

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) **December 29, 2004**

**SONUS PHARMACEUTICALS, INC.**

(Exact name of Registrant as Specified in Its Charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**0-26866**  
(Commission  
File Number)

**95-4343413**  
(IRS Employer  
Identification No)

**22026 20<sup>th</sup> Avenue S.E., Bothell, Washington 98021**  
(Address of principal executive offices)

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

**Not Applicable**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01 Entry into a Material Definitive Agreement**

On December 29, 2004, the Compensation Committee of the Board of Directors of Sonus Pharmaceuticals, Inc. (the "Company") adopted an Amended and Restated Executive Compensation Program (the "Executive Compensation Program") for the Company's executive officers and key employees. A copy of the Program is filed as Exhibit 10.1 hereto. Set forth below is a summary description of the principal terms of the Executive Compensation Program.

Participants in the Executive Compensation Program are executive officers of the Company. Other officers and key employees and new participants are recommended for participation by the President and Chief Executive Officer and the Compensation Committee, and approved for participation by the Board of Directors. The Executive Compensation Program provides for competitive compensation opportunities for executives and key employees to help attract and retain critical leadership and talent.

The Executive Compensation Program includes three components: base salary, short term incentive program ("STIP") and long-term incentive program ("LTIP"). All three components are reviewed on an annual basis and adjustments are made to reflect both cost of living and competitive salary conditions.

The Executive Compensation Program targets base salaries in the 50th to 60th percentile of comparable companies.

The STIP provides for cash bonus opportunities for participants based upon corporate and individual performance goals selected and recommended by the Compensation Committee and approved by the Board of Directors annually. Performance measures and ratings are selected based upon their importance to the Company's strategic goals and the participant's individual ability to impact each metric target. The corporate performance goals for 2004 were: Develop and Realize the Value of TOCOSOL Paclitaxel; Diversify to Multi-Product Company; and Leverage Achievement of Goals 1 and 2 to Secure Additional Capital. Short-term incentive program awards as a percentage of base salary can range from 25% for Vice Presidents, 35% for Senior Vice Presidents and 45% for the President and Chief Executive Officer. The President and Chief Executive Officer is responsible for making recommendations for actual performance against the performance goals for all participants other than himself or herself. The Compensation Committee reviews the recommendations, and provides its own recommendation with respect to the President and Chief Executive Officer, which are made to the Board for final approval on an annual basis. Performance awards granted pursuant to the short-term incentive program are in the form of the exhibit attached hereto as Exhibit 10.2.

In addition, the Executive Compensation Program provides for long-term incentive program awards in the form of stock option grants made on an annual basis with target values chosen to reflect competitive practices. The target values range from \$225,000 for Vice Presidents, \$275,000 for Senior Vice Presidents and \$500,000 for the President and Chief Executive Officer. Stock options are valued pursuant to customary valuation metrics. The Compensation Committee or Board of Directors retains the flexibility to determine stock option awards based on other metrics, provided that the awards do not exceed the amount that would be determined pursuant to the value metrics.

**Item 9.01 Exhibits**

(c) **Exhibits.** Attached hereto are the following exhibits:

<u>Exhibit</u>	<u>Description</u>
10.1	Executive Compensation Program
10.2	Form of Short-Term Incentive Program Performance Award.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SONUS PHARMACEUTICALS, INC.

Date: January 4, 2005

By: /s/ Alan Fuhrman  
Alan Fuhrman, Senior Vice President and  
Chief Financial Officer

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**Amended and Restated  
Sonus Pharmaceuticals, Inc.  
Executive Compensation Program**

**I. PURPOSE**

The purpose of the Sonus Pharmaceuticals Executive Compensation Program (“Program”) is to provide competitive compensation opportunities that are aligned with and promote the overall financial objectives of Sonus Pharmaceuticals (the “Company”) and its shareholders. This will be accomplished through a combination of base salary, short-term incentives, and long-term equity awards.

**II. ELIGIBILITY**

Company executives are eligible to participate in the Program. As of January 1, 2004, the following executives have been approved for participation in the Program (the “Participants”):

- President & CEO
- SVP, Clinical & Regulatory Affairs, Chief Medical Officer
- SVP, Chief Financial Officer
- VP, Research and Process Development
- VP, Preclinical Development
- VP, Strategic Development & Corporate Development
- VP, Regulatory Affairs & Quality Assurance
- VP, Market & Business Development
- VP, Human Resources
- Controller & Principal Accountant
- Investor Relations

Other individuals may become Program Participants during a fiscal year (“New Participants”) provided such an individual is: (1) an executive of the Company; (2) recommended for participation by the President & CEO and the Compensation Committee; and (3) approved for participation by the Board of Directors. In addition, a New Participant must satisfy the specific eligibility requirements of the Short-Term Incentive and Stock Option Programs in order to receive an award under each of these programs (see Sections VI and VII, respectively).

**III. COMPENSATION PHILOSOPHY**

Four guiding principles provide the framework for the Program:

- A. Pay Program Objectives. The primary contributions expected from the Program include:
1. Align the interests of executives and shareholders by providing an opportunity for Participants to share in the increase in Company value.
  2. Create a direct meaningful link between business results and individual performance and reward executives for commensurate company performance.
  3. Provide competitive compensation opportunities to help attract and retain critical leadership and talent.
  4. Ensure flexibility to fairly compensate executives for performance when business priorities and objectives change throughout the year.
- B. Comparative Framework. Target pay levels will be competitive with those of similarly situated executives in comparable life sciences companies. To ensure an accurate representation of market practice, multiple survey sources will be considered.
1. Radford Biotechnology Survey.
  2. Life Sciences Industry Executive Total Direct Compensation Survey.
  3. Other surveys deemed appropriate by the Compensation Committee.
  4. Peer group of business and labor market competitors. The peer group will be reviewed by the Compensation Committee on an annual basis and submitted to the Board for approval.

A competitive analysis of Sonus’ compensation levels relative to market will be completed in the fourth quarter of each fiscal year and will serve as the basis for developing the pay structure for the next fiscal year.

Additionally, the Compensation Committee will utilize an independent, outside consultant to review the Company’s compensation programs and practices and make recommendations.

- C. Target Pay Position. For each element of compensation, Sonus will target the following market position relative to the comparative framework:

**Total Cash Compensation**

Base Salary	Target Total Cash	Maximum Total Cash	Target Stock Option Grant
50 <sup>th</sup> – 60 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	60 <sup>th</sup> – 75 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile (subject to dilution constraints)

*Note: Total cash is base salary plus short-term incentive.*

- D. Ownership. The Company will encourage and facilitate equity ownership of Program Participants through the grant of stock option awards. Target award levels will be based on the competitive value provided to executives in the market. Actual awards will reflect competitive market practice, company stock price performance relative to peers, individual performance, the strategic importance of individual and retention objectives.

#### IV. PROGRAM ADMINISTRATION

The Program will be administered by the President & CEO and the Compensation Committee of the Board of Directors (the “Compensation Committee”).

##### A. President & CEO Responsibilities

1. Recommend new executives for Program Participation.
2. Develop specific base salary, short-term incentive and stock option grant recommendations for all Participants (except the President & CEO) and submit to the Compensation Committee for approval.
3. Propose performance measures, weightings, and performance levels for the short-term incentive program, and changes thereto.
4. Evaluate actual performance against the short-term incentive measures and goals.
5. Communicate Program parameters and mechanics to Participants.

##### B. Compensation Committee Responsibilities

1. Submit new Program Participants to the full Board for approval.
2. Review peer group companies used for annual competitive analysis and submit to the full Board for approval.
3. Review short-term incentive performance measures, goals, and weightings, and make a recommendation to the full Board for approval.
4. Certify achievement of short-term incentive measures and determine form of payment.
5. Review President & CEO’s pay recommendations for Participants, develop pay recommendations for the President & CEO, and submit all pay recommendations to the full Board for approval.
6. Review President & CEO’s stock option award recommendations and make a recommendation to the full Board for approval.

#### V. BASE SALARY

The target base salary market position for Program Participants is the 50th to 60th percentile of the comparator market.

- A. Salary Increase. All Participants will be eligible for a salary review at the end of each fiscal year. Salary increases may be comprised of a merit increase and/or a technical adjustment. Merit increase guidelines (as a percent of base salary) will be established for the entire company each October based on a review of current market practices and the Company’s financial condition. The merit increase guidelines for Program Participants will be the same as all Company employees. A Participant will be eligible for a merit increase based on individual performance as determined through the Company’s performance review process.

If a Participant’s base salary after giving effect to the merit increase is below market 50<sup>th</sup> percentile, the individual may also receive a technical adjustment. Technical adjustments will be based on the competitive position of the Participant’s base salary relative to market and the Company’s financial condition.

If a Participant’s base salary is less than 80% of the market 50th percentile after a merit increase and technical adjustment, the individual will be eligible for another technical adjustment on or about July 1<sup>st</sup> of the following fiscal year.

- B. Recommendations and Approval. Salary increases for all Participants (except the President & CEO) will be recommended by the President & CEO and submitted to the Compensation Committee, with supporting documentation, for review. The Compensation Committee will develop the salary increase recommendation for the President & CEO and make a recommendation with respect to salary increases for all Participants to the full Board for approval.

#### VI. SHORT-TERM INCENTIVE PROGRAM

The short-term incentive program (“STIP”) is designed to reward executives for the financial and operational success of the Company.

- A. Performance Period. The STIP will measure and reward performance on an annual basis (January 1 – December 31).

- B. Eligibility. All Program Participants as of January 1<sup>st</sup>, are eligible to participate in the STIP. New Participants will be eligible to participate in the STIP upon the recommendation of the President & CEO and Compensation Committee and approval by the full Board; provided, however, that the New Participant is approved for the Program by September 30<sup>th</sup>. The New Participant’s award opportunity (see Section VI. D. below) will be prorated based on the number of full and partial months remaining in the performance period at the time Program participation is approved. New Participants approved for the Program after September 30<sup>th</sup> will only be eligible to receive an award (prorated based on the number of full and partial months remaining in the performance period) for the achievement of individual performance measures. These individuals will be eligible to participate in the full STIP in the next fiscal year.

- C. Performance Measures and Weighting. STIP awards will be selected and approved by the Board each year and will be tied to the achievement of corporate financial goals, operational objectives and individual performance. Performance measures and weightings will be selected based on their importance to Sonus' strategic goals and the Participants' ability to impact each metric. STIP awards may be subject to a "corporate gate"; this is a minimum performance requirement before any award may be earned. The "gate" is to be approved by the Board each year.

Goals will be reviewed on a quarterly basis to ensure continued alignment with the Company's business strategy and objectives. Upon the recommendation of the President & CEO and Compensation Committee and approval of the full Board, the performance measures, weightings, and/or performance levels may be adjusted at this time to reflect changes in business priorities.

- D. Award Levels. Target award levels for each STIP Participant have been established based on competitive practice and Sonus' compensation philosophy. Threshold and maximum award levels represent 50% and 150% of target, respectively.

Title/Level	Target STIP Award (as a % of base salary)
President & CEO	45.0 %
Senior Vice President	35.0 %
Vice President	25.0 %

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- E. Award Determination. Actual performance will be measured against the performance metrics and goals at the end of the fiscal year. A score will be assigned to each measure/goal based on the level of achievement and an aggregate point value determined for each measure. If the threshold performance level for any other performance measure is not achieved, no points will be earned for that measure. Conversely, actual performance that is greater than the maximum performance level will yield only the maximum points for that measure. The aggregate point value will be multiplied by each Participant's Target STIP Award to establish the earned incentive award percentage. This percentage will then be multiplied by the Participant's base salary to determine the dollar value of the Participant's STIP award.

The President & CEO will be responsible for evaluating actual performance against the performance goals and determining the award earned. Written documentation supporting the President & CEO's evaluation of performance and calculation of awards will be submitted to the Compensation Committee for review. The Compensation Committee will make a recommendation to the Board regarding the award amount and form of payment.

- F. Award Payout. Subject to approval by the Compensation Committee, STIP awards will be paid no later than February 28<sup>th</sup> following the conclusion of the fiscal year to which the award relates. A Participant must be actively employed at the Company on the date awards are paid to receive an award. The Compensation Committee retains the discretion to recommend that STIP awards be paid in cash, restricted stock, stock options, promissory note, or to defer payments via a nonqualified deferred compensation program.

## VII STOCK OPTION PROGRAM

The stock option program is designed to focus Program Participants on increasing Company and shareholder value through the grant of nonqualified stock options.

- A. Eligibility. All Program Participants as of January 1<sup>st</sup>, are eligible to receive a stock option award on or about December 15<sup>th</sup> to December 31<sup>st</sup> ("Refresher Grant"). New Participants will be eligible to receive a new hire award ("New Hire Grant") as soon as administratively possible after their start date. New Participants will also be eligible for a Refresher Grant if they enter the Program prior to July 1<sup>st</sup>; however, this award will be prorated based on the number of full and partial months remaining in the fiscal year at the time Program participation is approved. New Participants entering the Program after July 1<sup>st</sup> will not be eligible to receive a Refresher Grant during the current fiscal year but will be considered for such an award in the next fiscal year.
- B. Award Levels. Target Refresher and New Hire Grants are based on the stock option value provided to similarly situated executives in the market. For purposes of defining "market," the survey sources listed in Section III.B. will be considered. Target value represents the economic value of the Refresher or New Hire Grant using a risk-adjusted present value of expected gain methodology.

Title/Level	Target Refresher Stock Option Value	Target New Hire Stock Option Value
President & CEO	\$ 500,000	—
Senior Vice President	\$ 275,000	\$ 550,000
Vice President	\$ 225,000	\$ 450,000

- C. Grant Determination. Refresher and New Hire Grants for each Participant will be calculated using the following process:

1. Calculate Sonus' 90-day average closing stock price from September 15<sup>th</sup> - December 15<sup>th</sup>.

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2. Determine the risk-adjusted present value of expected gain of a Sonus stock option ("Option Value") using the stock price calculated in Section VII.C.1. above. The Option Value should be approximately 50% of the stock price determined above.
3. Divide the target Refresher Grant (or New Hire Grant) value for each Participant by the Option Value to determine the target number of options to be awarded ("Target Grant"). The New Hire Grant target number of options will serve as the guidelines for the entire fiscal year.
4. For each Participant (except the President & CEO), the President & CEO will recommend an actual award ("Actual Grant") that is 50% to 150% of the Target Grant. Factors used to determine the Actual Grant have been defined by the Board to include:
  - Competitive market practice
  - Company stock price performance relative to peers
  - Individual performance
  - Strategic importance of individual/retention objectives

The Compensation Committee will make this determination for the President & CEO, subject to Board approval.

5. The President & CEO will submit a written recommendation and supporting rationale for each Participant's Actual Grant to the Compensation

Committee for review, with recommendations to be made to the full Board.

6. The Compensation Committee and/or Board of Directors may, in lieu of the foregoing, determine the amount of the option award levels based on other metrics, including without limitation, total number of shares subject to options; provided, however, that the option award levels shall not exceed those that would be determined in accordance with the foregoing provisions of this Section VII.

- D. Aggregate Stock Option Grant. The aggregate Refresher Grant value provided to current Program Participants shall not exceed an amount equal to the sum of the Target Refresher Grant value for each Participant.
- E. Stock Option Grant. Refresher Grants will be approved and granted by the full Board on or about December 1<sup>st</sup> to December 31<sup>st</sup>. New Hire Grants will be approved and granted as soon as administratively possible following the individual's approval for participation in the Program. The exercise price of the Refresher Grant will be Sonus' closing stock price on the date the grant is approved by the Board. The exercise price of the New Hire Grant will be Sonus' closing stock price on the date the grant is approved by the Board or date of hire, whichever is later.
- F. Vesting. Refresher Grants are subject to a four-year time-based vesting schedule. One-quarter of the total grant vests after one year, with the remaining options vesting in 36 equal monthly installments. Unless otherwise determined by the President & CEO or Compensation Committee, New Hire Grants will vest according to the same schedule.

#### VIII MISCELLANEOUS PROVISIONS

- A. This Program is effective as of January 1, 2004 and will continue until the Compensation Committee and/or Board terminates the Program. The Compensation Committee and/or Board retain the right to amend, alter, or terminate this Program at any time.
- B. All decisions made by the Compensation Committee and/or Board regarding administration and interpretation of the Program shall be final and binding on all persons, including the Company and Participants.

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- C. Nothing contained in this document shall be deemed to alter the relationship between the Company and a Participant, or the contractual relationship between a Participant and the Company if there is a written contract regarding such relationship. Furthermore, nothing contained in this document shall be construed to constitute a contract of employment between the Company and a Participant. The Company and each of the Participants continue to have the right to terminate the employment or service relationship at any time for any reason, except as provided in a written contract.

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**SONUS PHARMACEUTICALS, INC.**  
**SHORT-TERM INCENTIVE PROGRAM**  
**PERFORMANCE AWARD**

Notice is hereby given that Sonus Pharmaceuticals, Inc. (the "Company") hereby agrees to grant you the following short-term incentive plan performance award under the Company's Executive Compensation Program:

**Corporate Goals and Objectives**

Goal	Weight	% Achieved
1		
2		
3		

**Individual Goals and Objectives**

Goal	Weight	% Achieved

Total Percentage Achieved:        %

Total Performance Award:        \$

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