



CEPHALON 2008 ANNUAL REPORT

responsibility = response + ability

Dear Cephalon Team,

Thank you so much for giving me another chance at life. My family is so grateful for the chance to be together together on the holidays, it has been a joy to be safe and healthy. Thank you so much for giving me a chance at life. My family

Cephalon®

we are Cephalon®

Our **RESPONSIBILITY** to patients brings meaning to all we do, guiding our efforts in translating today's successes into tomorrow's medicines.

Our **RESPONSE** to fulfilling patients' unmet medical needs starts with a keen eye for identifying good opportunities in drug development – and then acting quickly, in innovative ways, to realize their value.

Our **ABILITY** to see possibilities where others don't, and to persevere in overcoming challenges, has created a strong portfolio of proven products.

We deliver promising drug candidates in four main therapeutic areas:

- > CENTRAL NERVOUS SYSTEM
- > PAIN
- > ONCOLOGY
- > INFLAMMATORY DISEASE

Since our start in 1987, we have brought **eight new medicines** to patients in the United States. Our broader reach extends to patients in more than 50 countries with more than 30 medicines in a number of therapeutic areas, earning us the distinction of being one of the world's fastest-growing biopharmaceutical companies.

Our responsibility to patients extends beyond bringing new medicines to market. We're also concerned with patient access and the safe and responsible use of our products. That's why we continue to develop groundbreaking safety and accessibility programs as an integral part of our never-ending search for medications that make a difference in patients' lives.



JANA C.
Diagnosed with indolent
non-Hodgkin's lymphoma
Washington, DC

Every year, we receive letters about our medicines from all over the world. People tell us **the work we do changes lives**, and that's what drives us day after day. We strive to make a difference – and patients confirm that we're hitting the mark.

Dear Cephalon,

As a mother of three daughters and with a thriving career as an attorney, I never expected to hear the doctor tell me that I had been diagnosed with indolent non-Hodgkin's Lymphoma, a rare form of blood cancer.

From the moment I was diagnosed, my entire outlook on life completely changed. I went from taking things for granted, such as watching my kids grow up, go to college, get married, and have children, to feeling like I might not be around to experience any of these milestones.

After trying and failing a number of therapies, including rituximab, my physician enlisted me in a clinical trial with Treanda*. Despite experiencing side effects, I was able to receive six cycles of treatment. I was thrilled to learn that I had achieved a complete remission. I now have a newfound appreciation for life that has changed me for the better. I am so grateful to my physician and to Cephalon that this option was available.

Jana

Individual results may vary.

*TREANDA® (bendamustine HCl) for Injection

expanding the boundaries of science

- > Operating in 50+ countries
- > Selling directly in 25 countries
- > Offering more than 30 products
- > Approaching \$2 billion in annual product sales
- > Improving countless patient lives

REACHING
PATIENTS
AROUND
THE WORLD

amrix
Cyclobenzaprine HCl
Extended-Release Capsules

FENTORA
fentanyl buccal tablet ©

EFFENTORA
fentanyl buccal tablet

TREANDA
(bendamustine HCl)
for Injection

Trisenox
(arsenic trioxide)
injection

Myocet
(liposomal doxorubicin)

PROVIGIL
(MODAFINIL)
Tablets

NUVIGIL
(ARMODAFINIL) Tablets ©

GABITRIL
tiagabine HCl

Actiq
(oral transmucosal
fentanyl citrate)

Spasfon
phloroglucinol / trimethylphloroglucinol

For complete product information, visit www.cephalon.com

KEY 2008 HIGHLIGHTS

- > Received two on-time FDA approvals for TREANDA.
- > Gained patent protection until 2025 for AMRIX.
- > Received approval from European Commission for marketing of EFFENTORA for management of breakthrough cancer pain.
- > Added to the Standard & Poor's 500 Index.
- > Acquired access to future products and technology in the areas of oncology, pain, and inflammatory diseases through licensing and option deals.

in their own words



Michael J. Thorpy, M.B., Ch.B.

Professor of Clinical Neurology
Albert Einstein College of Medicine

The sleep community has very high regard for Cephalon. It is the only company so active in both producing medicines and promoting education related to treating several disorders of excessive sleepiness. As a result, we have better informed and effectively treated patients.



Scott M. Fishman, M.D.

Chief, Division of Pain Medicine and Professor of Anesthesiology
University of California, Davis, School of Medicine
Author — *Responsible Opioid Prescribing* published by the Federation of State Medical Boards

Cephalon clearly recognizes that appropriate care for patients living with pain requires that we mitigate risks of improper use of prescription opioids. This commitment was apparent with Cephalon's early and strong support of the national initiative of the Federation of State Medical Boards to educate physicians about responsible and safe opioid prescribing through each state medical board.



Pr. Michel Marty, M.D.

Head of Paris Center for Therapeutic Innovations in Oncology and Hematology
Saint Louis University Hospital, Paris, France

Major advances have been made in the treatment of breast cancer at all stages of the disease. However, the available options are far from being optimized. Often their side effects prevent us from maximizing their efficacy or from combining products to deliver significantly better outcomes. Cephalon's MYOCET is able to both maximize the well-established efficacy of anthracyclines, and explore new combination treatment regimens that were simply not possible until now.

pipeline to the future

Clinical Trial Phases

Research Preclinical 1 2 3 Filed

Central Nervous System Disorders

NUVIGIL® (armodafinil) [C-IV] Tablets

	Research	Preclinical	1	2	3	Filed
Excessive sleepiness associated with jet lag disorder					■	
Excessive sleepiness associated with traumatic brain injury					■	
Adjunctive treatment for schizophrenia				■		
Adjunctive treatment for bipolar depression				■		
Cancer treatment – related fatigue				■		

CEP-26401

Cognition in Alzheimer's disease/schizophrenia		■				
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Pain

FENTORA® (fentanyl buccal tablet) [C-II]

Breakthrough pain associated with specific chronic pain conditions in opioid-tolerant patients						■
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CEP-33236 (once-daily hydromorphone)

Tamper-deterrent opioid		■				
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CEP-33237 (twice-daily hydrocodone)

Tamper-deterrent opioid		■				
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CEP-33222 (intravenous celecoxib)

Postoperative pain		■				
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Cancer

TREANDA® (bendamustine hydrochloride) for Injection

Front line non-Hodgkin's lymphoma					■	
Mantle cell lymphoma				■		
Multiple myeloma				■		

TRISENOX® (arsenic trioxide) injection

Acute myelogenous leukemia in the elderly					■	
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CEP-701 (lestaurtinib)

Acute myelogenous leukemia (FLT3)					■	
Myeloproliferative disorders (JAK2)				■		

CEP-11981 (VEGF-R/TIE2 kinase inhibitor)

Solid tumors			■			
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CEP-18770 (proteasome inhibitor)

Multiple myeloma			■			
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CEP-28331 (proteasome inhibitor)

Oral treatment for multiple myeloma		■				
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CEP-9722 (PARP inhibitor)

Solid tumors			■			
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CEP-28122 (ALK kinase inhibitor)

Anaplastic large-cell lymphoma/non-small-cell lung cancer		■				
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Inflammatory Diseases

LUPUZOR™

Systemic lupus erythematosus				■		
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See complete pipeline chart at www.cephalon.com



to our **stockholders**

Frank Baldino, Jr., Ph.D.
Chairman & Chief Executive Officer

2008 was an outstanding year for Cephalon.

We received not one but two FDA approvals for TREANDA, providing a new chemotherapy option for patients with two types of blood cancers. AMRIX, launched in late 2007, is answering the need for long-acting skeletal muscle relaxants that may help to get patients back to work and their daily routine. Our success in delivering needed medicines to patients is reflected in our record financial performance – and in our addition, in November, to the Standard & Poor's 500 Index of leading U.S. companies.

response

Drug development is a long, slow process with high attrition rates. Our response has been to combine invention with investment, balancing the inherent risk by moving fast when we find good business and therapeutic opportunities. This often means licensing a promising drug or late-stage development compound, as we recently did with LUPUZOR, a treatment for systemic lupus erythematosus. Or the opportunity could be in acquiring companies, which is our strategy with acquiring an option to purchase Ception Therapeutics, whose main asset is the humanized monoclonal antibody, reslizumab. Acquisitions also are part of our China strategy to establish a foothold in that sizeable emerging market.

Whatever we do, it's never "me, too." Our focus is on first-in-class or best-in-class medications with novel mechanisms of action that help patients. There will inevitably be times when we hit a brick wall with a particular compound or program, so we respond with the best decision we can make and move on. Our business is firmly rooted in the future – on finding the next opportunity to improve patient health and build our business.

The strength of our brands led us to achieve record sales of \$1.94 billion in 2008. Our European business grew by 12% in 2008 due to strong sales of ACTIQ, PROVIGIL, and MYOCET, as well as a strong Euro during the year. Our ability to generate cash continues to provide the funds for future growth as we develop our robust product pipeline. We ended the year with cash and cash equivalents of \$524 million.

Our strong cash position has allowed us to take advantage of business opportunities in the current troubled economic market. In November we invested \$20 million for much-needed upfront financing to Acusphere, Inc. in exchange for exclusive licensing rights to an injectable form of the preclinical pain reliever celecoxib. With this deal and the LUPUZOR and Ception Therapeutics deals – three deals in three months – we continue to seize attractive opportunities that can provide long-term growth potential.

tremendous success stories...

for patients and Cephalon



- > Received on-time approvals for two indications for TREANDA.
- > Approved for chronic lymphocytic leukemia (CLL) and for patients with relapsed indolent non-Hodgkin's lymphoma (NHL), whose cancer progressed following treatment with rituximab or a rituximab-containing regimen.
- > TREANDA delays disease progression in CLL.
- > A strong launch for CLL, with sales of \$75 million in its first three quarters on the market.
- > Orphan drug status granted for treating CLL.



- > First and only once-daily dosing for this skeletal muscle relaxant, with low rates of somnolence, so patients can go about their daily routines.
- > Strong prescription growth, with sales of \$74 million in 2008.
- > U.S. Patent issued, which is active through 2025.
- > Expansion of sales force by nearly 50% in 2009 will help AMRIX continue to grow.

Cancer docs choose TREANDA

The American Society of Clinical Oncology named TREANDA one of the major advances of 2008 in cancer treatment and prevention. ASCO's editorial board of 21 cancer specialists recognized the role of TREANDA as a first-line treatment for chronic lymphocytic leukemia. The report cited findings from an international clinical trial in which TREANDA eliminated the cancer in 30% of patients, compared with 2% of patients who received the standard chemotherapy, chlorambucil. ASCO only considered studies that significantly altered the way a cancer is understood or had an important impact on patient care.



Making a positive impact on patients' lives

"NORD appreciates Cephalon's history of orphan product development and dedication to improving the lives of people with rare diseases for whom there are few, or no, treatment options. Since NORD was founded, thousands of patients with rare diseases now have medications. On behalf of all patients with rare diseases, we are grateful to Cephalon and others for their commitment to the discovery and development of therapies to meet underserved medical needs."

PETER SALTONSTALL

President and Chief Executive Officer
National Organization for Rare Disorders



We've also been effective in controlling expenses, making sure our sales performance translates into bottom-line growth. Our adjusted net income for 2008 was \$366 million, up 20% from the prior year and well within our 15% – 20% earnings-per-share growth target. For 2009, we anticipate even greater earnings growth, with our guidance suggesting adjusted net income growth of 24%.

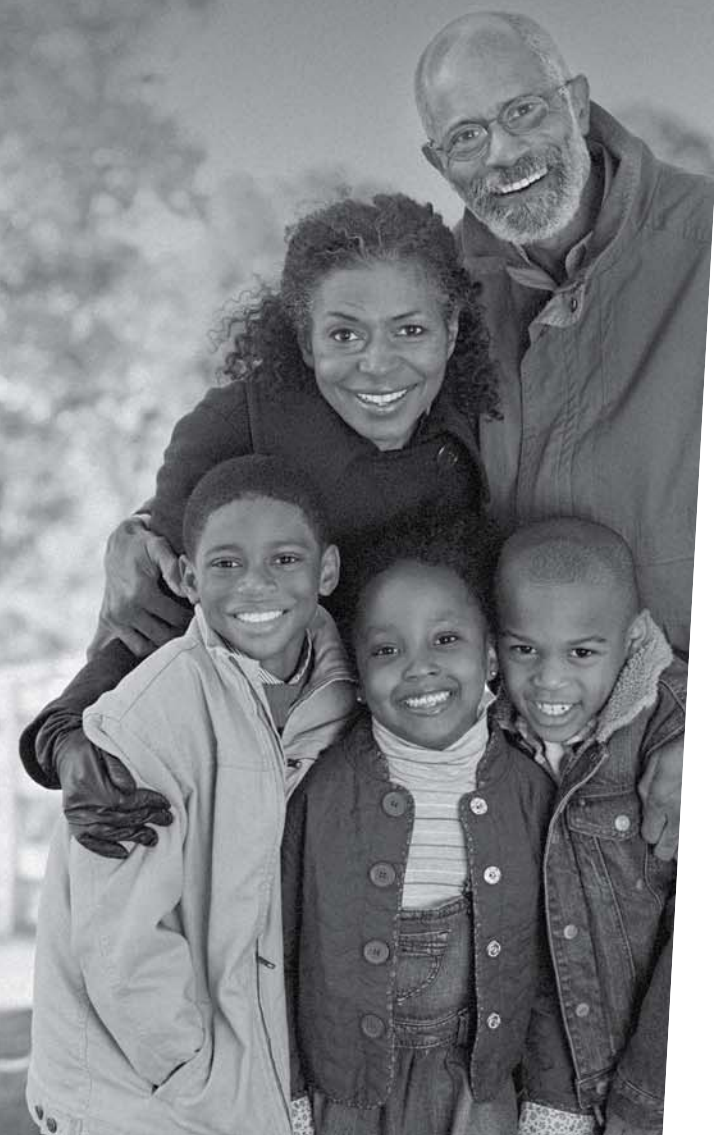
We can be this aggressive and optimistic in our targets because of the exceptional launches of two growth drivers: TREANDA and AMRIX.

TREANDA is a tremendous success story for patients and for Cephalon. We received FDA approvals for two indications in 2008, an achievement that speaks to the strength of the clinical data, quality of our FDA submission package and acumen of our integrated cross-functional team. Now patients can benefit from an effective chemotherapy treatment. The strong debut of TREANDA led to sales of \$75 million for 2008, which contributed to a doubling of our overall oncology sales.

TREANDA is approved for patients with chronic lymphocytic leukemia (CLL) and for those with relapsed indolent non-Hodgkin's lymphoma (NHL), who have progressed after using rituximab. CLL is a rare slowly progressing blood and bone marrow disease diagnosed in an estimated 15,000 new cases annually in the United States. Patients with indolent NHL – an estimated 30,000 cases diagnosed in the United States annually – often become resistant to existing treatments, so new options like TREANDA are vital for improving health outcomes.

Recognizing the importance of TREANDA, it was included in the National Comprehensive Cancer Network Drugs & Biologics Compendium™, a recognized reference for Medicare and Medicaid services. With such quick acceptance and reimbursement in place, some patients received their first cycle of TREANDA just two weeks after FDA approval. TREANDA also was named one of the 12 most important advances in cancer treatment and prevention in 2008 by the American Society of Clinical Oncology.

AMRIX continues to gain recognition by physicians as a first-line treatment for their patients with acute muscle spasm. It combines the most widely prescribed skeletal muscle relaxant





in the United States – cyclobenzaprine – with an extended-release delivery system that offers, for the first time, relief of muscle spasm and accompanying pain with a once-daily medication.

AMRIX is starting to gain traction in an established market where more than 48 million prescriptions were written in 2008. Since launching AMRIX in late 2007, there has been steady growth in demand, achieving \$74 million in sales in 2008. Approximately 12,000 physicians now prescribe AMRIX each month. With an expanded CNS and Pain Care sales force in place in 2009, we expect AMRIX sales to grow significantly.

ability

One of our fundamental strengths is the ability to solve problems. Our different approach to tackling sleep disorders, focusing on helping people stay awake, led to our first and most successful product to date, PROVIGIL. Launched in 1999, it was the first new medication approved for narcolepsy in 40 years and, later, the first medication approved to promote wakefulness in two additional sleep-related disorders. PROVIGIL ended 2008 at a \$1 billion-per-year sales rate, a milestone that reflects its effectiveness in helping patients maintain wakefulness during their productive hours.

We plan to launch our FDA-approved next-generation wake-promoting product – NUVIGIL – in the third quarter of 2009. As we prepare to launch NUVIGIL, we are focusing on providing value to patients, physicians, and payors. We will expand our sales and marketing efforts to increase access to NUVIGIL by both physicians and patients.

NUVIGIL has the potential to extend wakefulness and to be approved for more indications in the coming years. Clinical programs are underway in such areas as excessive sleepiness from jet lag, traumatic brain injury, an adjunctive treatment for patients being treated for bipolar depression or schizophrenia, and cancer treatment-related fatigue.

Our ability to become profitable quickly in new areas and grow the business is made possible through our balanced-risk business model. We identify attractive investments in our targeted area, either therapeutic or geographic, then use a private equity approach that allows us to hit the ground running. One example is Cephalon Oncology, in which an initial investment in TRISENOX, for treating relapsed or refractory acute promyelocytic leukemia, gave us entrée into the U.S. and European oncology markets. As a next step, we added marketed products in Europe and continued looking for business opportunities to acquire or license, as we did with TREANDA. These efforts in combination with our internal R&D efforts – such as CEP-701 (lestaurtinib) now in Phase 3 studies for acute myelogenous leukemia patients with FLT-3 mutations – helped us build a fully integrated oncology business. As a result, within three years, oncology has become a growth engine for Cephalon and an important resource for patients and physicians.

Another strategy for mitigating risk is to move into new or emerging markets, helping to offset slowing growth in the U.S. and Europe and to diversify our business. Our priorities are Japan, the second-largest pharmaceutical market in the world, and China, with its large population and growing middle class. Currently, we are working with several licensees in Japan who are developing or distributing a number of our products.

In China, we're in the beginning stages as we prepare drug dossiers and establish relationships with contract research organizations (CROs). These CROs will help in conducting the clinical trials required for registering drugs in China or obtaining import licenses. Our plan is to maintain control of our assets in China rather than license them to local companies, as we do now in Japan. In the future, we would hope to partner strategically with companies in both countries, rather than licensing assets, in order to have greater input over the safe use of our products as well as how they are developed and marketed.



responsibility

At Cephalon, we take seriously our responsibility to patients, physicians, payors, stockholders, and employees. We want things to be “right”... making sure our products are available to the right patients, at the right time, at the right price.

Just as important as ensuring the proper use of our products is reducing the potential for abuse or misuse in the marketplace. We believe that a proactive approach to communicating the potential risks of opioid analgesics is a key component of minimizing these risks. We are developing a first-of-its-kind Risk Evaluation and Mitigation Strategy (REMS) for FENTORA, the first fentanyl tablet formulation for breakthrough pain in patients with cancer who are already prescribed opioid medications. The REMS is designed to educate and engage physicians, patients and pharmacists in the safe use of FENTORA and to build physician confidence in prescribing opioids, with the appropriate checks and balances to minimize the risk of overdose or abuse of the medicine. We anticipate that the successful implementation of our REMS could lead to an expanded indication for FENTORA, specifically for the management of breakthrough pain in opioid-tolerant patients with chronic pain.

We also are drawing on our considerable expertise in drug delivery technologies as we work to develop tamper-deterrent formulations of opioid pain relievers that reduce the risk of abuse.

Our commitment to making our medications accessible to more patients in need led us to create the Cephalon Foundation. The Foundation is now the umbrella organization for our patient assistance programs and other philanthropic endeavors. Under the Foundation, we will be able to help a greater number of patients and to deliver more free medicine to those who can't afford to pay.

Our product reimbursement hotlines are available to help physicians and patients work through the insurance process. Additionally, we offer copay relief for many of our brands to

offset the increasingly higher out-of-pocket prescription costs now passed on to patients by their insurance plans. Patients who can't afford their copays can apply to receive assistance. With all these programs, our goal is to help as many patients as possible obtain the medications their physician has determined are best for the treatment of their condition.

Today Cephalon is a fast-paced, growing company in an industry undergoing tremendous change. It is against this backdrop that we have reaffirmed the values that are integral to our culture – Innovation. Patient Focus. Integrity. Respect. These core values are the foundation of our business; they guide how we do our jobs and the decisions we make. Our collective and individual success depends on each of us at Cephalon living these shared values.

making a difference

At the heart of all we do are two essential elements: making a positive impact on patients' lives, and delivering growth that rewards stockholders. The fact that we could achieve both in such a demanding year stands as a testament to the talent and dedication of our 3,000 people around the world. While global economic forecasts for 2009 are cautious at best, we are predicting an even better year ahead for Cephalon ... and for the millions of patients who benefit from our novel therapies.

Frank Baldino, Jr., Ph.D.

Chairman and Chief Executive Officer
March 17, 2009



executive officers (from left to right)

Lesley Russell, MRCP
Executive Vice President
& Chief Medical Officer

J. Kevin Buchi
Executive Vice President
& Chief Financial Officer

Jeffry L. Vaught, Ph.D.
Executive Vice President
& Chief Scientific Officer

Gerald J. Pappert
Executive Vice President
& General Counsel

Frank Baldino, Jr., Ph.D.
Chairman & Chief Executive Officer

Carl A. Savini
Executive Vice President &
Chief Administrative Officer

Peter E. Grebow, Ph.D.
Executive Vice President,
Worldwide Technical Operations

Robert P. Roche, Jr.
Executive Vice President,
Worldwide Pharmaceutical Operations

Valli F. Baldassano
Executive Vice President
& Chief Compliance Officer





directors (from left to right)

Martyn D. Greenacre
Chairman, BMP Sunstone Corp.;
Former Chairman Europe,
SmithKline Beecham

Frank Baldino, Jr., Ph.D.
Chairman & Chief Executive Officer,
Cephalon, Inc.

Gail R. Wilensky, Ph.D.
Healthcare Economist;
Senior Fellow,
Project HOPE

Kevin E. Moley
Former U.S. Ambassador
to Geneva, Switzerland;
Former Deputy Secretary of HHS

Charles A. Sanders, M.D.
Former Chairman & CEO,
Glaxo, Inc.

William P. Egan
General Partner,
Alta Communications, Inc.

Dennis L. Winger
Former Senior Vice President
& Chief Financial Officer,
Applera Corporation

Vaughn M. Kailian
Managing Partner,
MPM Capital LP;
Former President,
COR Therapeutics



corporate information

corporate headquarters

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investor relations

Cephalon invites stockholders, security analysts and representatives of the financial community to contact: investorrelations@cephalon.com

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Interested parties may obtain news and information about the Company and its financial performance on the Internet at www.cephalon.com.

SEC Form 10-K

The Company's Form 10-K as filed with the U.S. Securities and Exchange Commission is available without charge by contacting Cephalon's Investor Relations department at 610.883.5894.

common stock listing

The common stock of Cephalon is traded on the NASDAQ Stock Market under the symbol CEPH.

transfer agent and registrar

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449
www.amstock.com

annual meeting

Cephalon stockholders are invited to attend our annual meeting, which is scheduled to be held at 8:30 a.m. EDT on May 12, 2009, at Cephalon Corporate Headquarters, 41 Moores Road, Frazer, PA 19355.

independent auditors

PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

dividends

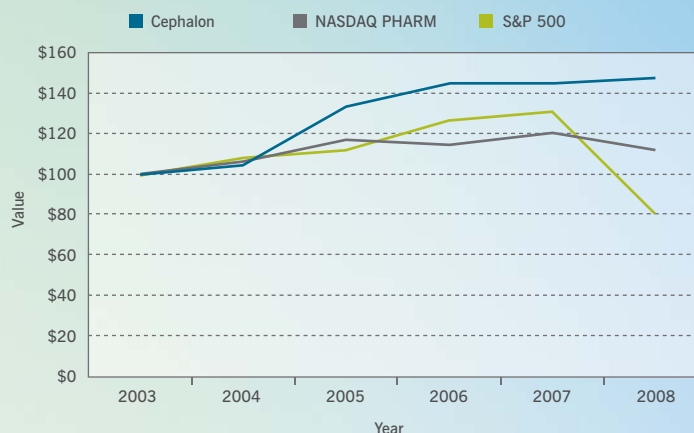
The Company has not paid any cash dividends on the common stock since its inception and does not anticipate paying any dividends in the foreseeable future.

trademarks

Cephalon, and the "C" block logo, as well as PROVIGIL, FENTORA, EFFENTORA, ACTIQ, NUVIGIL, TREANDA, TRISENOX, MYOCET, SPASFON and AMRIX are trademarks or registered trademarks owned by or licensed to Cephalon, Inc. or its subsidiaries. All other brands and names used herein are trademarks of their respective owners.

comparative stock performance graph

The graph compares the cumulative total stockholder return on Cephalon's common stock with the cumulative total stockholder return of (i) the Standard & Poor's 500 Index (the "S&P 500 Index"), and (ii) the NASDAQ Pharmaceutical Stock Total Return Index (the "Pharmaceutical Index"), assuming an investment of \$100 on December 31, 2003 in each of the common stock of the Company; the stocks comprising the Pharmaceutical Index; and the stocks comprising the S&P 500 Index. All values assume reinvestment of the pre-tax value of dividends paid by companies included in these indices over the five-year period extending through the end of 2008.





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www.cephalon.com



Cephalon, Inc. saved the following resources by producing this Green Publication:



3 trees preserved for the future



9 lbs water-borne waste not created



1,287 gals wastewater flow saved



142 lbs solid waste not generated



280 lbs net greenhouse gases prevented



2,146,760 million BTUs energy not consumed