

## **CEPHALON, INC.**

### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

#### **1. PURPOSE**

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to oversee and monitor:

- (a) the integrity of the Company's financial statements;
- (b) the Company's system of disclosure controls and procedures, internal controls over financial reporting and other controls within its finance, accounting and legal compliance functions;
- (c) the qualifications, independence and performance of the Company's independent registered public accounting firm (the "independent auditor"); and
- (d) the performance of the Company's internal auditing function ("Internal Audit").

Consistent with these duties and functions, the Audit Committee should provide an open avenue of communication among the independent auditor, financial and senior management, the Board of Directors and Internal Audit. The Audit Committee also should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee has the authority to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties and responsibilities. In addition, the Audit Committee has the authority to conduct any investigation it deems necessary in fulfilling its duties and responsibilities.

The Audit Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section 4 of this charter. The Audit Committee will report regularly to the Board of Directors regarding the execution of its duties and responsibilities.

#### **2. COMPOSITION**

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be a non-executive director and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee. The Audit Committee members also shall meet the independence, financial literacy and other requirements of all applicable rules and regulations of the Securities and Exchange Commission (the "SEC") and of the principal market(s) or automated quotation system(s) on which the Company's securities are traded or quoted (the "Exchanges"). The Board of Directors will determine whether at least one member of the Audit Committee qualifies as an "audit committee financial expert" in compliance with the criteria established by the SEC.

The members of the Audit Committee shall be elected by the Board following the annual meeting of the Stockholders and shall serve until their successors shall be duly elected and qualified. The Chair of the Audit Committee shall be elected by the Board.

#### **3. MEETINGS**

The Audit Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. Minutes of each meeting shall be prepared and sent to Audit Committee members and shall be made available to the Board of Directors. Copies of the minutes are to be provided to the independent auditor. As part of its job to foster open communication, the Audit Committee will meet privately in separate executive sessions at least annually with management, the director of Internal Audit, the independent auditor, and as a Committee to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee, or at least its Chair, will meet with the independent auditor and management quarterly to review the Company's financial statements and significant findings based upon the independent auditor's limited review procedures.

#### **4. RESPONSIBILITIES**

To fulfill its responsibilities and duties, the Audit Committee will:

**(a) Documents/Reports Review**

1. Review and update this Charter periodically, at least annually, as conditions dictate. Submit this Charter to the Board of Directors for approval and publish it in accordance with all applicable rules and regulations of the SEC and the Exchanges.
2. Review and discuss with management and the independent auditor the Company's annual audited financial statements and any relevant reports (including internal control reports) or other financial information submitted to any governmental body, or to the public, including the Company's Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein and the management certifications as required by the Sarbanes-Oxley Act of 2002, prior to filing or distribution, including any certification, report, opinion, or review rendered by the independent auditor.
3. Review and discuss with management and the independent auditor the Company's quarterly consolidated financial results prior to the release of earnings, and the Company's quarterly consolidated financial statements on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein and the management certifications as required by the Sarbanes-Oxley Act of 2002, prior to filing or distribution.
4. Review the Company's quarterly earnings press release financial information (paying particular attention to any use of "pro forma," or "as adjusted" non-GAAP, information), as well as any earnings guidance released publicly.

**(b) Independent Auditor**

1. Be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The independent auditor shall report directly to the Audit Committee, and the Audit Committee will oversee the resolution of disagreements between management and the independent auditor regarding financial reporting, if they arise.
2. Review the independence and performance of the independent auditor, paying particular attention to whether the auditor's performance of permissible non-audit services is compatible with the auditor's independence.
3. At least annually, obtain and review a report by the independent auditor describing all relationships between the independent auditor and the Company that, in the professional judgment of the independent auditor, may reasonably be thought to bear on their independence, consistent with the matters set forth in Independence Standards Board Statement No. 1. Actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and take, or recommend that the full Board take, appropriate action to oversee the independence of the independent auditor.
4. Review the independent auditor's audit plan and general audit approach and, prior to the issuance of the annual audited financial statements, discuss the results of the audit with management and the independent auditor.
5. Following completion of the annual audit, review separately with each of management and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
6. Discuss with the independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards ("SAS") No. 61, as amended by SAS No. 84 and SAS No. 90.
7. Review the independent auditor's attestation and report on management's internal control report and hold timely discussions with the independent auditor regarding the following:
  - critical accounting policies and practices;
  - alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternate disclosures and treatments, and the treatment preferred by the independent auditor; and
  - other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted audit differences.

8. Review and pre-approve (which may be pursuant to pre-approval policies and procedures) both the audit and non-audit services to be provided by the independent auditor.

**(c) Financial Reporting Processes, Accounting Policies and Internal Control Structure**

1. In consultation with management, the independent auditor and Internal Audit, review the integrity of the organization's financial reporting processes and internal control structure (including disclosure controls and procedures and internal controls over financial reporting).
2. Receive and review any disclosure from the Company's CEO or CFO made in connection with the certification of the Company's quarterly and annual reports filed with the SEC of (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial data; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
3. Review major issues regarding accounting principles and financial statement presentations, including
  - any significant changes in the Company's selection or application of accounting principles and the independent auditor's judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial statements;
  - major issues as to the adequacy of the Company's internal controls; and
  - any special audit steps adopted in light of such issues.
4. Review and, if acceptable, approve any transactions involving the Company in which a director or officer has a material interest within the meaning of applicable rules and regulations of the SEC.
5. Establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

**(d) Internal Audit**

1. Review and advise on the selection and removal of the Internal Audit director.
2. Be directly responsible for the oversight of the work of the Internal Audit Department, including the review of their activities, organizational structure and qualifications.
3. Periodically review with the Internal Audit director any significant difficulties, disagreements with management or scope restrictions encountered in the course of the function's work.
4. Annually review the Internal Audit charter and approve any changes to the charter, as necessary.
5. Regularly review the results of significant audits conducted by the Internal Audit Department.

**(e) Ethical, Legal Compliance and Risk Management**

1. Annually prepare a report to stockholders as required by SEC rules, to be included in the Company's annual Proxy Statement.
2. Review and update periodically the Company's Code of Conduct and Code of Ethics for Financial Officers (together, the "Policies") and ensure that management has established a system to enforce these Policies.
3. Review management's monitoring of the Company's compliance with the Policies, and ensure that management has the proper review system in place for determining that the Company's financial statements, reports and other financial information disseminated to the SEC and the public satisfy legal requirements.
4. Periodically review, with the Company's counsel or Compliance Officer, legal compliance matters including corporate securities trading policies. At its discretion, the Board may determine to conduct the periodic review of legal compliance matters at the Board level, in lieu of, or in addition to, any review of such matters by the Audit Committee.

5. Review with the Company's counsel any legal matter that could have a significant impact on the Company's financial statements. At its discretion, the Board may determine to conduct the periodic review of legal matters at the Board level, in lieu of, or in addition to, any review of such matters by the Audit Committee.
6. Discuss policies with respect to risk assessment and risk management, including the steps management has taken to identify, monitor, control and report the Company's major financial risk exposures.

**(f) Other Responsibilities**

1. Review with the independent auditor, the Internal Audit department and management, the extent to which changes or improvements in financial or accounting practices have been implemented.
2. Annually perform a self-evaluation of the Audit Committee's performance, considering responsiveness to this Charter, effectiveness of relationships and communications with management, the independent auditor, the Internal Audit department, and the Board of Directors.
3. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Audit Committee or the Board deems necessary or appropriate.