UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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

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 Exchange Act Rule 12b-2). Yes☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 5, 2007
Common Stock, $0.001 par value	36,973,902

Sonus Pharmaceuticals, Inc.
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Item 6. Exhibits

Items 1, 2, 3, 4 and 5 are not applicable and therefore have been omitted.

Part I. Financial Information

Item 1. Financial Statements

Sonus Pharmaceuticals, Inc.
Balance Sheets

	September 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 2,288,397	$ 35,771,784
Marketable securities	38,376,614	22,506,086
Accounts receivable from related party	4,577,313	8,043,771
Other current assets	1,290,883	524,470
Total current assets	46,533,207	66,846,111
Equipment, furniture and leasehold improvements, net	1,352,303	1,186,174
Other assets	439,822	460,717
Total assets	$ 48,325,332	$ 68,493,002
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 292,227	$ 898,486
Accounts payable to related party	2,630,300	1,473,050
Accrued expenses	8,889,180	11,928,124
Deferred revenue from related party	6,927,174	5,545,919
Other current liabilities	—	64,792
Total current liabilities	18,738,881	19,910,371
Deferred revenue from related party, less current portion	—	5,540,694
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.001 par value; 5,000,000 authorized; no shares issued or outstanding	—	—
Common stock; $.001 par value; 75,000,000 shares authorized; 36,973,902 and 36,853,974 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	156,323,186	154,780,939
Accumulated deficit	(126,734,778)	(111,738,669)
Accumulated other comprehensive loss	(1,957)	(333)
Total stockholders' equity	29,586,451	43,041,937
Total liabilities and stockholders' equity	$ 48,325,332	$ 68,493,002

See accompanying notes.

Sonus Pharmaceuticals, Inc.
Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Collaboration revenue from related party	$ 4,079,400	$ 4,931,212	$ 12,401,452	$ 16,498,417
Operating expenses:				
Research and development	8,870,645	10,281,055	23,506,016	29,640,135
General and administrative	1,562,420	1,786,317	5,666,542	5,442,235
Total operating expenses	10,433,065	12,067,372	29,172,558	35,082,370
Operating loss	(6,353,665)	(7,136,160)	(16,771,106)	(18,583,953)
Other income (expense):				
Other income (expense)	(629)	3,594	(34,632)	(44,447)
Interest income	546,705	840,384	1,810,063	2,092,362
Interest expense	—	(663)	(434)	(2,496)

Total other income, net	546,076	843,315	1,774,997	2,045,419
Net loss	$ (5,807,589)	$ (6,292,845)	$ (14,996,109)	$ (16,538,534)
Basic and diluted net loss per share	$ (0.16)	$ (0.17)	$ (0.41)	$ (0.49)
Shares used in computation of basic and diluted net loss per share	36,925,165	36,793,772	36,887,715	34,036,401

See accompanying notes.

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

	Nine Months Ended September 30,	
	2007	2006
Operating activities:		
Net loss	$ (14,996,109)	$ (16,538,534)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	464,646	442,827
Non-cash stock-based compensation	1,309,235	1,481,111
Accretion of investments	(361,884)	(41,904)
Changes in operating assets and liabilities:		
Accounts receivable from related party	3,466,458	(2,615,676)
Other current assets	(766,413)	102,779
Long term receivable from related party	—	87,500
Other long term assets	20,895	23,507
Accounts payable	(606,259)	(867,137)
Accounts payable to related party	1,157,250	866,000
Accrued expenses	(3,038,944)	4,689,409
Other current liabilities	(50,029)	—
Deferred revenue from related party	(4,159,439)	(4,159,439)
Other liabilities	—	(232,023)
Net cash used in operating activities	(17,560,593)	(16,761,580)
Investing activities:		
Purchases of capital equipment and leasehold improvements	(630,775)	(676,224)
Purchases of marketable securities	(46,444,749)	(16,640,990)
Proceeds from sales of marketable securities	30,465,514	—
Proceeds from maturities of marketable securities	468,967	—
Net cash used in investing activities	(16,141,043)	(17,317,214)
Financing activities:		
Proceeds from issuance of common stock under equity financings, net of issuance costs	—	28,570,451
Proceeds from exercise of common stock warrants	57,440	301,330
Proceeds from exercise of stock options and other	175,572	99,211
Payments on lease obligations	(14,763)	(20,300)
Net cash provided by investing activities	218,249	28,950,692
(Decrease) Increase in cash and cash equivalents for the period	(33,483,387)	(5,128,102)
Cash and cash equivalents at beginning of period	35,771,784	49,317,845
Total cash and cash equivalents	$ 2,288,397	$ 44,189,743
Supplemental cash flow information:		
Interest paid	$ 434	$ 2,496

See accompanying notes.

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 accompanying Balance Sheet at December 31, 2006 has been derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the year then ended. 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 Annual Report on Form 10-K for the year ended December

31, 2006 and filed with the Securities and Exchange Commission on March 16, 2007.

2. Related Party

The Company engages in significant transactions with Bayer Schering Pharma AG, Germany ("Bayer Schering"). Bayer Schering is a related party due to their ownership interest in the Company (10.6% fully diluted) and has been appropriately identified as such on the face of the financial statements. All amounts disclosed on the face of the financial statements with related parties are attributable to Bayer Schering. Please see Note 3 "Collaboration and License Agreement with Bayer Schering Pharma AG" for additional details.

3. Collaboration and License Agreement with Bayer Schering Pharma AG

On October 17, 2005, Sonus entered into a Collaboration and License Agreement (the "Agreement") with Bayer Schering Pharma AG (formerly Schering AG), a German corporation, pursuant to which, among other things, it granted Bayer Schering an exclusive, worldwide license to TOCOSOL® Paclitaxel. At that time, the parties agreed to a core development program consisting of the initial pivotal trial in metastatic breast cancer, trials for additional indications and trials to support launch of TOCOSOL Paclitaxel, and agreed to share equally in the costs of the core development program. In connection with the 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 nine month period ended September 30, 2007, the Company recognized revenue of $4.1 million as amortization of the upfront license fee and an additional $8.3 million related to research and development services performed by Sonus primarily for the Phase 3 trial for TOCOSOL Paclitaxel and related manufacturing costs. As of September 30, 2007, the Company had $6.9 million in deferred revenue related to the unamortized upfront payment (net of the adjustment for warrants issued in connection with the Agreement) as well as $4.6 million in receivables and $2.6 million in payables with Bayer Schering.

On October 3, 2007, Sonus received notification from Bayer Schering of its decision to terminate the Agreement in accordance with its terms because the Phase 3 pivotal trial did not meet its primary endpoint and the results of the trial do not support, in Bayer Schering's judgment, a submission for a New Drug Application with the United States Food and Drug Administration ("FDA"). The Agreement provides that the termination shall be effective within thirty days of the date on which written notice was received by the Company. In accordance with the terms of the Agreement, all rights to TOCOSOL Paclitaxel have reverted back to Sonus. We have discontinued development of TOCOSOL Paclitaxel due to results of the Phase 3 study and the time and cost that would be required to conduct the necessary clinical studies to continue development, which at a minimum, would include another Phase 3 pivotal trial. We believe that these closure activities will be substantially complete by December 31, 2007. Due to the termination of the Agreement by Bayer Schering, in October 2007, the Company will recognize $6.9 million of revenue in the fourth quarter of 2007, which represents the balance of the unamortized deferred revenue from the upfront license fee. There will also be a final net billing to Bayer Schering in the fourth quarter of 2007 for accrued expenses related primarily to reimbursable Phase 3 activity through the date of termination and expenses associated with the termination of the Phase 3 trial. As Sonus is still in the process of finalizing these costs, no estimate can be provided at this time. The Company does not expect recognition of any revenue related to the Agreement with Bayer Schering beyond 2007.

4. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2007	December 31, 2006
Clinical trials	$ 7,999,195	$ 8,497,278
Compensation	226,475	1,459,128
Product manufacturing	12,330	1,617,580
Other	651,180	354,138
	$ 8,889,180	$ 11,928,124

5. Comprehensive Income (Loss)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net loss	$ (5,807,589)	$ (6,292,845)	$ (14,996,109)	$ (16,538,534)
Unrealized gain (loss) on cash equivalents and marketable securities	19,845	(3,363)	(1,624)	3,293
Comprehensive loss	$ (5,787,744)	$ (6,296,208)	$ (14,997,733)	$ (16,535,241)

6. Stockholders' Equity

Common Stock Issuances

During the third quarter of 2007, the Company received $59,063 in proceeds from the issuance of 54,026 shares of common stock from the issuance of shares under employee benefit programs. For the nine months ended September 30, 2007, the Company received $57,440 in proceeds from the issuance of 14,044 shares of common stock from the exercise of common stock warrants, in addition to $175,572 in proceeds from the issuance of 105,884 shares of common stock from the issuance of shares under employee benefit programs.

Employee Stock Plans

On May 10, 2007, Sonus shareholders approved a new incentive plan entitled the "2007 Performance Incentive Plan". Under the terms of this plan, the Company can issue up to 3,900,000 additional shares of the Company's common stock through the grant of stock options and restricted stock. Employee stock options and restricted stock 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.

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. The Company recognized $8,117 in compensation

expense related to this plan for the nine month period ended September 30, 2007. At September 30, 2007, a total of 76,083 shares remain available for purchase by employees under the 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. The Company recognized compensation expense related to this plan for the three and nine month periods ended September 30, 2007 of $30,150 and $87,462, respectively. At September 30, 2007, a total of 51,615 shares remain available for future issuances as matching contributions under the plan.

Stock-Based Compensation

During the three and nine month periods ended September 30, 2007 and 2006, respectively, the Company recorded stock-based compensation cost under the provisions of Statement of Accounting Standard 123 (revised 2004), "Share Based Payment," or "SFAS 123R". The fair value of stock based awards is determined using the Black-Scholes-Merton pricing model. The following table summarizes the income statement classification of stock-based compensation:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Stock-based compensation income (expense):				
General & administrative	$ (99,663)	$ (208,208)	$ (866,512)	$ (808,142)
Research & development	99,918	(225,313)	(442,723)	(672,969)
Total stock-based compensation income (expense)	$ 255	$ (433,521)	$ (1,309,235)	$ (1,481,111)

The reversal of expense in the research & development area for the third quarter related to the impact of a mark to market adjustment for consultant option awards. These awards are revalued at the end of each quarter. The significant decline in the Company's stock price in the third quarter resulted in a decrease of approximately $200,000 in stock compensation expense as compared to the second quarter of 2007. In addition, the Company's change in the estimated forfeiture rate based on personnel reductions in the fourth quarter of 2007 resulted in a decrease of approximately $445,000 in stock compensation expense as compared to the second quarter of 2007. These changes in estimates are based on events which occurred or were triggered in the third quarter 2007 and are being accounted for on a prospective basis. 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 6.6 years and four years as of September 30, 2007 and 2006, respectively, (4) no expected dividends for each period presented, (5) stock price volatility factor of 104.0% and 68.5% as of September 30, 2007 and 2006, respectively, (6) forfeiture rate of 16.0%and 13.1% as of September 30, 2007 and 2006, respectively, and (7) a risk-free interest rate of 4.6% and 4.8% as of September 30, 2007 and 2006, respectively.

Stock Option Activity

The following is a summary of option activity through September 30, 2007:

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price
December 31, 2006	953,366	4,756,890	$ 4.90
Grants	(12,500)	12,500	$ 5.03
Exercises	—	—	—
Cancellations	18,450	(18,450)	$ 4.94
March 31, 2007	959,316	4,750,940	$ 4.90
Grants	(89,250)	89,250	$ 5.36
Exercises	—	(35,937)	$ 1.17
Cancellations	—	(8,625)	$ 6.25
Additional shares approved by shareholders for issuance	3,900,000	—	—
June 30, 2007	4,770,066	4,795,628	$ 4.93
Grants	—	—	—
Exercises	—	—	—
Cancellations	42,768	(42,768)	$ 5.19
September 30, 2007	4,812,834	4,752,860	$ 4.93

7. Income Taxes

Effective January 1, 2007, the Company adopted the provisions of the Financial Interpretation No. 48, "Accountingfor Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. At the date of adoption of FIN 48, we had no unrecognized tax benefits and expected no significant changes in unrecognized tax benefits in the next twelve months. The adoption of this statement did not result in a cumulative accounting adjustment and did not impact our financial position, results of operations or cash flows.

We recognize interest and penalties related to uncertain tax positions in income tax expense when applicable. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes.

The Company is subject to audit by the IRS and The Washington State Department of Revenue for all years since inception. As of January 1, 2007, we have recorded a valuation allowance equal to our total net deferred tax assets due to the uncertainty of ultimately realizing tax benefits of approximately $40.6 million.

8. Subsequent Events

On October 3, 2007, Sonus received notification from Bayer Schering of its decision to terminate the Agreement in accordance with its terms because the Phase 3 pivotal trial did not meet its primary endpoint and the results of the trial do not support, in Bayer Schering's judgment, a submission for a New Drug Application with the United States Food and Drug Administration ("FDA"). The Agreement provides that the termination shall be effective within thirty days of the date on which written notice was

received by Sonus. In accordance with the terms of the Agreement, all rights to TOCOSOL Paclitaxel have reverted back to Sonus. The Company has discontinued development of TOCOSOL Paclitaxel due to results of the Phase 3 study and the time and cost that would be required to conduct the necessary clinical studies to continue development, which at a minimum, would include another Phase 3 pivotal trial. The Company believes that these closure activities will be substantially complete by December 31, 2007. Due to the termination of the Agreement by Bayer Schering, in October 2007, the Company will recognize $6.9 million of revenue in the fourth quarter of 2007, which represents the balance of the unamortized deferred revenue from the upfront license fee. There will also be a final net billing to Bayer Schering in the fourth quarter of 2007 for accrued expenses related primarily to reimbursable Phase 3 activity through the date of termination and expenses associated with the termination of the Phase 3 trial. As the Company is still in the process of finalizing these costs, no estimate can be provided at this time. The Company does not expect recognition of any revenue related to the Agreement with Bayer Schering beyond 2007. Any adjustments resulting from the fourth quarter termination will be recorded in the fourth quarter of 2007.

On October 22, 2007, Sonus announced that it had engaged Ferghana Partners Inc. as its advisor to assist it in identifying, evaluating and pursuing alternative strategies to maximize shareholder value. These alternatives may include a merger or acquisition, among other things.

On November 1, 2007, the Company implemented a reduction of workforce ("Reduction of Workforce") pursuant to which the Company's workforce was reduced by 16 positions, or approximately 25%, leaving the Company with 48 employees. The effective date of the Reduction of Workforce is November 30, 2007. The Company undertook the Reduction of Workforce in light of the outcome of its Phase 3 Pivotal Trial for TOCOSOL Paclitaxel, which was announced in the Company's press release on September 204, 2007. These steps were taken in order to conserve cash and preserve the critical capabilities necessary to pursue the highest priority development programs.

In connection with the Reduction of Workforce, the Company expects to incur expenses associated with one-time termination benefits of approximately $1.2 million, including approximately $1.1 million of severance benefits and $100,000 attributable to the continuation of medial insurance benefits. It is currently anticipated that these expenses will be incurred in the fourth quarter of 2007.

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:

- 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:

- results of research and preclinical studies may not be indicative of results in humans;
- ability to build out our product candidate pipeline through internal development, product in-licensing or acquisition activities;
- proper management of our operations will be critical to the success of the Company;
- history of operating losses and uncertainty of future financial results;
- volatility in the value of our common stock;
- continued listing on the NASDAQ Global Market (formerly NASDAQ National Market);
- dependence on the development and commercialization of products;
- uncertainty of governmental regulatory requirements and lengthy approval process;
- dependence on third parties for funding, clinical development, regulatory approvals, 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; and
- other factors set forth under "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed on March 16, 2007, Quarterly Reports on Form 10-Q filed on May 9, 2007 and August 3, 2007 for the first and second quarters ending March 31, 2007 and June 30, 2007, respectively, and in this Quarterly Report on Form 10-Q.

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
- capital resources we currently have and possible sources of additional funding for future capital requirements.

Business Overview

Sonus Pharmaceuticals is developing novel small molecule treatments for patients with cancer. Our objective is to identify opportunities where there is the possibility for major improvements in patient treatments and where we believe we can mitigate development risk. We currently have one drug in clinical development and four earlier stage programs. Our plan is to continue to develop our internal pipeline of clinical compound opportunities and to evaluate possible strategic alternatives, including in-licensing, out-licensing and merger and acquisition opportunities, as a means of achieving our business strategies and enhancing stockholder value. On October 22, 2007, we announced that we have engaged Ferghana Partners Inc., an international provider of independent financial advisory services to firms in the biotechnology, pharmaceuticals, diagnostics and specialty chemicals industries, to assist us.

Product Candidates

TOCOSOL Paclitaxel

TOCOSOL Paclitaxel is a novel formulation of paclitaxel manufactured in a ready-to-use, injectable vitamin E-based emulsion formulation. The Investigational New Drug Application ("IND") for TOCOSOL Paclitaxel was submitted to the FDA in 2000, and Phase 1 testing was initiated shortly thereafter. On September 24, 2007 we announced that TOCOSOL Paclitaxel failed to meet the primary endpoint in Phase 3 clinical testing. We have discontinued development of TOCOSOL Paclitaxel due to results of the Phase 3 study and the time and cost that would be required to conduct the necessary clinical studies to continue development, which at a minimum, would include another Phase 3 pivotal trial. We believe that these closure activities will be substantially complete by December 31, 2007. Based on the results from the Phase 3 trial, we received a 30 day notice of termination from Bayer Schering on October 3, 2007, under the terms of the Agreement. In accordance with the terms of the Agreement, all rights to TOCOSOL Paclitaxel have reverted back to us.

SN2310

SN 2310 is an injectable Emulsion ("SN2310"). 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, and ovarian cancers. The active ingredient in SN2310 is SN-38, which is considered to be the active ingredient in irinotecan. Our objective with SN2310 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 SN2310 in June 2006 and Phase 1 clinical testing was initiated in September 2006. As this product candidate is early in clinical development, we cannot give any assurance that this compound will be clinically successful.

Pipeline Compounds

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. We have identified three areas of opportunity where we believe there is the possibility for major improvements in patient treatments and where we believe we can mitigate development risk: (1) prodrugs of existing small molecules, where the novel prodrug is designed to provide greater patient convenience and improved patient outcome; (2) novel small molecules, where an opportunity exists, using known moieties, to improve clinical shortcomings of existing approved compounds; and (3) reformulation, with the aim of improving on the safety or efficacy profile of an existing parenteral drug. We are currently working on four early stage programs with compounds under development that either use our TOCOSOL technology or other new technologies under development.

Proprietary Technology

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 September 30, 2007, sixteen United States patents and seven patents outside the U.S. have been issued relating to our proprietary technologies. Additional patent applications are pending in the United States and counterpart filings have been made in selected countries outside the U.S.

Collaboration and License Agreement with Bayer Schering Pharma AG

On October 17, 2005, we entered the Agreement with Bayer Schering Pharma AG (formerly Schering AG), a German corporation, pursuant to which, among other things, we granted Bayer Schering an exclusive, worldwide license to TOCOSOL Paclitaxel. At that time, the parties agreed to a core development program consisting of the pivotal trial in metastatic breast cancer, trials for additional indications and trials to support launch of the TOCOSOL Paclitaxel, and agreed to share equally in the costs of the core development program.

On October 3, 2007, we received notification from Bayer Schering of its decision to terminate the Agreement in accordance with its terms because the Phase 3 pivotal trial did not meet its primary endpoint and the results of the trial do not support, in Bayer Schering's judgment, a submission for a New Drug Application with the United States Food and Drug Administration ("FDA"). The Agreement provides that the termination shall be effective within thirty days of the date on which written notice was received by us. In accordance with the terms of the Agreement, all rights to TOCOSOL Paclitaxel have reverted back to us. We have discontinued development of TOCOSOL Paclitaxel due to results of the Phase 3 study and the time and cost that would be required to conduct the necessary clinical studies to continue development, which at a minimum, would include another Phase 3 pivotal trial. We believe that these closure activities will be substantially complete by December 31, 2007. Due to the termination of the Agreement by Bayer Schering, in October 2007, we will recognize $6.9 million of revenue in the fourth quarter of 2007, which represents the balance of the unamortized deferred revenue from the upfront license fee. There will also be a final net billing to Bayer Schering in the fourth quarter of 2007 for accrued expenses related primarily to reimbursable Phase 3 activity through the date of termination and expenses associated with the termination of the Phase 3 trial. As we are still in the process of finalizing these costs, no estimate can be provided at this time. We do not expect recognition of any revenue related to the Agreement with Bayer Schering beyond 2007.

Results of Operations

As of September 30, 2007, our accumulated deficit was approximately $126.7 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 received under corporate partnership agreements. Our ability to achieve a consistent, profitable level of operations depends in large part on obtaining regulatory approval for future product candidates in addition to successfully manufacturing and marketing those products if they are approved. Even if we are successful in the aforementioned activities our operations may not be profitable.

Our revenue was $4.1 million for the three months ended September 30, 2007 as compared with $4.9 million for the same period in 2006. We had revenue of $12.4 million for the nine months ended September 30, 2007 compared with $16.5 million for the same period in 2006. Revenue in both periods was fully attributable to the Agreement with Bayer Schering. We recognized $1.4 million and $4.1 million in amortization of an upfront license fee received from Bayer Schering for the three and nine month periods ended September 30, 2007, respectively and an additional $2.7 million and $8.3 million in research and development reimbursements for the three month and nine month periods ended September 30, 2007, respectively. Due to the termination of the Agreement by Bayer Schering in October 2007, we will recognize $6.9 million of revenue in the fourth quarter of 2007, which represents the balance of the unamortized deferred revenue from the upfront license fee. There will also be a final net billing to Bayer Schering in the fourth quarter of 2007 for accrued expenses related primarily to reimbursable Phase 3 activity through the date of termination and expenses associated with the termination of the Phase 3 trial. As we are still in the process of finalizing these costs, no estimate can be provided at this time. We do not expect recognition of any revenue related to the Agreement with Bayer Schering beyond 2007.

Our research and development ("R&D") expenses were $8.9 million for the three months ended September 30, 2007 compared with $10.3 million for the same period in 2006. Our R&D expenses were $23.5 million for the nine months ended September 30, 2007 compared with $29.6 million for the same period in 2006. The decrease for both periods was primarily the result of lower spending on clinical trials and drug supply and manufacturing costs related to the Phase 3 trial for TOCOSOL Paclitaxel. We expect R&D costs to increase in the fourth quarter of 2007 due to expected costs we will incur for terminating all TOCOSOL Paclitaxel related clinical trials, in addition to costs associated with planned staff reductions. We expect R&D expenses in 2008 to be significantly lower than levels experienced in 2007, absent any strategic transaction which could affect R&D expenses.

Our general and administrative ("G&A") expenses were $1.6 million for the three months ended September 30, 2007 compared with $1.8 million for the same period in 2006. Our G&A expenses were $5.7 million for the nine months ended September 30, 2007 compared with $5.4 million for the same period in 2006. The fluctuations for both periods were primarily related to normal variations in personnel and market research type expenses. We expect G&A costs to increase in the fourth quarter of 2007 due to costs associated with planned staff reductions. We expect G&A expenses in 2008 to be lower than levels experienced in 2007, absent any strategic transaction which could affect G&A expenses.

We expect our total operating expenses during the fourth quarter of 2007 to increase due to expected costs associated with the termination of all TOCOSOL Paclitaxel related clinical trials and planned staff reductions. We estimate that R&D spending will comprise approximately 80%-90% of the anticipated spending in 2007. A significant portion of the R&D spending will be devoted to the cessation of TOCOSOL Paclitaxel programs in addition to development activities related to other compounds in our pipeline. These estimates and actual expenses are subject to change depending on many factors. We expect operating expenses in 2008 to be significantly lower than levels experienced in 2007, absent any strategic transaction which could affect operating expenses.

Our other income, net, was $546,000 for the three months ended September 30, 2007 compared with $843,000 for the same period in 2006. Our other income, net, was $1.8 million for the nine month period ended September 30, 2007 compared with $2.0 million for the same period in 2006. The

decrease for both periods was due primarily to lower levels of invested cash in 2007 compared to the same periods in 2006.

The Company had no income tax expense for the three and nine month periods ended September 30, 2007 or 2006 as it had incurred pretax losses.

Liquidity and Capital Resources

We have historically financed operations with proceeds from equity financings and payments under corporate partnerships with third parties. At September 30, 2007, we had cash, cash equivalents and marketable securities totaling $40.7 million compared to $58.3 million at December 31, 2006. The decrease was primarily due to the net loss for the nine month period ended September 30, 2007 of $15.0 million, in addition to timing of items accrued in 2006 and paid in 2007.

Net cash used in operating activities for the nine months ended September 30, 2007, and 2006, was $17.6 million and $16.8 million, respectively. Expenditures in all periods were 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. The increase in net cash used in operating activities from the nine months ended September 30, 2007 to the nine months ended September 30, 2006 was primarily due timing of invoices and related payments.

Net cash used in investing activities for the nine months ended September 30, 2007 and 2006 was $16.1 million and $17.3 million, respectively. The net cash used in investing activities during both nine month periods ended September 30, 2007 and 2006 was primarily due to transactions involving marketable securities in the normal course of business in addition to purchases of fixed assets. Activity related to marketable securities relates primarily to the investment of money raised in equity financings or received under collaborative agreements. The related maturities and sales of those investments provide us with working capital on an as needed basis. We also initiate shifts between cash equivalent securities and marketable securities based on our cash needs and the prevailing interest rate environment.

Net cash provided by financing activities for the nine months ended September 30, 2007, and 2006 was $218,000 and $29.0 million, respectively. The net cash provided by financing activities during the nine month period ended September 30, 2007 was primarily due to the issuance of common stock under employee benefit plans and the exercise of common stock warrants. The net cash provided by financing activities during the same period in the prior year was primarily due to proceeds raised in our May 2, 2006 equity financing and the exercise of common stock warrants.

We expect that our cash requirements will decrease in 2008 due to the termination of development of TOCOSOL Paclitaxel and related staff reductions. Under our current forecasted cash needs, which assume continued development of SN2310 and other earlier stage product candidates, we believe that existing cash, cash equivalents and marketable securities, in addition to final payments from Bayer Schering, will be sufficient to fund expected operations through at least the third quarter of 2009. We will need additional capital in 2009 to support the continued development SN2310, other product candidates and to fund continuing operations. Our future capital requirements depend on many factors including:

- our ability to obtain and timing of payments under equity or debt financings;
- outcome related to strategic activities currently being evaluated;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and cost of drug discovery and research and development;

- entering into new collaborative or product license agreements for products in our pipeline; and
- costs related to obtaining, defending and enforcing patents.

We have contractual obligations in the form of operating leases which expire between 2010 and 2017. We 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 December 2007. The following table summarizes our contractual obligations under these agreements as of September 30, 2007:

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 25,823,624	$ 1,878,513	$ 4,593,821	$ 4,892,136	$ 14,459,154

Material Changes in Financial Condition

	September 30, 2007	December 31, 2006
Total assets	$ 48,325,332	$ 68,493,002
Total liabilities	$ 18,738,881	$ 25,451,065
Shareholders' equity	$ 29,586,451	$ 43,041,937

The decline in assets from December 31, 2006 primarily relates to declines in cash, cash equivalents and marketable securities used to fund operations and timing of collections of receivables. The decline in liabilities from December 31, 2006 relates primarily to generally lower accrued liabilities on reduced manufacturing activity and the reversal of 2007 bonus accruals and lower deferred revenue on normal amortization. The decline in shareholders equity is primarily due to the net loss for the year. We expect that the termination of the Agreement with Bayer Schering in October 2007 will have a material financial impact in future periods as that Agreement was our only source of revenue.

Critical Accounting Policies and Estimates

We previously identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations in our Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on March 16, 2007. These policies and estimates are considered critical because they had a material impact, or they have the potential to have a material impact, on our financial statements and because they require significant judgments, assumptions or estimates. Our preparation of financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period.

Item 3. 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 September 30, 2007, 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 and Pound Sterling 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/Pound Sterling 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 three month and nine month periods ended September 30, 2007 and 2006, respectively, was not material.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation as of the end of the period covered by this report was carried out under the supervision and participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls are met, and no evaluation of controls can provide absolute assurance that all controls and instances of fraud, if any, within a company have been, or will be, detected.

Changes in internal control over financial reporting

We have not made any changes to our internal control over financial reporting (as defined in rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

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. Potential risks and uncertainties include, among other things, those factors discussed in the sections entitled "Business", "Risk Factors" and

"Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2006, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q, and as set forth below in this Item 1A. Readers should carefully review those risks, as well as additional risks described in other documents we file from time to time with the Securities and Exchange Commission. The following risk factors include material changes to the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2006, and are not a complete list of our risk factors. We undertake no obligation to publicly release the results of any revisions to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

The success of our potential products in research and preclinical studies does not guarantee that these results will be replicated in humans.

Several of our drug development programs are currently in the research stage or in preclinical development. Our only product in clinical trials, SN2310, began Phase 1 clinical testing in September 2006 and is still in the early stages of clinical testing. Although our clinical development-stage drug candidate has shown favorable results in preclinical studies, these results may not be replicated in our clinical trials. Before we make any products from our research and development programs commercially available, we will need to conduct further research and development, including laboratory testing, animal studies, clinical studies, and obtain product approval from the appropriate regulatory authorities. These programs may not move beyond their current stages of development. Even if our research does advance, we will need to engage in certain additional preclinical development efforts to determine whether a product is sufficiently safe and effective to enter clinical trials. Consequently, there is no assurance that the results in our research and preclinical studies are predictive of the results that we may see in our clinical trials, that they are predictive of whether any resulting products will be safe and effective in humans, or that the resulting products will be approved by regulatory authorities.

Our success is dependent on the proper management of our current and future business operations, and the expenses associated with them given our limited resources.

Our business strategy requires us to manage our operations to provide for the continued development and potential commercialization of our drug candidates. If we are unable to effectively manage our current operations given our limited resources, we may not be able to implement our business strategy and our financial condition and results of operations may be adversely affected. If we are unable to effectively manage our expenses, we may find it necessary to reduce our expenses through a reduction in our workforce and/or cancellation of research & development programs, which could adversely affect our operations.

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

Most of our attention and resources at this time are directed to the development of SN2310, a novel camptothecin derivative as well as earlier stage oncology product candidates. Camptothecins are a class of anti-cancer drugs used in the treatment of colorectal, lung, and ovarian cancers. Significant expenditures in additional research and development, clinical testing, regulatory, manufacturing, and sales and marketing activities will be necessary in order for us to gain marketing approval for our product candidates and subsequently commercialize them. There can be no assurance that product candidates under development or any future products will be safe and efficacious. If the product candidates under development are ultimately ineffective in treating cancer, do not receive the necessary regulatory approvals or do not obtain commercial acceptance, we will incur additional losses, our accumulated deficit will increase and our business will be materially adversely affected.

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

We may merge with or acquire other companies or drug candidates, and our failure to receive the anticipated benefits in these transactions could harm our business.

We are actively seeking strategic opportunities, which may include a merger or acquisition, among other things. The success of any merger or acquisition depends, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating the business of the merged or acquired company with our business. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of two companies include, among others:

- consolidating research and development operations;
- retaining key employees;
- consolidating corporate and administrative infrastructures;
- preserving the research and development and other important relationships of the companies;
- integrating and managing the technology of two companies;
- using the merged or acquired company's liquid capital and other assets efficiently to develop the business of the combined company;
- diverting management's attention from ongoing business concerns; and
- coordinating geographically separate organizations.

There can be no assurance that we will find any attractive strategic opportunities, or that if we find them, that we will be able to consummate a transaction on favorable terms, or at all. If we do enter into a transaction, there can be no assurance that we will receive all of the anticipated benefits of any transaction, or that any of the risks described above will not occur. Our failure to receive anticipated benefits of and our exposure to inherent risks in, any such transaction could significantly harm our business, financial condition and operating results.

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. Between September 24, 2007 and November 5, 2007, the closing price of our common stock, as reported on the NASDAQ Global Market, has traded in a range of $0.49 and $0.78 per share. On November 5, 2007, we received notice from NASDAQ that we do not comply with NASDAQ's continued listing standards because the closing bid price of our common stock has been below the required minimum bid price of $1.00 for 30 consecutive business days. We have until May 5, 2008 to regain compliance. If we do not regain compliance by May 5, 2008, our common stock will be delisted if we do not appeal NASDAQ's determination to delist our common stock. Alternatively, we may apply for listing on The NASDAQ Capital Market if we meet the initial listing standards for that market, in which case we would have an additional 180 days to regain compliance. In addition, as of September 30, 2007, we had stockholders' equity of approximately $29.6 million. In the event that we fail to satisfy any of 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.

We may not achieve our projected development goals in the time frames we announce and anticipate.

We set goals for and make public statements regarding the timing of certain accomplishments, such as the commencement and completion of clinical trials, anticipated regulatory approval dates and time of product launch, which we sometimes refer to as milestones. These milestones may not be achieved, and the actual timing of these events can vary dramatically due to a number of factors such as delays or failures in our clinical trials, disagreements with future collaborative partners, the uncertainties inherent in the regulatory approval process and manufacturing scale-up and delays in achieving manufacturing or marketing arrangements sufficient to commercialize our products. There can be no assurance that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to launch any of our products in anticipated timeframes. If we fail to achieve one or more of these milestones as planned, our business will be materially adversely affected, and the price of our shares will decline.

We have not yet commercialized any of our drug candidates; our ability to commercialize products is unproven.

We have not yet commercialized any of our product candidates. Our commercialization of products is subject to several risks, including but not limited to:

- the possibility that a product is toxic, ineffective or unreliable;
- failure to obtain regulatory approval for the product;
- difficulties in manufacturing the product on a large scale;
- difficulties in planning, coordinating and executing the commercial launch of the product;
- difficulties in marketing, distribution or sale of the product;
- the possibility of a failure to comply with laws and regulations related to the marketing sale and reimbursement of the product;
- competition from superior products; and
- third-party patents that preclude us from marketing a product.

Even if a product candidate is approved for commercial sale, significant strategic planning and resources will be necessary to effectively coordinate commercial launch of the product in the approved indication or indications, and to effectively market, distribute and sell the product for use in the approved indication or indications. We currently have limited marketing and no distribution capability.

We will need additional capital in the future to support the continued development of our product candidates and to fund continuing operations.

We expect that our cash requirements will decrease in future periods due to the discontinuation of development of TOCOSOL Paclitaxel. We believe that existing cash, cash equivalents and marketable securities, in addition to final payments expected from Bayer Schering, will be sufficient to fund operations through at least the third quarter of 2009. We will need additional capital in 2009 to support the continued development SN2310, other product candidates and to fund continuing operations. Our future capital requirements depend on many factors including:

- our ability to obtain, and the timing of payments under, debt or equity financings;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- timing and cost of drug discovery and research and development;
- entering into new collaborative or product license agreements for products in our pipeline; 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.

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 expect 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 September 30, 2007, our accumulated deficit totaled $126.7 million. We anticipate that our operating losses will continue as we further invest in research and development for our products. 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 debt or equity financings;

- outcome related to strategic activities currently being evaluated;
- timing and costs of preclinical development, clinical trials and regulatory approvals;
- drug discovery and research and development;
- entering into new collaborative or product license agreements for products in our pipeline; and
- costs related to obtaining, defending and enforcing patents.

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

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 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 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 early 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. We cannot predict if or when any of our products under development will be commercialized, if at all.

The development of oncology related pharmaceutical products 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;
- breadth of approved indications; and
- physician, healthcare payor and patient acceptance.

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.

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 September 30, 2007, we held sixteen United States patents and seven patents outside the U.S. relating to our proprietary 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.

If we encounter difficulties enrolling patients in our clinical trials, our trials could be delayed or otherwise adversely affected.

Clinical trials for our drug candidates require that we identify and enroll patients with the disorder or condition under investigation. We may not be able to enroll a sufficient number of patients to complete our clinical trials in a timely manner.

Patient enrollment is affected by factors including:

- design of the protocol;
- the size of the patient population;
- eligibility criteria for the study in question;
- perceived risks and benefits of the drug under study;
- Institutional Review Boards/Ethics Committees approvals to conduct the study;
- availability of competing therapies;
- efforts to facilitate timely enrollment in clinical trials;
- the success of our personnel in making the arrangements with potential clinical trial sites necessary for those sites to begin enrolling patients;
- patient referral practices of physicians;
- availability of clinical trial sites; and
- other clinical trials seeking to enroll subjects with similar profiles.

If we have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay or terminate ongoing or planned clinical trials, either of which would have a negative effect on our business.

We may face fluctuations in operating results.

Our operating results may rise or fall significantly from period to period as a result of many factors, including:

- the amount of research and development we engage in;
- outcome related to strategic activities currently being evaluated;

- the number of product candidates we have, their progress in research, preclinical and clinical studies and the costs involved in manufacturing them;

- our ability to enter into new strategic relationships;
- our ability to maintain our facilities to support our operations;
- the costs involved in prosecuting, maintaining and enforcing patent claims;
- the possibility that others may have or obtain patent rights that are superior to ours;
- changes in government regulation;
- changes in the price of our common stock or other variables used as a basis for valuing stock-based awards;
- changes in accounting policies or principles; and
- release of successful products into the market by our competitors.

As a result, we may experience fluctuations in our operating results from quarter to quarter and continue to generate losses. Quarterly comparisons of our financial results may not necessarily be meaningful, and investors should not rely upon such results as an indication of our future performance. In addition, investors may react adversely if our reported operating results are less favorable than in a prior period or are less favorable than those anticipated by investors or the financial community, which may result in a drop in the market price of our common stock.

The impact of the recall by Bristol-Myers Squibb Pharmaceuticals of certain batches of Taxol.

In March 2007, Bristol-Myers Squibb Pharmaceuticals recalled certain batches of Taxol due to potential lack of sterility assurance. At the time of the recall, there had been no reports of non-sterile product and no stability failures had been detected. Among the recalled batches were those being used in the reference arm of the Phase 3 TOCOSOL Paclitaxel pivotal study. Based on the available information, Sonus has no reason to believe that the recalled batches had an adverse impact on patients treated with those batches in the Phase 3 study.

The Company plans to return all of the recalled material to its suppliers in accordance with the recall notice. While we believe that we will receive a full refund for the returned material, there can be no assurance that we will receive that refund or that it will be received in a timely basis.

Item 6. Exhibits

10.1	Form of the Stock Option Agreement to the 2007 Stock Performance Incentive Plan. (1)
10.2	Form of the Restricted Stock Purchase Agreement to the 2007 Stock Performance Incentive Plan. (1)
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a). (1)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a). (1)
32.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(b) or 15d-14(b). (2)
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b). (2)

(1) Filed herewith.
(2) Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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: November 9, 2007

By: /s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

SONUS PHARMACEUTICALS, INC.
RESTRICTED STOCK PURCHASE AGREEMENT
UNDER THE
2007 PERFORMANCE INCENTIVE PLAN

THIS RESTRICTED STOCK PURCHASE AGREEMENT (the "Agreement") is entered into as of , 20 by and between (hereinafter referred to as "Purchaser"), and SONUS Pharmaceuticals, Inc., a Delaware corporation (hereinafter referred to as the "Company"), pursuant to the Company's 2007 Performance Incentive Plan, as amended (the "Plan"). Any capitalized term not defined herein shall have the same meaning ascribed to it in the Plan.

R E C I T A L S:

A. Purchaser is an employee, director, consultant or other Service Provider, and in connection therewith has rendered services for and on behalf of the Company.

B. The Company desires to issue shares of common stock to Purchaser for the consideration set forth herein to provide an incentive for Purchaser to remain a Service Provider of the Company and to exert added effort towards its growth and success.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and for other good and valuable consideration, the parties agree as follows:

1. Issuance of Shares. The Company hereby offers to issue to Purchaser an aggregate of ( ) shares of Common Stock of the Company (the "Shares") on the terms and conditions herein set forth. Unless this offer is earlier revoked in writing by the Company, Purchaser shall have ten (10) days from the date of the delivery of this Agreement to Purchaser to accept the offer of the Company by executing and delivering to the Company two copies of this Agreement, without condition or reservation of any kind whatsoever, together with the consideration to be delivered by Purchaser pursuant to Section 2 below.

2. Consideration. The purchase price for the Shares shall be $ per share, or $ in the aggregate. Any purchase price more than zero shall be paid by the delivery of Purchaser's check payable to the Company (or payment in such other form of lawful consideration as the Administrator may approve from time to time under the provisions of Section 6.3 of the Plan).

3. Vesting of Shares.

(a) Subject to Section 3(b) below, the Shares acquired hereunder shall vest and become "Vested Shares" as follows:

Upon the date set forth below:	Shares that become Vested Shares:
	Shares
	Shares
	Shares

Shares which have not yet become vested are herein called "Unvested Shares." No additional shares shall vest after the date of termination of Purchaser's Continuous Service.

As used herein, the term "Continuous Service" means (i) employment by either the Company or any parent or subsidiary corporation of the Company, or by any successor entity following a Change in Control, which is uninterrupted except for vacations, illness (except for permanent disability, as defined in Section 22(e)(3) of the Code), or leaves of absence which are approved in writing by the Company or any of such other employer corporations, if applicable, (ii) service as a member of the Board of Directors of the Company until Purchaser resigns, is removed from office, or Purchaser's term of office expires and he or she is not reelected, or (iii) so long as Purchaser is engaged as a consultant or Service Provider to the Company or other corporation referred to in clause (i) above.

(b) Notwithstanding Section 3(a), if Purchaser holds Shares at the time a Change in Control occurs, all Repurchase Rights shall automatically terminate immediately prior to the consummation of such Change in Control, and the Shares subject to those terminated Repurchase Rights shall immediately vest in full. If the Repurchase Rights automatically terminate in accordance with the provisions of this subsection (b), then the Administrator shall cause written notice of the Change in Control transaction to be given to Purchaser not less than fifteen (15) days prior to the anticipated effective date of the proposed transaction.

4. Reconveyance Upon Termination of Service.

(a) Repurchase Right. The Company shall have the right (but not the obligation) to repurchase all or any part of the Unvested Shares (the "Repurchase Right") in the event that the Purchaser's Continuous Service terminates for any reason. Upon exercise of the Repurchase Right, the Purchaser shall be obligated to sell his or her Unvested Shares to the Company, as provided in this Section 4. If the Purchase Price is zero, then Purchaser shall be obligated to transfer his or her Unvested Shares to the Company without consideration.

(b) Consideration for Repurchase Right. The repurchase price of the Unvested Shares (the "Repurchase Price") shall be equal to the Purchase Price, if any, of such Unvested Shares.

(c) Procedure for Exercise of Reconveyance Option. For sixty (60) days after the Termination Date or other event described in this Section 4, the Company may exercise the Repurchase Right by giving Purchaser and/or any other person obligated to sell written notice of the number of Unvested Shares which the Company desires to purchase. The Repurchase Price for the Unvested Shares shall be payable, at the option of the Company, by check or by cancellation of all or a portion of any outstanding indebtedness of Purchaser to the Company, or by any combination thereof.

(d) Notification and Settlement. In the event that the Company has elected to exercise the Repurchase Right as to part or all of the Unvested Shares within the period described above, Purchaser or such other person shall deliver to the Company certificate(s) representing the Unvested Shares to be acquired by the Company within thirty (30) days following the date of the notice from the Company. The Company shall deliver to Purchaser against delivery of the Unvested Shares, checks of the Company payable to Purchaser and/or any other person

obligated to transfer the Unvested Shares in the aggregate amount of the Repurchase Price, if any, to be paid as set forth in paragraph 4(b) above.

(e) Deposit of Unvested Shares. Purchaser shall deposit with the Company certificates representing the Unvested Shares, together with a duly executed stock assignment separate from certificate in blank, which shall be held by the Secretary of the Company. Purchaser shall be entitled to vote and to receive

dividends and distributions on all such deposited Unvested Shares.

(f) **Termination**. The provisions of this Section 4 shall automatically terminate in accordance with Section 3(b) above.

(g) **Assignment.** The Company may assign its Repurchase Right under this Section 4 without the consent of the Purchaser.

5. **Restrictions on Unvested Shares.** Unvested Shares may not be sold, transferred, pledged, or otherwise disposed of, except that such Unvested Shares may be transferred to a trust established for the sole benefit of the Purchaser and/or his or her spouse, children or grandchildren. Any Unvested Shares that are transferred as provided herein remain subject to the terms and conditions of this Agreement.

6. **Adjustments Upon Changes in Capital Structure**. In the event that the outstanding Shares of Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a recapitalization, stock split, combination of shares, reclassification, stock dividend, or other change in the capital structure of the Company, then Purchaser shall be entitled to new or additional or different shares of stock or securities, in order to preserve, as nearly as practical, but not to increase, the benefits of Purchaser under this Agreement, in accordance with the provisions of Section 4.2 of the Plan. Such new, additional or different shares shall be deemed "Shares" for purposes of this Agreement and subject to all of the terms and conditions hereof.

7. **Shares Free and Clear**. All Shares purchased by the Company pursuant to this Agreement shall be delivered by Purchaser free and clear of all claims, liens and encumbrances of every nature (except the provisions of this Agreement and any conditions concerning the Shares relating to compliance with applicable federal or state securities laws), and the purchaser thereof shall acquire full and complete title and right to all of such Shares, free and clear of any claims, liens and encumbrances of every nature (again, except for the provisions of this Agreement and such securities laws).

8. **Limitation of Company's Liability for Nonissuance; Unpermitted Transfers**.

(a) The Company agrees to use its reasonable best efforts to obtain from any applicable regulatory agency such authority or approval as may be required in order to issue and sell the Shares to Purchaser pursuant to this Agreement. The inability of the Company to obtain, from any such regulatory agency, authority or approval deemed by the Company's counsel to be necessary for the lawful issuance and sale of the Shares hereunder and under the Plan shall relieve the Company of any liability in respect of the nonissuance or sale of such Shares as to which such requisite authority or approval shall not have been obtained.

(b) The Company shall not be required to: (i) transfer on its books any Shares of the Company which shall have been sold or transferred in violation of any of the provisions set forth in this Agreement, or (ii) treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so transferred.

9. **Notices**. Any notice, demand or request required or permitted to be given under this Agreement shall be in writing and shall be deemed given when delivered personally or three (3) days after being deposited in the United States mail, as certified or registered mail, with postage prepaid, (or by such other method as the Administrator may from time to time deem appropriate), and addressed, if to the Company, at its principal place of business, Attention: the Chief Financial Officer, and if to the Purchaser, at his or her most recent address as shown in the employment or stock records of the Company.

10. **Binding Obligations**. All covenants and agreements herein contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the parties hereto and their permitted successors and assigns.

11. **Captions and Section Headings**. Captions and section headings used herein are for convenience only, and are not part of this Agreement and shall not be used in construing it.

12. **Amendment**. This Agreement may not be amended, waived, discharged, or terminated other than by written agreement of the parties.

13. **Entire Agreement**. This Agreement and the Plan constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior or contemporaneous written or oral agreements and understandings of the parties, either express or implied.

14. **Assignment**. Purchaser shall have no right, without the prior written consent of the Company, to (i) sell, assign, mortgage, pledge or otherwise transfer any interest or right created hereby, or (ii) delegate his or her duties or obligations under this Agreement. This Agreement is made solely for the benefit of the parties hereto, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Agreement.

15. **Severability**. Should any provision or portion of this Agreement be held to be unenforceable or invalid for any reason, the remaining provisions and portions of this Agreement shall be unaffected by such holding.

16. **Counterparts**. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one agreement and any party hereto may execute this Agreement by signing any such counterpart. This Agreement shall be binding upon Purchaser and the Company at such time as the Agreement, in counterpart or otherwise, is executed by Purchaser and the Company.

17. **Applicable Law**. This Agreement shall be construed in accordance with the laws of the State of Washington without reference to choice of law principles, as to all matters, including, but not limited to, matters of validity, construction, effect or performance.

18. **No Agreement to Employ**. Nothing in this Agreement shall affect any right with respect to continuance of employment by the Company or any of its subsidiaries. The right of the Company or any of its subsidiaries to terminate at will the Purchaser's employment at any time (whether by dismissal, discharge or otherwise), with or without cause, is specifically reserved, subject to any other written employment agreement to which the Company and Purchaser may be a party.

19. **"Market Stand-Off" Agreement**. Purchaser agrees in connection with any registration of the Company's securities that, upon the request of the Company or the underwriters managing any public offering of the Company's securities, Purchaser will not sell or otherwise dispose of any Purchased Shares without the prior written consent of the Company or such underwriters, as the case may be, for a period of time (not to exceed 180 days) from the effective date of such registration as the Company or the underwriters may specify.

20. **Tax Elections.** Purchaser understands that Purchaser (and not the Company) shall be responsible for the Purchaser's own tax liability that may arise as a result of the acquisition of the Shares. Purchaser acknowledges that Purchaser has considered the advisability of all tax elections in connection with the purchase of the Shares, including the making of an election under Section 83(b) under the Internal Revenue Code of 1986, as amended ("Code"); Purchaser further acknowledges that the Company has no responsibility for the making of such Section 83(b) election. In the event Purchaser determines to make a Section 83(b) election, Purchaser agrees to timely

provide a copy of the election to the Company as required under the Code.

21. Attorneys' Fees. If any party shall bring an action in law or equity against another to enforce or interpret any of the terms, covenants and provisions of this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorneys' fees and costs.

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

THE COMPANY:

SONUS PHARMACEUTICALS, INC.

By: _____

Name: _____

Title: _____

PURCHASER:

_____

_____
(Print Name)

Address:

_____

_____

CONSENT AND RATIFICATION OF SPOUSE

The undersigned, the spouse of , a party to the attached Restricted Stock Purchase Agreement (the "Agreement"), dated as of , hereby consents to the execution of said Agreement by such party; and ratifies, approves, confirms and adopts said Agreement, and agrees to be bound by each and every term and condition thereof as if the undersigned had been a signatory to said Agreement, with respect to the Shares (as defined in the Agreement) made the subject of said Agreement in which the undersigned has an interest, including any community property interest therein.

I also acknowledge that I have been advised to obtain independent counsel to represent my interests with respect to this Agreement but that I have declined to do so and I hereby expressly waive my right to such independent counsel.

Date: _____

_____
(Signature)

_____
(Print Name)

Option No.

SONUS PHARMACEUTICALS, INC.

STOCK OPTION AGREEMENT

Type of Option (check one): ☐ **Incentive** ☐ **Nonqualified**

This Stock Option Agreement (the "Agreement") is entered into as of , 20 , by and between SONUS Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and (the "Optionee") pursuant to the Company's 2007 Performance Incentive Plan, as amended (the "Plan"). Any capitalized term not defined herein shall have the same meaning ascribed to it in the Plan.

1. Grant of Option. The Company hereby grants to Optionee an option (the "Option") to purchase all or any portion of a total of ( ) shares (the "Shares") of the Common Stock of the Company at a purchase price of ($) per share (the "Exercise Price"), subject to the terms and conditions set forth herein and the provisions of the Plan. If the box marked "Incentive" above is checked, then this Option is intended to qualify as an "incentive stock option" as defined in Section 422 of the Internal Revenue Code of l986, as amended (the "Code"). If this Option fails in whole or in part to qualify as an incentive stock option, or if the box marked "Nonqualified" is checked, then this Option shall to that extent constitute a nonqualified stock option.

2. Vesting of Option. The right to exercise this Option shall vest in installments, and this Option shall be exercisable from time to time in whole or in part as to any vested installment, as follows:

Upon the date set forth below:	This Option shall be Exercisable as to:
	Shares
	Shares
	Shares

No additional Shares shall vest after the date of termination of Optionee's "Continuous Service" (as defined below), but this Option shall continue to be exercisable in accordance with Section 3 hereof with respect to that number of shares that have vested as of the date of termination of Optionee's Continuous Service.

As used herein, the term "Continuous Service" means (i) employment by either the Company or any parent or subsidiary corporation of the Company, or by a corporation or a parent or subsidiary of a corporation issuing or assuming a stock option in a transaction to which Section 424(a) of the Code applies, which is uninterrupted except for vacations, illness (except for permanent disability, as defined in Section 22(e)(3) of the Code), or leaves of absence which are approved in writing by the Company or any of such other employer corporations, if applicable, (ii) service as a member of the Board of Directors of the Company until Optionee resigns, is removed from office, or Optionee's

term of office expires and he or she is not reelected, or (iii) so long as Optionee is engaged as a Service Provider to the Company or other corporation referred to in clause (i) above.

3. Term of Option. The right of the Optionee to exercise this Option shall terminate upon the first to occur of the following:

(a) the expiration of ten (10) years from the date of this Agreement;

(b) the expiration of three (3) months from the date of termination of Optionee's Continuous Service if such termination occurs for any reason other than permanent disability, death or voluntary resignation; provided, however, that if Optionee dies during such three-month period the provisions of Section 3(e) below shall apply;

(c) the expiration of one (1) month from the date of termination of Optionee's Continuous Service if such termination occurs due to voluntary resignation; provided, however, that if Optionee dies during such one-month period the provisions of Section 3(e) below shall apply;

(d) the expiration of one (1) year from the date of termination of Optionee's Continuous Service if such termination is due to permanent disability of the Optionee (as defined in Section 22(e)(3) of the Code);

(e) the expiration of one (1) year from the date of termination of Optionee's Continuous Service if such termination is due to Optionee's death or if death occurs during either the three-month or one-month period following termination of Optionee's Continuous Service pursuant to Section 3(b) or 3(c) above, as the case may be; or

(f) upon the consummation of a "Change in Control" (as defined in Section 2.4 of the Plan).

4. Exercise of Option. On or after the vesting of any portion of this Option in accordance with Sections 2 or 8 hereof, and until termination of the right to exercise this Option in accordance with Section 3 above, the portion of this Option which has vested may be exercised in whole or in part by the Optionee (or, after his or her death, by the person designated in Section 5 below) upon delivery of the following to the Company at its principal executive offices:

(a) a written notice of exercise which identifies this Agreement and states the number of Shares then being purchased (but no fractional Shares may be purchased);

(b) a check or cash in the amount of the Exercise Price (or payment of the Exercise Price in such other form of lawful consideration as the Administrator may approve from time to time under the provisions of Section 5.4 of the Plan);

(c) a check or cash in the amount reasonably requested by the Company to satisfy the Company's withholding obligations under federal, state or other applicable tax laws with respect to the taxable income, if any, recognized by the Optionee in connection with the exercise of this Option (unless the Company and Optionee shall have made other arrangements for deductions or withholding from Optionee's wages, bonus or other compensation payable to Optionee, or by the withholding of Shares issuable upon exercise of this Option or the delivery of

Shares owned by the Optionee in accordance with Section 11.1 of the Plan, provided such arrangements satisfy the requirements of applicable tax laws); and

(d) a letter, if requested by the Company, in such form and substance as the Company may require, setting forth the investment intent of the Optionee, or person designated in Section 5 below, as the case may be.

5. Death of Optionee; No Assignment. The rights of the Optionee under this Agreement may not be assigned or transferred except by will or by the laws of descent and distribution, and may be exercised during the lifetime of the Optionee only by such Optionee. Any attempt to sell, pledge, assign, hypothecate, transfer or dispose of this Option in contravention of this Agreement or the Plan shall be void and shall have no effect. If the Optionee's Continuous Service terminates as a result of his or her death, and provided Optionee's rights hereunder shall have vested pursuant to Section 2 hereof, Optionee's legal representative, his or her legatee, or the person who acquired the right to exercise this Option by reason of the death of the Optionee (individually, a "Successor") shall succeed to the Optionee's rights and obligations under this Agreement. After the death of the Optionee, only a Successor may exercise this Option.

6. Representation of Optionee. Optionee acknowledges receipt of a copy of the Plan and understands that all rights and obligations connected with this Option are set forth in this Agreement and the Plan.

7. Adjustments Upon Changes in Capital Structure. In the event that the outstanding shares of Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a recapitalization, stock split, reverse stock split, reclassification, stock dividend or other similar change in the capital structure of the Company, then appropriate adjustment shall be made by the Administrator to the number of Shares subject to the unexercised portion of this Option and to the Exercise Price per share, in order to preserve, as nearly as practical, but not to increase, the benefits of the Optionee under this Option, in accordance with the provisions of Section 4.2 of the Plan.

8. Change in Control. In the event of a Change in Control (as defined in Section 2.4 of the Plan), the right to exercise this Option shall accelerate automatically and vest in full (notwithstanding the provisions of Section 2 above) effective as of immediately prior to the consummation of the Change in Control. If vesting of this Option will accelerate pursuant to the preceding sentence, the Administrator in its discretion may provide, in connection with the Change in Control transaction, for the purchase or exchange of this Option for an amount of cash or other property having a value equal to the difference (or "spread") between: (x) the value of the cash or other property that the Optionee would have received pursuant to the Change in Control transaction in exchange for the Shares issuable upon exercise of this Option had this Option been exercised immediately prior to the Change in Control, and (y) the aggregate Exercise Price for such Shares. If the vesting of this Option will accelerate pursuant to this Section 8, then the Administrator shall cause written notice of the Change in Control transaction to be given to the Optionee not less than fifteen (15) days prior to the anticipated effective date of the proposed transaction.

9. No Employment Contract Created. Neither the granting of this Option nor the exercise hereof shall be construed as granting to the Optionee any right with respect to continuance of employment by the Company or any of its subsidiaries. The right of the Company or any of its

subsidiaries to terminate at will the Optionee's employment at any time (whether by dismissal, discharge or otherwise), with or without cause, is specifically reserved.

10. Rights as Stockholder. The Optionee (or transferee of this option by will or by the laws of descent and distribution) shall have no rights as a stockholder with respect to any Shares covered by this Option until such person has duly exercised this Option, paid the Exercise Price and become a holder of record of the Shares purchased.

11. "Market Stand-Off" Agreement. Optionee agrees that, if requested by the Company or the managing underwriter of any proposed public offering of the Company's securities, Optionee will not sell or otherwise transfer or dispose of any Shares held by Optionee without the prior written consent of the Company or such underwriter, as the case may be, during such period of time, not to exceed 180 days following the effective date of the registration statement filed by the Company with respect to such offering, as the Company or the underwriter may specify.

12. Interpretation. This Option is granted pursuant to the terms of the Plan, and shall in all respects be interpreted in accordance therewith. The Administrator shall interpret and construe this Option and the Plan, and any action, decision, interpretation or determination made in good faith by the Administrator shall be final and binding on the Company and the Optionee. As used in this Agreement, the term "Administrator" shall refer to the committee of the Board of Directors of the Company appointed to administer the Plan, and if no such committee has been appointed, the term Administrator shall mean the Board of Directors.

13. Limitation of Liability for Nonissuance. During the term of the Plan, the Company agrees at all times to reserve and keep available, and to use its reasonable best efforts to obtain from any regulatory body having jurisdiction any requisite authority in order to issue and sell, such number of shares of its Common Stock as shall be sufficient to satisfy its obligations hereunder and the requirements of the Plan. Inability of the Company to obtain, from any regulatory body having jurisdiction, authority deemed by the Company's counsel to be necessary for the lawful issuance and sale of any shares of its Common Stock hereunder and under the Plan shall relieve the Company of any liability in respect of the nonissuance or sale of such shares as to which such requisite authority shall not have been obtained.

14. Notices. Any notice, demand or request required or permitted to be given under this Agreement shall be in writing and shall be deemed given when delivered personally or three (3) days after being deposited in the United States mail, as certified or registered mail, with postage prepaid, (or by such other method as the Administrator may from time to time deem appropriate), and addressed, if to the Company, at its principal place of business, Attention: the Chief Financial Officer, and if to the Optionee, at his or her most recent address as shown in the employment or stock records of the Company.

15. Governing Law. The validity, construction, interpretation, and effect of this Option shall be governed by and determined in accordance with the laws of the State of Washington except for matters related to corporate law, in which case the provisions of the Delaware corporation law shall govern.

16. Severability. Should any provision or portion of this Agreement be held to be unenforceable or invalid for any reason, the remaining provisions and portions of this Agreement shall be unaffected by such holding.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be deemed one instrument.

18. Tax Consequences and Reporting Obligation Upon Sale of Shares. If this Option is an "incentive stock option," the tax benefits afforded to incentive stock options will be obtained by the Optionee only if the Shares received upon exercise of this Option are held for at least one year after the date of exercise of this Option and two years after the date this Option was granted to the Optionee. If the Optionee sells or otherwise transfers the Shares before the expiration of either of these one- or two-year periods, the sale or transfer will be treated for tax purposes as a "disqualifying disposition," resulting in the following tax consequences: (a) the Optionee will not obtain the tax benefits afforded to incentive stock options, (b) the "spread" as of the date of exercise will be taxed to the Optionee at ordinary income tax rates, and (c) the amount of ordinary income resulting from the disqualifying disposition will be included in the Optionee's W-2. These tax consequences are described in more detail in the prospectus that relates to the Company's 2007 Performance Incentive Plan, as amended, a copy of which was delivered to the Optionee with this Option. To assure that the Company has the information necessary to comply with its tax reporting obligations, **Optionee agrees to promptly notify the Company if any Shares are sold or transferred less than**

one year after the date of exercise or less than two years after the date this Option was granted, and report information regarding the disqualifying disposition in accordance with procedures established by the Company for this purpose.

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

SONUS PHARMACEUTICALS, INC.
a Delaware corporation

By: _____

Name: _____

Its: _____

OPTIONEE

_____
(Signature)

_____
(Type or print name)

Address:

_____

_____

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 quarterly report on Form 10-Q 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: November 9, 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 quarterly report on Form 10-Q 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: November 9, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (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 78o(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: November 9, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (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 78o(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: November 9, 2007

/s/ Alan Fuhrman
Alan Fuhrman
Senior Vice President and Chief
Financial Officer