

**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 11, 2006**

**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 5.02 Compensatory Arrangements of Certain Officers**

(e) At its regularly scheduled meeting on December 11, 2006, the Board of Directors of Sonus Pharmaceuticals, Inc. approved a new Compensation Policy and Executive Compensation Program which sets forth the policy and practices concerning executive compensation. The primary components of which include base salary, bonus and equity awards. These documents are attached as exhibits to this Form 8-K.

**Item 9.01 Exhibits**

- |     |              |                                |
|-----|--------------|--------------------------------|
| (d) | Exhibit 10.1 | Compensation Policy            |
|     | Exhibit 10.2 | Executive Compensation Program |

**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: December 15, 2006

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

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>             |
|--------------------|--------------------------------|
| Exhibit 10.1       | Compensation Policy            |
| Exhibit 10.2       | Executive Compensation Program |

Sonus Pharmaceuticals, Inc.

Compensation Policy

**1. Purpose**

- a. This policy outlines the Philosophy, Guiding Principles, Programs and Eligibility Timelines, and Delegation of Authority related to all compensation programs at Sonus Pharmaceuticals.

**2. Philosophy**

- a. Attracting and retaining human talent is a critical element of our ability to achieve the goals and objectives outlined in our business plan.
- b. The labor markets in which we compete for human talent, nationally and locally, are very competitive. To be successful, we have to offer compensation programs that are competitive with life sciences companies, large and small, that are competing for the same talent.
- c. The components of these compensation programs, including base salary, annual merit increases, short term incentive awards, and long term incentive awards, should align incentives and rewards for employees with the overall business strategies, goals and objectives of Sonus, and also take into account the company’s ability to fund these programs.
- d. While our corporate goals and objectives for any year are clearly defined, our business strategy also contains an opportunistic element, and compensation programs should therefore ensure flexibility to fairly compensate employees when business priorities and objectives change in a year.

**3. Guiding Principles**

- a. “Compensation” at Sonus includes the following components:
  - i. A Base Salary, which is determined for each employee at their time of hire, promotion, and/or significant change in duties and responsibilities;
  - ii. Annual Merit Increases, which are intended to adjust base salaries for cost of living increases, and which take into account each employee’s performance against individual and team goals and objectives;
  - iii. Short Term Incentive Awards, which are designed to provide an annual bonus opportunity, payable in cash or stock, to reward employees for performance to corporate, team and individual goals and objectives; and

- iv. Long Term Incentive Awards, which consist of both new-hire stock option grants at the time an employee is hired and annual refresher stock option grants, and are designed to provide an incentive opportunity for each employee to participate in increases in long-term shareholder value.
- b. For every full-time employee position in Sonus, targeted levels of compensation for each of the elements defined above is determined by benchmarking similar positions in comparable, or “peer”, life sciences companies. This is accomplished through an annual review of multiple survey sources, including recognized compensation surveys covering the biotechnology and pharmaceutical industries, and through direct competitive analysis of peer companies. The company may, from time to time, engage recognized external consultants to assist with this analysis.
- c. In addition to competitive practices as outlined above, compensation for each position in the company will take into account the strategic importance of the position as well as the experience, skills and capabilities of the incumbent or new hire.
- d. Subject to the above, targeted levels of compensation for each of the elements is as follows:

| Base Salary                                    | Total Cash Compensation     |  | Target Stock Option Equity Grant                                 |
|--|-----------------------------|--|--|
|  | Target Total Cash           | Maximum Total Cash                             |  |
| 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<br>(subject to dilution constraints) |

- i. Employee base salaries fall within bands, which are divided into thirds. The market reference range is defined as the middle third of the band and consists of the amounts within plus or minus 10% of the 50<sup>th</sup> percentile.
- ii. Executive base salaries fall at the targeted levels plus or minus 15% depending upon performance, strategic importance of the position, retention needs and competitive practices.
- e. By policy, annual merit increase guidelines will be the same for employees at all levels of the company. The actual annual merit increase for a given employee may be higher or lower than the guideline based on that employee’s performance to team and individual goals and their position relative to targeted salary guidelines.

- f. Following application of the annual merit increase, if any employee is still outside the competitive guidelines for base salary, a one time Technical Adjustment may be applied to bring that employee’s salary in compliance with the guidelines.

**4. Programs and Eligibility**

- a. All employees who fill a regular, approved position are eligible for participation in the Employee Compensation Program. Any other type of employee, including but not restricted to temporary, agency, contract, consultants or other similar positions, are not eligible to participate.
- b. Employees at the level of vice president or higher may participate in the Executive Compensation Program if they are recommended for participation by the

President & CEO and are approved for participation by the Board of Directors or the Compensation Committee of the Board.

- c. An employee can only participate in one compensation program, i.e. either the Executive or Employee program.

**5. Timeline**

- a. The process begins annually in July-August with a presentation to the Compensation Committee of a preliminary review of trends in compensation and identification of potential issues regarding any of the three components of compensation.
- b. Based on feedback from the Compensation Committee, Human Resources works with an outside consulting firm to produce an Executive Compensation Review with recommendations for each of the compensation components. The consulting firm may be involved in employee compensation as well. This material is forwarded to and discussed with the Compensation Committee in October, which is the month the formal performance review process begins.
- c. In November the Compensation Committee receives recommendations for all components of compensation for executives and for employees.
- d. In December the Board of Directors and the Compensation Committee complete final review of the recommendations and approve specific amounts of each component for each executive and maximum pool amounts for employees.

**6. Delegation of Authority**

- a. The Delegation of Authority for the Employee Compensation Program is outlined in Exhibit A.
- b. The Delegation of Authority for the Executive Compensation Program is outlined in Exhibit B.

**APPENDIX A**

**EMPLOYEE COMPENSATION PROGRAM  
DELEGATION OF AUTHORITY**

| <b>Employee</b>                     | <b>New Hires</b>   | <b>Existing Employees</b>  |
|-------------------------------------|--|--|
| · <b>Salary</b>                     | · Salary bands set by program guidelines approved by board<br>· Specific offers within program guidelines approved by CEO                                    | · N/A  |
| · <b>Annual Merit Increases</b>     | · N/A  | · Board approves maximum total pool based on Comp Com recommendations<br>· Comp Com approves actual payout pool based on CEO recommendations and up to maximum pool approved by board<br>· CEO approves individual employee payouts within pool approved by Comp Com |
| · <b>Annual Performance Bonuses</b> | · Eligibility for level of maximum targeted payout determined by guidelines approved by Board<br>· Specific offers within program guidelines approved by CEO | · Board approves maximum total pool based on Comp Com recommendations<br>· Comp Com approves actual payout pool based on CEO recommendations and up to maximum pool approved by board<br>· CEO approves individual employee payouts within pool approved by Comp Com |
| · <b>Stock Option Awards</b>        | · Eligibility for level of maximum targeted award determined by guidelines approved by Board<br>· Specific offers within program guidelines approved by CEO  | · Board approves maximum total pool based on recommendations by Comp Com<br>· Comp Com approves actual payout pool based on CEO recommendations and up to maximum approved by board<br>· CEO approves individual employee payouts within pool approved by Comp Com   |

**APPENDIX B**

**EXECUTIVE COMPENSATION PROGRAM  
DELEGATION OF AUTHORITY**

| <b>Executive</b> | <b>New Hires</b>   | <b>Existing Employees</b> |
|------------------|--|---------------------------|
| · <b>Salary</b>  | · Specific offers approved by Comp Com based on recommendations of CEO and communicated to Board | · N/A                     |

· **Annual Merit Increases**

· N/A

- Board approves maximum potential increase per executive based on Comp Com recommendations
- Comp Com approves actual increase per executive based on CEO recommendations and up to maximum payout approved by board
- Board approves amount for the President & CEO based on recommendation from the Comp Com

· **Annual Performance Bonuses**

- Eligibility for level of maximum targeted payout determined by guidelines approved by Board
- Specific offers within program guidelines approved by Comp Com based on recommendations from CEO

- Board approves maximum payout per executive based on Comp Com recommendations
- Comp Com approves actual payout per executive based on CEO recommendations and up to maximum payout approved by board
- Board approves amount for the President & CEO based on recommendation from the Comp Com

· **Stock Option Awards**

- Eligibility for level of maximum targeted award determined by guidelines approved by Board
- Specific offers within program guidelines approved by Comp Com based on recommendations from CEO

- Board approves maximum award per executive based on recommendations by Comp Com
  - Comp Com approves actual award per executive based on CEO recommendations and up to maximum award approved by board
  - Board approves amount for the President & CEO based on recommendation from the Comp Com
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Sonus Pharmaceuticals, Inc.  
Executive Compensation Program

**I. PURPOSE**

The Sonus Pharmaceuticals, Inc. (Company) Executive Compensation Program describes the components of the Company Compensation Policy (Policy) as it relates to executives.

**II. ADMINISTRATION**

The program is administered by the President & CEO and the Vice President of Human Resources pursuant to Sonus' Compensation Policy within maximum amounts approved by the Board of Directors and subject to performance measures, weightings and performance levels for the short-term incentive program established by the Board. All decisions on base pay, short-term incentive (bonus), and long-term incentive (performance awards) are made in December of each year.

The Compensation Committee and the Board of Directors administer the annual compensation program as it applies to the President & CEO and consider all relevant factors, including all of the executive criteria stated in the Policy and the Program.

**III. COMPONENTS OF COMPENSATION****A. BASE SALARY**

See **Appendix A, Components of Executive Compensation**, for New-Hire Salary and Annual Merit Increases.

**B. SHORT-TERM INCENTIVE PROGRAM (STIP)**

See **Appendix A, Components of Executive Compensation**, for STIP.

**Target 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                 | Target STIP Award (as a % of base salary) |
|-----------------------|---|
| President & CEO       | 45 %                                      |
| Senior Vice President | 35 %                                      |
| Vice President        | 25 %                                      |

**Award Payout of STIP**

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.

**C. LONG-TERM INCENTIVE PROGRAM (LTIP)**

See **Appendix A, Components of Executive Compensation**, for LTIP for new-hire awards and for performance awards.

All stock option awards are based on practices for similarly-situated employees at other life sciences organizations. Target award levels reflect multiple perspectives, including number of shares, typical ownership levels for similar positions, and aggregate share use (dilution.) Awards for annual performance include individual performance, strategic value of the individual, and retention objectives.

**Target Award Levels**

| Title/Level     | Performance Award Range |         |
|-----------------|-------------------------|---------|
|                 | Target                  | Maximum |
| CFO/SVP         | 40,000                  | 60,000  |
| CMO             | 40,000                  | 60,000  |
| Vice Presidents | 20,000                  | 30,000  |

**IV. MISCELLANEOUS PROVISIONS**

- A. This Program is effective as of July 25, 2006 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 all employees.
- C. Nothing contained in this document shall be deemed to alter the relationship between the Company and an employee or the contractual relationship between an executive 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 an executive. 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.

APPENDIX A

COMPONENTS OF EXECUTIVE COMPENSATION

| COMPONENTS                    | NEW HIRES   | EXISTING EMPLOYEES  |
|-------------------------------|---|---|
| <b>NEW-HIRE BASE SALARY</b>   | Benchmark comparable position in peer and competitor companies; consult published salary surveys; evaluate skill set, experience, education, prior performance, aptitude for success in position and at Sonus. May consider strategic importance, scarcity of skills, and other pertinent factors.  | NA  |
| <b>ANNUAL MERIT INCREASES</b> | <p><u>Eligibility</u><br/>Hired on or before Sept. 30. Any increase will be pro-rated per date of hire.</p> <p><u>Amount</u><br/>Based upon achievement against corporate, team, and individual goals and objectives, strategic value of the position, internal equity, market analysis, salaries for comparable positions in specified comparator companies, and other relevant factors. Determined during Q4.</p> | <p><u>Eligibility</u><br/>Currently an active employee.</p> <p><u>Amount</u><br/>Based upon achievement against corporate, team, and individual goals and objectives, strategic value of the position, internal equity, market analysis, salaries for comparable positions in specified comparator companies, and other relevant factors. Determined during Q4.</p> |

| COMPONENTS                         | NEW HIRES  | EXISTING EMPLOYEES  |
|------------------------------------|--|---|
| <b>SHORT-TERM INCENTIVE (STIP)</b> | <p><u>Eligibility</u><br/>Hired on or before Sept. 30. Pro-rated per date of hire. If hired on or after Oct. 1 may be eligible for personal objectives only.</p> <p><u>Calculation</u><br/>Aggregate total calculated for each goal. If threshold not achieved, no points are earned. If superior achieved, no more than maximum points will be earned. Total aggregate points are multiplied by each executive's target STIP award to establish the earned award percentage. This percentage is then multiplied by each executive's base salary to determine the dollar value of the award.</p> <p><u>Award Payout</u><br/>Bonuses are paid during Q1 of the year following the review year. An executive must be actively employed on the date awards are paid in order to receive an award. Pro-rated per date of hire.</p> | <p><u>Eligibility</u><br/>Currently an active employee.</p> <p><u>Calculation</u><br/>Aggregate total calculated for each goal. If threshold not achieved, no points are earned. If superior achieved, no more than maximum points will be earned. Total aggregate points are multiplied by each executive's target STIP award to establish the earned award percentage. This percentage is then multiplied by each executive's base salary to determine the dollar value of the award.</p> <p><u>Award Payout</u><br/>Bonuses are paid during Q1 of the year following the review year. An executive must be actively employed on the date awards are paid in order to receive an award.</p> |
| <b>LONG-TERM INCENTIVE (LTIP)</b>  | <p><u>Eligibility New-hire Award</u><br/>As soon as administratively possible after hire date.</p> <p><u>Exercise Price</u><br/>The closing price of Sonus stock on the day the award is approved. Approvals of awards shall be made effective as of the last business day of the month during which employment commences.</p> <p><u>Vesting</u><br/>Vesting shall commence as of the last business day of the month during which employment commences. Four-year time-based vesting with one-quarter of the total award vesting after one year and the remainder in 36 equal monthly installments.</p>  | <p><u>Eligibility Annual Performance Award</u><br/>Hired on or before June 30 of the review year. If less than a full year, will be pro-rated per date-of-hire.</p> <p><u>Exercise Price</u><br/>The closing price of Sonus stock on the day the award is approved. Approvals of awards shall be made effective as of the last business day of the year.</p> <p><u>Vesting</u><br/>Vesting shall commence as of the last business day of the year. Four-year time-based vesting with one-quarter of the total vesting after one year and the remainder in 36 equal monthly installments.</p>  |