Use of Proceeds

(c) The following is a summary of transactions by the Company during the fiscal quarter ended June 30, 2001, involving sales of the Company's securities that were not registered under the Securities Act of 1993 (the "Securities Act"):

On June 15, 2001, the Company sold 1,745,000 shares of its Common Stock under the terms of a Securities Purchase Agreement to accredited investors in conformity with Rule 506 under Regulation D and under Section 4(2) of the Securities Act at a price of $2.80 per share. The Company and the investors concurrently entered into a Registration Rights Agreement under which the company had undertaken to register such 1,745,000 shares under the Securities Act within a time frame specified in the Registration Rights Agreement. Concurrently, the company also issued warrants to purchase an aggregate of 174,500 shares of its Common Stock under the terms of certain Warrant Certificates at an exercise price of $3.36 per share. Such warrants are exempt from registration under Rule 506 under Regulation D and under Section 4(2) of the Securities Act. Pursuant to the terms of the Warrant Certificates the Company has undertaken to register such 174,500 shares under the Securities Act within a time frame specified in the Warrant Certificates. No underwriting or broker's commissions were paid in connection with the foregoing transactions.

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

Information regarding matters submitted to a vote of security holders at our annual meeting of stockholders held on April 25, 2001, is set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.47	Change in Control Agreement for Nagesh Palepu
10.48	Change in Control Agreement for Michael A. Martino

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended June 30, 2001.

Items 3 and 5 are not applicable and have been omitted.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SONUS PHARMACEUTICALS, INC.

Date: August 7, 2001

By: /s/ Richard J. Klein

Richard J. Klein
Chief Financial Officer
(Principal Financial and Accounting Officer)

June 14, 2001

Nagesh Palepu, Ph.D.
787 Niwot Ridge Lane
Lafayette, CO 80026

Re: Change In Control Agreement

Dear Nagesh:

In consideration of your employment with Sonus Pharmaceuticals, a Delaware corporation ("Sonus"), this letter agreement (the "Agreement") sets forth the compensation and benefits you will be entitled to receive in the event your employment terminates in connection with a change in control of the Company under the conditions described below. This Agreement takes effect on the date you commence employment with the Company.

1. TERMINATION OF EMPLOYMENT.

1.1. During the term of this Agreement, you will be entitled to the benefits provided in Section 2 of this Agreement in the event (A) a Change in Control has occurred; and (B) (i) you terminate your employment with the Company for Good Reason within 12 months following the Change of Control, or (ii) the Company terminates your employment for reasons other than Cause, Disability, or your death within 12 months following the Change of Control, provided you fulfill your obligations under this Agreement.

1.2 For purposes of this Agreement, the term "Change in Control" shall mean (i) a sale of fifty percent (50%) or more of the outstanding shares of common stock of the Company; (ii) a sale of all or substantially all of the assets of the Company, or (iii) a merger, consolidation or reorganization whereby the stockholders of the Company immediately prior to the consummation of such merger, consolidation or reorganization own less than fifty percent (50%) of the outstanding shares of common stock immediately following the consummation of the merger, consolidation or reorganization.

1.3. For purposes of this Agreement, the term "Good Reason" shall mean any of the following, if done without your consent:

1.3.1. A substantial diminution in your duties and responsibilities to a level substantially beneath that of your duties and responsibilities at the outset of your employment under this Agreement other than actions that are not taken in bad faith and are remedied by the Company within thirty days after written notice by you;

1.3.2. A reduction by the Company in your current annual base salary unless such reduction is attributable to an across the board salary reduction for all of management personnel of the Company and then only if the percentage of your reduction is (i) not greater than 20%, and (ii) no greater than that of the other management personnel;

1.3.3. The Company requires the relocation of your base of employment outside the Seattle, Washington metropolitan area;

1.3.4. A material breach by the Company of any of the terms and provisions of this Agreement, which is not cured within 30 days of written notice by you of such breach; or

1.3.5. The failure of the Company to obtain a satisfactory agreement from any successor in a Change of Control to assume and agree to perform this Agreement, as contemplated in Section 6 hereof.

1.4 For purposes of this Agreement, the term "Cause" shall mean any of the following: (i) your willful and continued failure or refusal to perform your duties with the Company; (b) your willfully engaging in gross misconduct injurious to the Company; (c) your being convicted or pleading guilty or nolo contendere to any misdemeanor involving moral turpitude or to any felony; (d) your having materially breached any provision of this Agreement, or any agreement concerning confidentiality or ownership of inventions with the Company and failed to cure such breach to the reasonable satisfaction of the Company promptly after receiving written notice of breach if such cure is possible.

1.5. For purposes of this Agreement, the term "Disability" shall mean your inability to perform the essential functions of your position due to any physical or mental illness even with reasonable accommodation to the extent required by law, for any period of six months in the aggregate during any twelve months, provided the Company has given you a written demand to return to your

fill time duties.

1.6 Any termination of employment by you or by the Company pursuant to this Agreement shall be communicated by written Notice of Termination indicating the termination provision in this Agreement relied upon, if any. For purposes of this Agreement, the "Date of Termination" shall mean the date specified in the Notice of Termination which shall not be earlier than ten (10) business days after the date on the Notice of Termination is given.

2. COMPENSATION UPON TERMINATION.

2.1. If your employment shall be terminated and you are entitled to benefits under Section 1 of this Agreement then, except as provided in Subsection 2.2, you shall receive the following benefits:

2.1.1. the Company shall pay to you in a lump sum within ten days following the Date of Termination (a) your base salary unpaid through the Date of Termination at the rate in effect as of the time of Notice of Termination and (b) an amount equal to the value as of the Date

of Termination of the deferred portion of any bonus which has been declared but is unpaid under any incentive compensation plan or program of the Company then in effect;

2.1.2. the Company shall pay to you as severance pay in a lump sum within thirty days following the Date of Termination an amount equal to your highest annual base salary in effect any time during the twelve (12) month period prior to the Date of Termination; and

2.1.3. the Company shall maintain in full force and effect, for the continued benefit of you for one year after the Date of Termination, or, if sooner, until you are employed in a full-time capacity by another employer, all non-cash health and welfare plans and programs (excluding 401(k) or any employee bonus plans and programs or retirement plans or programs) in which you participated immediately prior to the Date of Termination provided that your continued participation is permissible under the general terms and provisions of such plans and programs. In the event that your participation in any such plan or program is barred, the Company shall arrange to provide you with benefits substantially similar to those which you are entitled to receive under such plans and programs at no cost to you. At the end of the period of coverage, you shall have the option to have assigned to you at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating to specifically to you.

2.2. Notwithstanding Section 1, the respective obligations of, and benefits afforded to, the Company and you as provided in this Section 2, shall survive termination of this Agreement.

2.3. No compensation or benefits shall be due under this Agreement in the event your employment is terminated by you or the Company in circumstances other than those described in Section 1.1, including but not limited to a termination by you for any reason other than Good Reason, a termination by the Company for Cause, disability, or death, or any termination that does not occur within twelve months following a Change in Control.

2.4. To the extent that any or all of the payments and benefits provided for in this Agreement constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and, but for this Section 2.4 would be subject to the excise tax imposed by Section 4999 of the Code, the aggregate amount of such payments and benefits shall be reduced such that the present value thereof (as determined under the Code and applicable regulations) is equal to 2.99 times the Executive's "base amount" (as defined in the Code). The determination of any reduction of any payment or benefits under Section 2 pursuant to the foregoing provision shall be made by a nationally recognized public accounting firm chosen by the Company in good faith, and such determination shall be conclusive and binding on the Company and you.

3. OTHER BENEFITS.

In the event you are entitled to any compensation or benefits under this Agreement, you shall not be entitled to any other severance compensation or benefits under any other policy or agreement with the Company.

4. PROPRIETARY INFORMATION AND UNFAIR COMPETITION.

4.1 You acknowledge that in the course of your employment with the Company, you will be entrusted with access to extensive confidential information

of the Company concerning its products and service, methods of manufacture, research and development, know-how, patents, copyrights, trademarks, and other proprietary data, as well as the identity, needs, and preferences of its customers and prospects, all of which the Company considers its legally protected trade secrets and intellectual property. You further acknowledge the highly competitive nature of the business of the Company, and the fact that unauthorized disclosure or use of such trade secrets and intellectual property would be inevitable if you were to compete with the Company or solicit competing business from its prospects and customers. You therefore agree as follows:

4.2 Commencing on the Date of Termination, and ending one year thereafter (the "Non-Compete Period"), you will not provide goods or services to or become an employee, owner (except for passive investments of not more than three percent of the outstanding shares of, or any other equity interest in, any company or entity listed or traded on a national securities exchange or in an over-the-counter securities market), officer, agent, consultant, advisor or director of any firm or person in any geographic area which competes in the "Business". For purposes of this Agreement, the term "Business" shall mean the research, design, development, manufacture, sale or distribution of (i) drug delivery products using Vitamin E technology, or (ii) blood substitute products using flurocarbon technology.

4.3 During the Non-Compete Period, you will not directly or indirectly induce any employee of the Company or any of its affiliates to engage in any activity in which you are prohibited from engaging by paragraph 4.1 above, or to terminate such employee's employment with the Company, or any of its affiliates, and will not directly or indirectly employ or offer employment to any person who was employed by the Company or any of its affiliates unless such person shall cease to be employed by the Company or any of its affiliates for a period of at least 12 months; provided, however, that this provision shall not apply to any person who is no longer an employee of the Company or any of its affiliates as of a result of actions taken by the Company or its affiliates.

4.4 During the Non-Compete Period, you will refrain from making any statement which has the effect of demeaning the name or the business reputation of the Company or its subsidiaries or affiliates, or any officer or employee thereof, or which materially adversely effects the best interests (economic or otherwise) of the Company, its subsidiaries or affiliates.

4.5. It is expressly understood and agreed that although you and the Company consider the restrictions contained in this Section 4 to be reasonable, if a final judicial determination is made by a court of jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against you, provisions of this Agreement shall not be rendered void, but shall be deemed amended to apply to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it

enforceable, such finding shall not effect the enforceability of any of the other restriction contained herein.

5. MISCELLANEOUS.

Any payment required under this Agreement shall be subject to all requirements of the law with regard to withholding, filing, making of reports and the like, and the Company shall use its commercially reasonable best efforts to satisfy promptly all such requirements. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by both parties. The validity, interpretation, construction and performance of this Agreement shall be governed by the law of the State of Delaware.

6. SUCCESSORS AND ASSIGNMENT.

This agreement and all of your rights thereunder shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. Except as expressly provided in this Agreement, this Agreement is personal to you and may not be assigned to you. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or, if there be no such designee, to your estate. This Agreement shall be binding upon any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company.

7. TERM OF AGREEMENT.

This Agreement shall commence as of the date of this Agreement and shall

terminate on the earliest of (i) three (3) years from the date of this Agreement, (ii) the termination of your employment by the Company for Cause, Disability or death; (iii) your termination of employment other than for Good Reason or (iv) your reaching age 65.

8. NO GUARANTEE OF CONTINUED EMPLOYMENT.

This Agreement is intended solely to provide you with certain compensation and benefits in the event your employment terminates in the circumstances described in Section 1.1. Nothing in this Agreement constitutes or implies any specific term of employment. You acknowledge and agree that your employment with the Company can be terminated by you or the Company at any time with or without cause or prior warning. Nothing in this Agreement limits or supercedes any other agreements between you and the Company concerning confidentiality or ownership of intellectual property.

9. MEDIATION

In the event that the Company terminates you for Cause and you dispute its right to do so or you claim that your are entitled to terminate your employment for Good Reason and the Company disputes your right to do so, a mediator acceptable to you and the Company will be appointed within ten (10) days to assist in reaching a mutually satisfactory resolution but will have no authority to issue a binding decision. Such mediation must be concluded within 60 days of the date of termination or claim to termination. Should such mediation fail to reach an acceptable conclusion and you are successful in any litigation or settlement that issues from such dispute, you shall be entitled to receive from the Company all of the expenses incurred by you in connection with any such dispute including reasonable attorney's fees.

If this Agreement is acceptable to you, kindly sign and return to the Company the enclosed copy of this letter.

Sincerely,

Sonus Pharmaceuticals, Inc.

/s/ Michael A. Martino

Michael A. Martino
President and C.E.O.

AGREED AND ACCEPTED:

/s/ Nagesh Palepu
- ---
Nagesh Palepu

Dated: June 21, 2001

EXHIBIT 10.48

SONUS PHARMACEUTICALS, INC.
22026 20TH AVENUE, SUITE 201
BOTHELL, WASHINGTON 98021

July 18, 2001

Mr. Michael Martino
c/o SONUS Pharmaceuticals, Inc.
22026 20th Avenue, Suite 201
Bothell, Washington 98021

Re: Change In Control Agreement

Dear Michael:

In consideration of your employment with SONUS Pharmaceuticals, Inc., a Delaware corporation (the "Company"), you and the Company entered into a letter Change in Control Agreement dated September 15, 1998 (the "Prior Agreement"). For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, you and the Company desire to amend and restate the Prior Agreement as set forth herein. This letter agreement (the "Agreement") amends and restates the Prior Agreement and sets forth the compensation and benefits you will be entitled to receive in the event your employment terminates in connection with a change in control of the Company under the conditions described below. This Agreement takes effect on the date you commence employment with the Company.

1. TERMINATION OF EMPLOYMENT.

1.1. During the term of this Agreement, you will be entitled to the benefits provided in Section 2 of this Agreement in the event (A) a Change in Control has occurred; and (B) (i) you terminate your employment with the Company for Good Reason within 12 months following the Change of Control, or (ii) the Company terminates your employment for reasons other than Cause, Disability, or your death within 12 months following the Change of Control, provided you fulfill your obligations under this Agreement.

1.2 For purposes of this Agreement, the term "Change in Control" shall mean (i) a sale of fifty percent (50%) or more of the outstanding shares of common stock of the Company to a controlling entity; (ii) a sale of all or substantially all of the assets of the Company, or (iii) a merger, consolidation or reorganization whereby the stockholders of the Company immediately prior to the consummation of such merger, consolidation or reorganization own less than fifty percent (50%) of the outstanding shares of common stock immediately following the consummation of the merger, consolidation or reorganization.

1.3. For purposes of this Agreement, the term "Good Reason" shall mean any of the following, if done without your consent:

1.3.1. A substantial diminution in your duties and responsibilities to a level substantially beneath that of your duties and responsibilities as President and Chief Executive Officer of the Company other than actions that are not taken in bad faith and are remedied by the Company within thirty days after written notice by you;

1.3.2. A reduction by the Company in your annual base salary in effect as of the effective date of the Change in Control unless such reduction is attributable to an across the board salary reduction for all of

management personnel of the Company and then only if the percentage of your reduction is (i) not greater than 10%, and (ii) no greater than that of the other management personnel;

1.3.3. The Company requires the relocation of your base of employment outside the Seattle, Washington metropolitan area;

1.3.4. A material breach by the Company of any of the terms and provisions of this Agreement, which is not cured within 30 days of written notice by you of such breach; or

1.3.5. the failure of the Company to obtain a satisfactory agreement from any successor in a Change of Control to assume and agree to perform this Agreement, as contemplated in Section 6 hereof.

1.4 For purposes of this Agreement, the term "Cause" shall mean any of the following: (i) your willful and continued failure or refusal to perform your

duties with the Company; (b) your willfully engaging in gross misconduct injurious to the Company; (c) your being convicted or pleading guilty or nolo contendere to any misdemeanor involving moral turpitude or to any felony; (d) your having materially breached any provision of this Agreement, or any agreement concerning confidentiality or ownership of inventions with the Company and failed to cure such breach to the reasonable satisfaction of the Company within 30 days after receiving written notice of breach if such cure is possible.

1.5. For purposes of this Agreement, the term "Disability" shall mean your inability to perform the essential functions of your position due to any physical or mental illness even with reasonable accommodation to the extent required by law, for any period of six months in the aggregate during any twelve months, provided the Company has given you a written demand to return to your full time duties.

1.6 Any termination of employment by you or by the Company pursuant to this Agreement shall be communicated by written Notice of Termination indicating the termination provision in this Agreement relied upon, if any. For purposes of this Agreement, the "Date of Termination" shall mean the date specified in the Notice of Termination which shall not be earlier than ten (10) business days after the date on the Notice of Termination is given and the expiration of the period given to cure a breach as provided in Section 1.4(d) of this Agreement.

2. COMPENSATION UPON TERMINATION.

2.1. If your employment shall be terminated and you are entitled to benefits under Section 1 of this Agreement then, except as provided in Subsection 2.2, you shall receive the following benefits:

2.1.1. the Company shall pay to you in a lump sum within ten days following the Date of Termination (a) your base salary unpaid through the Date of Termination at the rate in effect as of the time of Notice of Termination and (b) an amount equal to the value as of the Date of Termination of the deferred portion of any bonus which has been declared but is unpaid under any incentive compensation plan or program of the Company then in effect;

2.1.2. the Company shall pay to you as severance pay in a lump sum within thirty days following the Date of Termination an amount equal to the product of the sum of your highest annual base salary in effect any time during the twelve (12) month period prior to the Date of Termination, multiplied by 2.99; and

2.1.3. the Company shall maintain in full force and effect, for the continued benefit of you for three years after the Date of Termination, or, if sooner, until you are employed in a full-time capacity by another employer, all non-cash health and welfare plans and programs (excluding 401(k) or any employee bonus plans and programs or retirement plans or programs) in which you participated immediately prior to the Date of Termination provided that your continued participation is permissible under the general terms and provisions of such plans and programs. In the event that your participation in any such plan or program is barred, the Company shall arrange to provide you with benefits substantially similar to those which you are entitled to receive under such plans and programs at no cost to you. At the end of the period of coverage, you shall have the option to have assigned to you

at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating to specifically to you.

2.2. Notwithstanding Section 1, the respective obligations of, and benefits afforded to, the Company and you as provided in this Section 2, shall survive termination of this Agreement.

2.3. No compensation or benefits shall be due under this Agreement in the event your employment is terminated by you or the Company in circumstances other than those described in Section 1.1, including but not limited to a termination by you for any reason other than Good Reason, a termination by the Company for Cause, disability, or death, or any termination that does not occur within twelve months following a Change in Control.

2.4. To the extent that any or all of the payments and benefits provided for in this Agreement constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and, but for this Section 2.4 would be subject to the excise tax imposed by Section 4999 of the Code, the aggregate amount of such payments and benefits shall be reduced such that the present value thereof (as determined under the Code and applicable regulations) is equal to 2.99 times the Executive's "base amount" (as defined in the Code). The determination of any reduction of any payment or benefits under Section 2 pursuant to the foregoing provision shall be made by a nationally recognized public accounting firm chosen by the Company in good faith, and such determination shall be conclusive and binding on the Company and you.

3. OTHER BENEFITS.

In the event you are entitled to any compensation or benefits under this Agreement, you shall not be entitled to any other severance compensation or benefits under any other policy or agreement with the Company.

4. PROPRIETARY INFORMATION AND UNFAIR COMPETITION.

4.1 You acknowledge that in the course of your employment with the Company, you will be entrusted with access to extensive confidential information of the Company concerning its products and service, methods of manufacture, research and development, know-how, patents, copyrights, trademarks, and other proprietary data, as well as the identity, needs, and preferences of its customers and prospects, all of which the Company considers its legally protected trade secrets and intellectual property. You further acknowledge the highly competitive nature of the business of the Company, and the fact that unauthorized disclosure or use of such trade secrets and intellectual property would be inevitable if you were to compete with the Company or solicit competing business from its prospects and customers. You therefore agree as follows:

4.2 Commencing on the Date of Termination, and ending [one] year thereafter (the "Non-Compete Period"), you will not provide goods or services to or become an employee, owner (except for passive investments of not more than three percent of the outstanding shares of, or any other equity interest in, any company or entity listed or traded on a national securities exchange or in an over-the-counter securities market), officer, agent, consultant, advisor or director of any firm or person in any geographic area which competes in the "Business". For purposes of this Agreement, the term "Business" shall mean the research, design, development, manufacture, sale or distribution of Vitamin E emulsion-based drug delivery products.

4.3 During the Non-Compete Period, you will not directly or indirectly induce any employee of the Company or any of its affiliates to engage in any activity in which you are prohibited from engaging by paragraph 5.1 above, or to terminate such employee's employment with the Company, or any of its affiliates, and will not directly or indirectly employ or offer employment to any person who was employed by the Company or any of its affiliates unless such person shall cease to be employed by the Company or any of its affiliates for a period of at least 12 months; provided, however, that this provision shall not apply to any person who is no longer an employee of the Company or any of its affiliates as of a result of actions taken by the Company or its affiliates.

4.4 During the Non-Compete Period, you will refrain from making any statement which has the effect of demeaning the name or the business reputation of the Company or its subsidiaries or affiliates, or any officer or

employee thereof, or which materially adversely effects the best interests (economic or otherwise) of the Company, its subsidiaries or affiliates.

4.5. It is expressly understood and agreed that although you and the Company consider the restrictions contained in this Section 5 to be reasonable, if a final judicial determination is made by a court of jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against you, provisions of this Agreement shall not be rendered void, but shall be deemed amended to apply to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not effect the enforceability of any of the other restriction contained herein.

5. MISCELLANEOUS.

Any payment required under this Agreement shall be subject to all requirements of the law with regard to withholding, filing, making of reports and the like, and the Company shall use its commercially reasonable best efforts to satisfy promptly all such requirements. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by both parties. The validity, interpretation, construction and performance of this Agreement shall be governed by the law of the State of Delaware.

6. SUCCESSORS AND ASSIGNMENT.

This agreement and all of your rights thereunder shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. Except as expressly provided in this Agreement, this Agreement is personal to you and may not be assigned to you. If you should die while any amounts would still be payable to you hereunder if you had continued to live,

all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or, if there be no such designee, to your estate. This Agreement shall be binding upon any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company.

7. TERM OF AGREEMENT.

This Agreement shall commence as of the date of this Agreement and shall terminate on the earliest of (i) the termination of your employment by the Company for Cause, Disability or death; (ii) your termination of employment other than for Good Reason or (iii) your reaching age 65.

8. NO GUARANTEE OF CONTINUED EMPLOYMENT.

This Agreement is intended solely to provide you with certain compensation and benefits in the event your employment terminates in the circumstances described in Section 1.1. Nothing in this Agreement constitutes or implies any specific term of employment. You acknowledge and agree that your employment with the Company can be terminated by you or the Company at any time with or without cause or prior warning. Nothing in this Agreement limits or supercedes any other agreements between you and the Company concerning confidentiality or ownership of intellectual property.

9. MEDIATION

In the event that the Company terminates you for Cause and you dispute its right to do so or you claim that your are entitled to terminate your employment for Good Reason and the Company disputes your right to do so, a mediator acceptable to you and the Company will be appointed within ten (10) days to assist in reaching a mutually satisfactory resolution but will have no authority to issue a binding decision. Such mediation must be concluded within 60 days of the date of termination or claim to termination. Should such mediation fail to reach an acceptable conclusion and you are successful in any litigation or settlement that issues from such dispute, you shall be entitled

to receive from the Company all of the expenses incurred by you in connection with any such dispute including reasonable attorney's fees.

If this Agreement is acceptable to you, kindly sign and return to the Company the enclosed copy of this letter.

Sincerely,

SONUS Pharmaceuticals, Inc.

By: /s/ Robert E. Ivy

Robert E. Ivy, Co-Chairman of the Board

AGREED AND ACCEPTED:

/s/ Michael A. Martino
- ----------
Michael A. Martino

Dated: July 18, 2001