

deliver more >

2003 was our most profitable year. Cephalon delivered more sales and earnings and greater benefits to patients than ever before.

2003 was characterized by exceptional productivity, teamwork and performance throughout our organization. Cephalon continues to deliver some of the strongest sales and earnings growth in the healthcare sector. Prescriptions and sales for our three key products—PROVIGIL® (modafinil) [C-IV], ACTIQ® (oral transmucosal fentanyl citrate) [C-II] and GABITRIL® (tiagabine hydrochloride)—reached record highs.

revenue

Total revenue grew 41 percent in 2003.

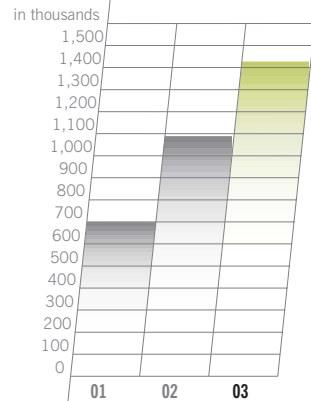
earnings

Diluted earnings per share of \$1.44 in 2003.

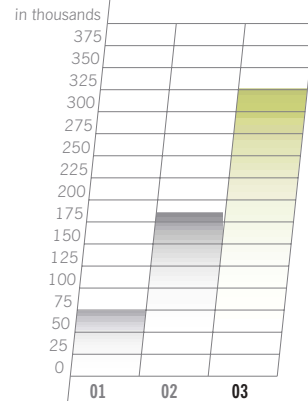
reinvestment

Cephalon reinvested approximately 24 percent of revenue into drug discovery and development.

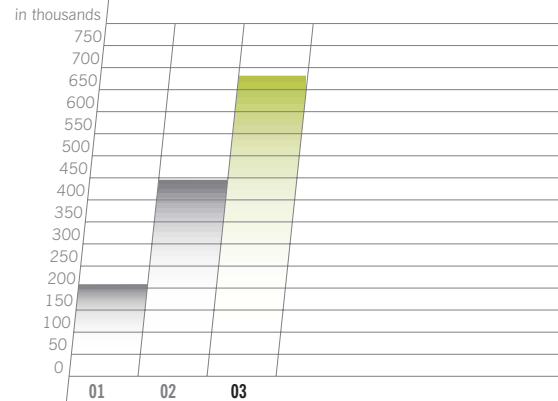
prescriptions PROVIGIL®



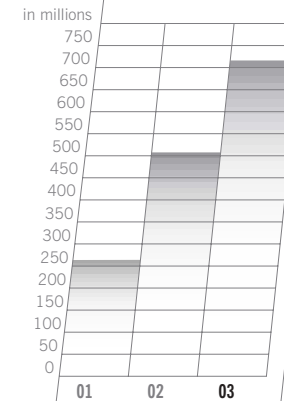
ACTIQ®



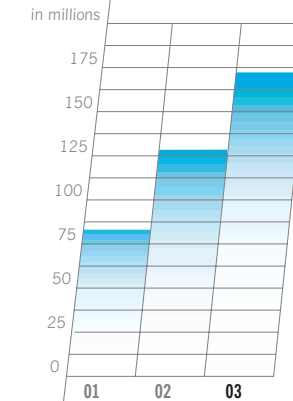
GABITRIL®



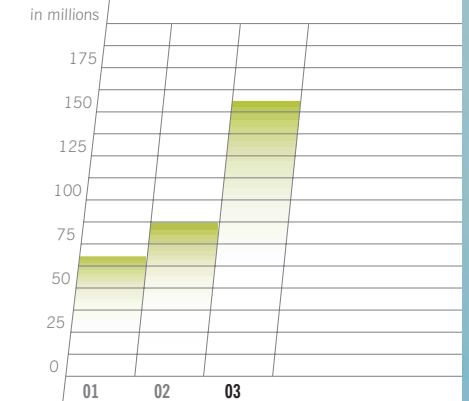
total revenue



expenses research and development



sales and marketing



Year	01	02	03
percentage of total revenue	32	25	24

Year	01	02	03
percentage of total revenue	26	17	22

# 03

## highlights

products:

**expanded the PROVIGIL (modafinil) label.**

The U.S. Food and Drug Administration granted the company preliminary approval in October 2003 of a broader indication for PROVIGIL, with final approval of the new label received in January 2004.

**developing longer-lasting modafinil.**

The company initiated a pivotal clinical program with NUVIGIL™ (armodafinil), the single R-isomer of modafinil. NUVIGIL was shown in clinical studies to provide a longer duration of action than PROVIGIL, a clear clinical benefit for patients.

**began large studies in ADHD.**

Following positive results from Phase II studies, we launched pivotal clinical trials with a proprietary formulation of modafinil for the treatment of Attention Deficit Hyperactivity Disorder in children and adolescents.

**seeking new uses for GABITRIL.**

Based on favorable outcomes in clinical studies involving GABITRIL for treatment of anxiety disorders, insomnia and neuropathic pain, we began larger clinical programs with GABITRIL.

**Dear Stockholders:** 2003 was a year of remarkable growth and achievement at Cephalon. Our global sales increased by 47 percent in 2003 over the previous year, which enabled us to continue delivering industry-leading earnings growth while further advancing our portfolio of products. We surpassed multiple research and product development milestones, and we received approval to market the first drug therapy ever available in America for patients with Obstructive Sleep Apnea /Hypopnea Syndrome (OSAHS), Shift Work Sleep Disorder (SWSD) and narcolepsy.

We believe that we have embarked on a strategy that will allow us to deliver 2004 earnings that are 30 percent higher than 2003, and sales growth that will continue to be among the best in our industry over the next few years. What is notable about this strategy is that it will allow us to accomplish these financial objectives while investing heavily in the further clinical development of our products and the future of our company.

Over the past five years, we have transformed Cephalon into a biotech-based pharmaceutical company with a broad, international commercial presence. We are advancing medical treatments to improve the lives of millions of people. The tools of this transformation are good science, innovative business practices and a strong sense of urgency. The result is a prescription for healthier lives and top-tier growth that rewards patients and stockholders alike.

**Our Wakefulness Franchise.** Our most notable achievement in 2003 was obtaining an approvable letter from the U.S. Food and Drug Administration to expand the label for PROVIGIL. We created our wakefulness franchise in 1998 when PROVIGIL was approved to treat excessive daytime sleepiness associated with narcolepsy. When the FDA approved the new label in January 2004, PROVIGIL became the first drug approved in the United States to improve wakefulness in patients with excessive sleepiness associated with OSAHS and SWSD.

We recognize our obligation to protect this valuable wakefulness franchise, as well as the many opportunities we have to further expand it. In addition to establishing a strong patent position with this product, we are leveraging the PROVIGIL brand, and are exploring new indications, new drugs and new sources of value. In doing so, we are continuing to diversify our product portfolio by developing innovative products and therapies that achieve first-in-class status and reach new markets.

**NUVIGIL.** To extend our wakefulness franchise, we are developing a new chemical entity called NUVIGIL™ (armodafinil) as a successor to PROVIGIL. This compound is a single-isomer of modafinil with a key improvement: NUVIGIL will have a longer duration of action than PROVIGIL. We anticipate that the new drug will have the benefit of being a truly once-a-day wakefulness medication.

Our current clinical research program with NUVIGIL is designed to study safety, efficacy and potential drug interactions in specific patient populations. We believe this may translate into an improved metabolic profile for NUVIGIL. We expect to file a New Drug Application in late 2004.

**ADHD in Children.** Another important clinical program underway involves a proprietary formulation and dosage of modafinil as a treatment of Attention Deficit Hyperactivity Disorder (ADHD) in children. These clinical trials are scheduled for completion in 2004, with a regulatory filing planned in 2005. With an approved indication for the treatment of ADHD and the demonstrated safety profile of modafinil, we believe we will have an outstanding opportunity for this new formulation to improve the lives of many of the two to three million children who suffer from ADHD.

In addition to NUVIGIL and an ADHD indication for modafinil, we are working to develop several next-generation wakefulness-promoting compounds. These new compounds are targeted to reach the market toward the end of the decade, thereby expanding and extending our franchise in wakefulness.



markets: **our fastest growing drug.**

ACTIQ sales have grown at a compounded annual rate of 110 percent over the last three years.

**growing markets in Europe.**

We strengthened our foothold in key European markets by securing expanded labeling for PROVIGIL.

**a continuous flow of clinical data.**

We generated more than twice the number of clinical publications in 2003 than we did the previous year. These new data are important for physicians to improve their understanding of our products.

**plant expansion in France.**

A \$25 million modernization and expansion progressed at our Mitry-Mory, France, facility, which produces the active ingredient in PROVIGIL. When completed, this facility will support greater global PROVIGIL sales.

**The Promise of GABITRIL.** One of the most exciting opportunities for our company is the development of GABITRIL—the only SGRI or selective GABA reuptake inhibitor on the market. We recognized several years ago that this unique drug may have applications in treating patients with anxiety, insomnia and neuropathic pain. I believe that GABITRIL will become Cephalon's biggest-selling product. It is an outstanding opportunity.

In 2003, we completed pilot clinical studies that explored the utility of GABITRIL in the treatment of anxiety, insomnia and neuropathic pain. We would have been pleased to see positive signals in just one of those therapeutic areas, each of which represents a lucrative market segment. To our surprise and delight, a positive signal was apparent in all three studies! As a result of this exciting data, we launched additional clinical studies in these disorders. Pending positive data, we intend to launch large clinical programs with GABITRIL in each of these areas. We believe that GABITRIL, with its unscheduled status, low potential for drug interactions, and established safety profile, may offer new hope and a new choice to patients suffering from these disorders.

**Pain Care Products.** Since its acquisition in 2000, the growth of ACTIQ has been simply remarkable. Product sales have grown at a compounded annual rate of 110 percent over the past three years. We believe this is just the beginning, as we expect to see significant growth for this product in 2004.

Our experience with ACTIQ illustrates what we believe are three of this company's defining qualities: our ability to identify, develop and market opportunities with significant upside potential.

Like PROVIGIL, ACTIQ is a drug that is unique in its class and provides distinct therapeutic advantages to patients. ACTIQ is the only pain medication in the world that is available on a handle. Patients rub it inside their cheek, permitting the transmucosal delivery of fentanyl in

15 minutes. When pain relief is achieved, patients can control the dose by taking the drug out of their mouth. There is no other product that has these advantages—rapid onset of action and patient titration—and ACTIQ sales have done very well as a result. The product's rapid growth is leading us to invest in a major expansion of our Salt Lake City, Utah, manufacturing facility to continue to meet worldwide demand for this product.

In the pain care market, we have multiple product opportunities in a single franchise. For example, we are developing a sugar-free form of ACTIQ and expect to receive approval in 2006. Our commitment to further develop and market innovative pain care products is evidenced by our desire to acquire CIMA LABS INC. to further extend our pain care franchise. CIMA is developing OraVescent® fentanyl, an orally-available rapid-dissolve product. We are awaiting regulatory clearance to proceed with this merger and expect to move forward with this product development effort in 2004.

Our company's success has allowed us to bring innovative therapies to patients and physicians. As a result, we are able to invest internally to develop a pipeline of innovative compounds with the potential to further improve the practice of medicine.

**CEP-1347.** CEP-1347 is a product of Cephalon's pioneering research in the field of neurodegenerative disorders. Over the past several years, our scientists have identified key signaling pathways that are integral to the process that leads to neuronal cell death, and we have designed molecules—such as CEP-1347—that inhibit these cell-signaling pathways. Our research with CEP-1347 distinguishes itself in many ways, not the least of which is the potential for our compound to become the first drug to slow or even halt the progression of Parkinson's disease, a condition characterized by neuronal apoptosis.



opportunity:

**a new formulation of ACTIQ.**

We launched a new formulation of ACTIQ in the United States and transferred production of the drug to our expanded Salt Lake City facility.

**building a bigger sales force.**

We expanded our sales force in late 2003 to reach a broader physician universe that now includes primary care physicians—a substantial new market—in addition to neurologists, sleep specialists, psychiatrists, oncologists and pain specialists.

**unveiling Cephalon France.**

The integration of Cephalon France was finalized in 2003, solidifying a new corporate identity and mission for our French subsidiary, which continues to exceed goals and contribute to our growth in Europe.

**Executive Officers**

- A Frank Baldino, Jr., Ph.D.**  
Chairman & Chief Executive Officer
- B Paul Blake, MB, FRCP, FCP, FPPM**  
Senior Vice President, Clinical Research & Regulatory Affairs
- C J. Kevin Buchi**  
Senior Vice President & Chief Financial Officer
- D Carl A. Savini**  
Senior Vice President, Human Resources
- E John E. Osborn, Esq.**  
Senior Vice President, General Counsel & Secretary
- F Robert P. Roche, Jr.**  
Senior Vice President, Pharmaceutical Operations
- G Peter E. Grebow, Ph.D.**  
Senior Vice President, Worldwide Technical Operations
- H Jeffry L. Vaught, Ph.D.**  
Senior Vice President & President, Research & Development

In 2004, we will complete enrollment in an 800-patient clinical trial evaluating CEP-1347 for the treatment of Parkinson's disease in patients participating at 65 centers in North America. This has been the largest clinical trial in Cephalon's history. Our study is contributing to the future of drug evaluation by adding an innovative brain imaging technique. Brain scans offer the ability to assess the impact of CEP-1347 on the progression of the disease. We collaborated with the U.S. FDA and Health Canada in designing the study. As a result, both agencies accept the imaging endpoint as a clinical outcome in the study. We remain optimistic about the outcome of the study and are pleased to be collaborating with H. Lundbeck A/S of Denmark on this program.

**Our Future.** The drive to deliver innovative compounds and to maintain an aggressive clinical development schedule while achieving industry-leading earnings growth reflects the true spirit of this organization. This kind of performance is what we set out to achieve when we created Cephalon, and I predict that our company's growth will continue to be revolutionary.

Our commercial success enables us to make major investments in discovery research and clinical development, effectively fueling tomorrow's profitability. We believe that the results of clinical programs underway today, coupled with a significant revenue stream from marketed products, will result in a period of growth, beginning in 2006, that surpasses anything that we have delivered to date.

This outstanding performance is being recognized. For the first time, Cephalon was named in 2003 to the Forbes 500 list—a report card on how the biggest and most profitable companies perform. Forbes also ranked Cephalon number six among the fastest growing technology companies. This is important recognition for the hard work by an effective team at Cephalon that, with a shared vision, has joined together over the past 16 years to make a tangible impact in business and in health.

As we all know, success today is being redefined for corporations. Real success now is defined by a combination of the traditional metrics we have come to expect from high-performing companies, plus integrity and the highest ethical standards in all areas. I never lose sight of how fortunate we are at Cephalon to have a senior management team and an experienced, decisive and independent board that recognize these responsibilities and are guiding us to an ever-brighter future.

We are in a period of remarkable achievement that I fully expect will continue in 2004 and beyond. Our company is evolving and growing and yet, our founding mission to deliver industry-leading growth that rewards patients and stockholders alike remains constant.

Thank you for your continued support of our efforts.

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

## A powerful product franchise + an unwavering commitment to R&D

products	approved indication	marketed in:	continuing research for new indications/formulations	phase:	pre-clinical	1	2	3
<b>WAKEFULNESS FRANCHISE</b>								
PROVIGIL®	to improve wakefulness in patients with excessive sleepiness associated with narcolepsy, obstructive sleep apnea/hypopnea syndrome, shift work sleep disorder	U.S. Europe <sup>1</sup>	NUVIGIL™ (armodafinil)					
			attention deficit hyperactivity disorder (ADHD)					
			2nd generation compound					
<b>ACTIQ FRANCHISE</b>								
ACTIQ®	breakthrough cancer pain in opioid tolerant patients	U.S., Europe <sup>1</sup>	sugar-free formulation					
			CHADD™ technology <sup>2</sup>					
			alternative fentanyl formulations					
<b>GABITRIL FRANCHISE</b>								
GABITRIL®	adjunct therapy for partial seizures in epilepsy	U.S., Europe	anxiety disorders					
			insomnia					
			neuropathic pain					

Anafranil <sup>®3</sup>	depression and obsessive compulsive disorder (OCD)	UK
Apokinin®	Parkinson's Disease	France
Fonzylane®	Cardiovascular Disorders	France
Lioresal <sup>®3</sup>	Spasticity	UK
Olmifon®	Central Nervous System Stimulant and Antidepressant	France
Otrasef®	Parkinson's Disease	France
Quilonum®	Bipolar Disease	Germany
Ritalin <sup>®3</sup>	Attention Deficit Hyperactivity Disorder	UK
Spasfon®	Antispasmodic Therapy	France
Tegretol <sup>®3</sup>	Epilepsy	UK
Xilopar®	Parkinson's Disease	Germany
5 Other Drugs	Various Indications	France



The growth of our pipeline and product portfolio is fueled by one of the highest R&D investment rates in the pharmaceutical industry today.

### primary research

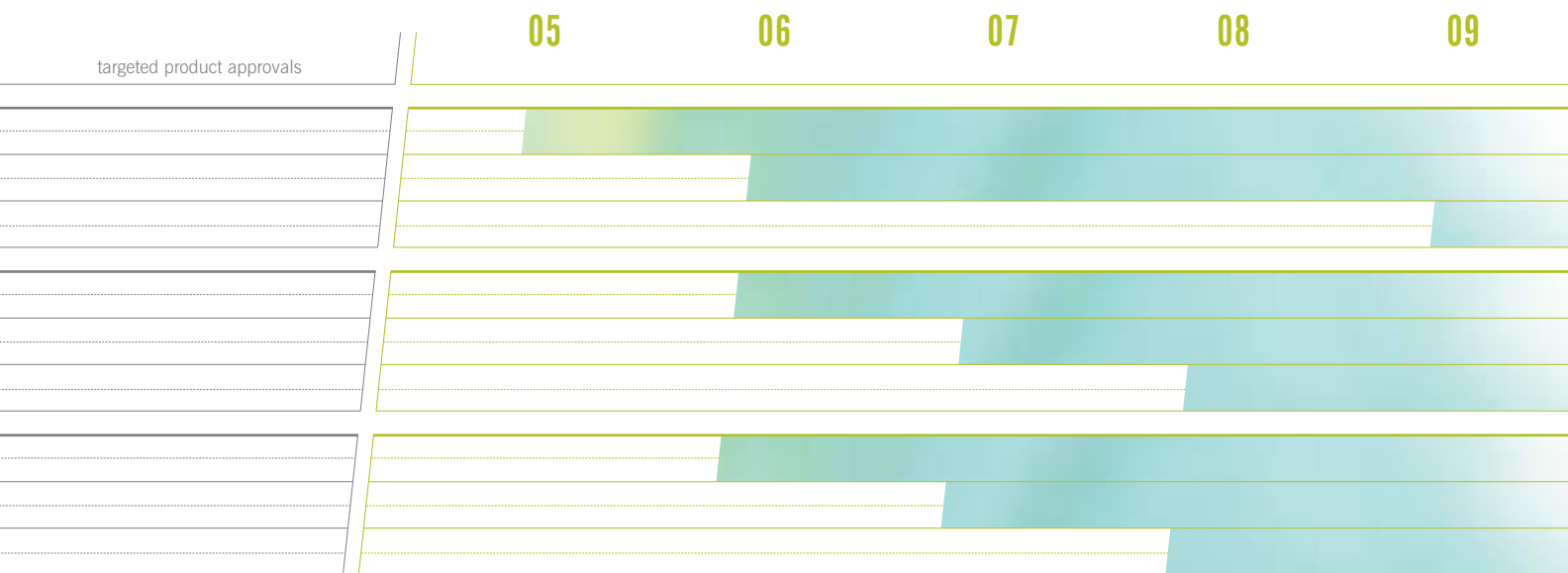
compounds	therapeutic focus	phase:	1	2	3
CEP-1347 (mixed lineage kinase inhibitor)	Parkinson's Disease				
CEP-701 (tyrosine kinase inhibitor)	acute myelogenous leukemia, prostate cancer				
CEP-7055 (VEGFR inhibitor)	solid tumors				

<sup>1</sup>Marketed in one or more countries in Europe

<sup>2</sup>Being jointly developed with Zars, Inc.

<sup>3</sup>Marketed in collaboration with Novartis Pharma AG.

In the intensifying search for new drug therapies, we continue to improve our discovery research and clinical development capabilities. As we grow, we gain valuable experience and infuse our organization with accomplished scientists and clinicians. Our streamlined, agile and intensely-driven R&D organization enables us to advance drugs efficiently from the laboratory and clinic towards the market, irrespective of where our research effort commences, or the level of complexity.



deliver more >

A major advance in the field of sleep medicine.

Our most successful commercial product.

And we are just getting started.

## PROVIGIL

**Creating the world's first wakefulness franchise.** PROVIGIL was initially approved for the treatment of excessive daytime sleepiness associated with narcolepsy, a chronic neurological disorder affecting parts of the brain that regulate sleep and wakefulness. With PROVIGIL, Cephalon has created the first wakefulness franchise and is bringing new hope and new choices to millions of patients and thousands of prescribers. We made great strides in 2003, receiving additional PROVIGIL indications for use in both the United States and Europe.

In January 2004, the U.S. Food and Drug Administration granted regulatory approval to expand the label for PROVIGIL beyond treatment of excessive daytime sleepiness associated with narcolepsy. Today, PROVIGIL also is indicated to improve wakefulness in patients with excessive sleepiness associated with Obstructive Sleep Apnea/Hypopnea Syndrome (OSAHS) and Shift Work Sleep Disorder (SWSD). PROVIGIL is the first and only prescription medicine to obtain these indications. We are excited about the potential opportunity to fulfill unmet medical needs in these therapeutic areas. Millions of Americans suffer from sleep problems stemming from narcolepsy, sleep apnea and shift work sleep disorder.

**Targeting new medical partners in the United States.** To support the early 2004 launch of the new label, we expanded our U.S. sales team to about 500 people. With the new PROVIGIL label, we are now sharing our message of safety and efficacy with thousands of primary care physicians for the first time, in addition to sleep specialists, neurologists and psychiatrists. Primary care physicians represent a sizeable new market opportunity for Cephalon.

U.S. physicians wrote 1.4 million prescriptions for PROVIGIL in 2003, a 31 percent increase over 2002. Total worldwide sales surpassed \$290 million in 2003, from \$207 million the previous year. With our expanded indications and the inclusion of thousands of primary care physicians in our call universe, we expect continued sales growth in 2004.

**Growing opportunity in Europe.** PROVIGIL now is approved for treatment of excessive sleepiness associated with OSAHS in the United Kingdom, Germany and Ireland, and regulatory filings for this indication are pending in Italy, France and Spain. The company also is seeking approval to market PROVIGIL for treatment of excessive sleepiness associated with SWSD in one major European market and anticipates a regulatory decision in 2004.

**Looking ahead.** With ever-growing expertise in disorders of sleep and wakefulness, Cephalon is poised to deliver even greater growth with its wakefulness franchise:

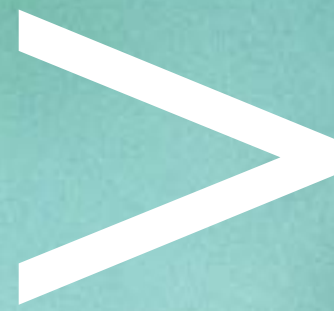
**NUVIGIL.**™ Encouraging preclinical work with NUVIGIL (armodafinil), one of two active isomers in PROVIGIL, led to the initiation in 2003 of Phase III clinical trials in patients with narcolepsy and OSAHS. Preliminary data suggest a longer-lasting therapeutic benefit of NUVIGIL, which holds the potential for improved patient benefit. We are planning to file a New Drug Application for NUVIGIL at year-end 2004.

**ADHD.** The American Academy of Pediatrics cites Attention Deficit Hyperactivity Disorder (ADHD) as one of the most common neurobehavioral disorders of childhood, affecting between four and 12 percent of school-age children. Building on our prior research, we have launched a pivotal clinical program with a proprietary formulation of modafinil for ADHD. We remain on track to file a New Drug Application in 2005 and for a launch in mid-2006. With an ADHD indication, a proprietary dosage and the demonstrated safety profile of modafinil, we believe we have an outstanding opportunity to improve quality of life for children suffering from ADHD.

**Second-generation compound.** Cephalon is conducting research to identify new chemical entities that improve upon the known benefits of modafinil.



# 40, 000, 000



Americans suffer from sleep disorders

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# promise

**excessive sleepiness.** The National Commission on Sleep Disorders Research estimated that as many as 40 million Americans suffer from various sleep disorders, the consequences of which include excessive daytime sleepiness.

**shift work sleep disorder.** About 20 million U.S. adults, or 20 to 25 percent of the national labor force, perform shift work. Excessive sleepiness is a major problem for shift workers. Several million experience this disorder. [Source: National Institutes of Health]

**sleep apnea.** At least 15 million Americans suffer from sleep apnea, which includes brief interruptions in breathing during sleep and causes excessive daytime sleepiness. [Source: National Center on Sleep Disorders Research]

**narcolepsy.** Approximately 200,000 Americans are affected by this chronic sleep disorder. The main characteristic is excessive and overwhelming daytime sleepiness, even after adequate nighttime sleep. [Source: National Institutes of Health]

A unique mechanism of action.

A therapeutic target familiar to physicians.

One of our most promising growth opportunities.

## GABITRIL

The first and only FDA-approved selective GABA reuptake inhibitor (SGRI), GABITRIL is indicated throughout much of the world as adjunct therapy for treatment of partial seizures associated with epilepsy. GABA (gamma amino butyric acid) is an important inhibitory neurotransmitter in the central nervous system. This unique drug helps increase the level of GABA in the synaptic cleft by blocking its reuptake into the GAT-1 transporter.

**Unlocking new therapeutic potential.** Because GABITRIL works selectively to increase GABA levels, it may be useful in treating other medical conditions such as anxiety and neuropathic pain. Early clinical evidence also indicates that GABITRIL offers potential to treat insomnia. In 2003, Cephalon scientists explored these new therapeutic possibilities, with promising results. Moving forward, Cephalon's strategic vision is to create—and lead—the market where the treatment of anxiety, neuropathic pain and insomnia converge.

**Building stockholder value along the way.** U.S. physicians wrote 680,000 prescriptions for GABITRIL in 2003, a 53 percent increase over the prior year. Total sales grew to \$64 million in 2003 from \$49 million in 2002, and our expanded and realigned sales force and marketing efforts will continue to sustain and accelerate product growth.

**Looking ahead.** The GABITRIL franchise is one of the company's most promising prospects.

**Anxiety disorders.** Based on positive findings from a study of GABITRIL for treatment of generalized anxiety disorder (GAD), Cephalon initiated two large clinical trials in the third quarter of 2003. These studies are designed to determine the efficacy of GABITRIL in treating patients with GAD and post-traumatic stress disorder. Pending positive results from this research, we will begin a larger clinical program in anxiety in the second half of 2004.

**Insomnia.** In early clinical studies, GABITRIL was shown to enhance sleep consolidation and also may improve slow-wave sleep, the most restorative stage of sleep. Clinical trials to investigate these possibilities in greater depth are planned in 2004.

A leader in the field of sleep medicine, Cephalon has built a successful, global commercial franchise treating symptoms of excessive sleepiness. We believe our development of GABITRIL as a potential treatment for insomnia will advance the field even further.

**Neuropathic pain.** Initial clinical evidence indicates that GABITRIL may be safe and effective in relieving neuropathic pain. We plan to conduct further studies in patients with neuropathic pain in 2005.





90,  
000,  
000

U.S. prescriptions were written for anxiety medications

deliver more > **therapies**

**treatment of anxiety.**

Approximately 90 million U.S. prescriptions were written for treatment of anxiety disorders in 2002, representing an enormous potential commercial opportunity for GABITRIL. [Source: Cephalon]

**generalized anxiety disorder.**

About 2.8 percent of U.S. adults have been diagnosed with GAD. [Source: National Institute of Mental Health]

**insomnia.**

It is the most common sleep complaint, affecting approximately 30–40 percent of the U.S. adult population. [Source: National Heart, Lung and Blood Institute]

**neuropathic pain.**

Nearly six million people in the United States may experience neuropathic pain. It may be caused by the nervous system or by damage to nerves, and it is often difficult to treat. [Source: National Institutes of Health]

Our fastest growing product.

A unique drug delivery technology.

A building block for our pain care franchise.

## ACTIQ

**Another first-in-class therapeutic from Cephalon.** ACTIQ is approved in the United States for treatment of breakthrough pain in opioid-tolerant cancer patients. In addition to the U.S. market, ACTIQ is approved in 18 countries, including France, Germany and the United Kingdom.

Most patients with cancer will experience pain that requires medication. If this pain lasts 12 hours or more per day, it is called persistent cancer pain. Unfortunately, up to 86 percent of patients already receiving around-the-clock medication for their persistent pain also experience sudden flare-ups of pain that “break through” the pain medication they are taking. In many cases, breakthrough cancer pain strikes quickly and without warning. Untreated breakthrough cancer pain can decrease a patient’s quality of life by negatively affecting mood and interactions with others and by limiting daily activities.

The ideal medication for breakthrough cancer pain has a rapid onset of analgesia and the ability to dose to effect. ACTIQ was developed specifically as a shorter-acting pain medication to help the hundreds of thousands of cancer patients affected by breakthrough pain.

ACTIQ contains the strong pain-relieving drug fentanyl. The ACTIQ unit consists of a medicated lozenge that is attached to a handle. As patients rub and twirl the ACTIQ unit against their cheek, a portion of the medication is absorbed quickly across the lining of the mouth into the bloodstream.

As soon as the drug enters the bloodstream, it is carried throughout the body, including the central nervous system, where it works to relieve pain. Patients typically begin experiencing pain relief in 15 minutes with ACTIQ. Unlike products that are swallowed or injected, ACTIQ is unique in that the handle enables a patient to remove the lozenge during use.

**ACTIQ is our fastest-growing product.** Worldwide sales of ACTIQ in 2003 were more than \$237 million, up from \$127 million in 2002. In the United States, 326,000 prescriptions were filled in 2003, an increase of 76 percent over 2002. These remarkable results demonstrate the success of our marketing initiatives, designed to build awareness of breakthrough cancer pain and educate healthcare providers about effective pain assessment and management techniques.

In 2003, Cephalon’s highly-trained sales professionals continued to deliver a strong, consistent and compelling message about the rapid onset of action and patient control provided by this first-in-class therapeutic.

**We have multiple product opportunities in a single pain care franchise.** As part of our strategy to build our pharmaceutical franchise, Cephalon researchers advanced several programs in 2003 involving new formulations and line extensions of ACTIQ. One near-term initiative is development of a sugar-free formulation of ACTIQ. Our development work around a sugar-free ACTIQ is advancing and approval is targeted in 2006.

We also are pursuing other formulations of ACTIQ, and are engaged with a partner in the development of another proprietary delivery technology that could result in an additional pain care product introduced to the market in 2007.





ACTIQ is the only drug approved for treatment of breakthrough pain in opioid-tolerant cancer patients.

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relief





Exciting progress in major European markets.

Leveraging our assets and intellectual capital.

Cephalon is focused on global growth.

Cephalon's European operations continued to make a meaningful contribution to our business in 2003. Cephalon France, Cephalon Germany and Cephalon U.K. all posted solid sales results. Sales of our other European products totaled \$94 million in 2003, representing 14 percent of Cephalon's total sales. In 2004, we will continue to leverage new product opportunities and proven sales and marketing capabilities worldwide, strengthening our standing as a global organization.

**Expanding our product franchise worldwide.** We made tremendous progress in 2003 positioning ACTIQ and GABITRIL in additional European markets. Modafinil already is an important contributor to our European business, and we intend to continue maximizing the market opportunities around all three of our key products in these markets. An expanded label for modafinil in the United Kingdom was instrumental in driving record ex-U.S. modafinil sales, surpassing 2002 results by 59 percent. Our strategy to continue expanding the therapeutic potential of modafinil was demonstrated when we received approval to market modafinil for OSAHS in Germany and Ireland. With these indications, and potential for new indications in other countries, we foresee substantial growth opportunities for our wakefulness franchise in Europe.

**Adding manufacturing capacity to support sales.** In 2003, we invested heavily in our European and U.S. commercial manufacturing operations to support growing product sales. We expect to complete a \$25 million modernization and expansion project by year-end 2004 at our manufacturing site in Mitry-Mory, France, which produces modafinil, the active ingredient in PROVIGIL. This facility will be equipped to support global PROVIGIL sales.

We reached a major milestone in 2003 when we transferred manufacturing of ACTIQ for the U.S. market from a contract manufacturer to our Salt Lake City, Utah, facility. The move followed FDA approval of a new compressed powder formulation of ACTIQ. The new U.S. formulation, which the Salt Lake City facility has manufactured for the European market since November 2000, replaced the sugar melt formulation that had been marketed in the United States. Our Salt Lake City facility now handles worldwide manufacturing of ACTIQ. In 2004, we expect to begin a significant expansion of our Salt Lake City facility to position the company for future growth of ACTIQ and to provide flexibility for the manufacture of other pharmaceutical products.

deliver more > expansion

Our R&D strategy is aligned with our business strategy.

We are pursuing new opportunities.

Our product pipeline is expanding.

deliver more >

r&d

**We are driven to discover.** Cephalon science is approaching a new era of excellence. In 2003, we accelerated the pace of our research activity, fortifying our development pipeline with a rich array of promising compounds and extensions of marketed products diversified by stage and therapeutic area.

In addition to our three marketed products, we have several products in clinical trials for solid-tumor cancers, acute myelogenous leukemia, prostate cancer and Parkinson's disease—plus numerous other pre-clinical compounds. Our accomplishments of the past year not only signify exciting new directions in Cephalon science, but also provide a wellspring of potential products to sustain profitability and growth.

At a time when pharmaceutical companies are critically evaluating how to build for sustainability and success, Cephalon is capitalizing on its balanced-risk business model to maintain momentum. Our global strategy is to ensure a robust pipeline of pre-clinical and clinical candidates that originate from within the organization or through selective in-licensing agreements in key therapeutic franchises, while fully developing our currently marketed product franchises. Pending positive data from a number of large clinical trials planned for 2004, we have the opportunity for a record number of new approved indications in the next few years.

**Cephalon's R&D continuum.** From researching target molecules to advancing late-stage compounds and line extensions of marketed products, Cephalon has capabilities throughout the drug-development continuum.

Cephalon aggressively invests in its discovery research and clinical development initiatives. In 2003, we invested \$170 million into R&D, and our expected 2004 R&D investment should approach \$250 million, or about 25 percent of revenue. Relative to total revenue, this level of investment in R&D is among the highest in the biotech and pharmaceutical industries.

**A world-class research operation.** In 2004, Cephalon plans to conduct pivotal clinical trials involving more than 3,000 patients—an all-time high. The spirit of collaboration and innovation at Cephalon has enabled our scientists to achieve an unprecedented level of productivity and prepare drug candidates for development more rapidly than ever before.

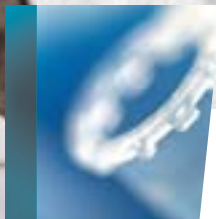
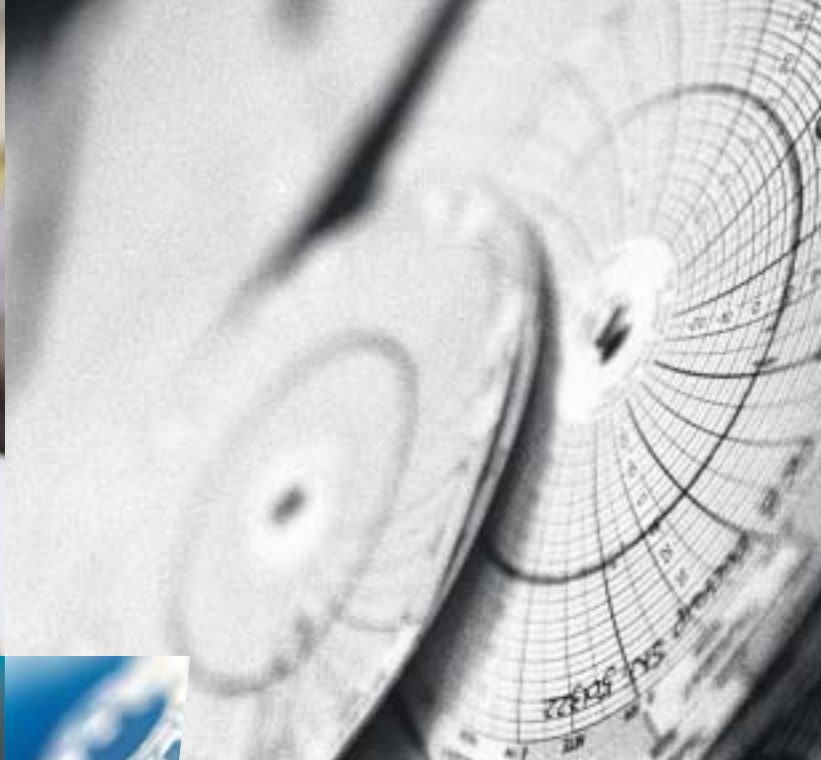
Our NUVIGIL program is an excellent example of the responsive clinical capabilities that provide us with competitive advantage. After receiving important new clinical data about NUVIGIL in early 2003, we initiated a multi-site, pivotal clinical program consisting of Phase III studies involving some 800 patients with narcolepsy and Obstructive Sleep Apnea/Hypopnea Syndrome.

The earlier clinical research had demonstrated that NUVIGIL maintained wakefulness and had a longer duration of effect than does PROVIGIL. Pending positive results, we are planning to file a New Drug Application for NUVIGIL at year-end 2004.

Our experience with NUVIGIL demonstrates not only the quality of our clinical team and commercialization capabilities, but also the distinctive culture of collaboration and hard-driving, yet agile spirit that embodies our organization.

**Delivering new hope and promise.** Our pipeline of compounds in the laboratory and products in development is broad and promising. Our R&D initiatives focus heavily on cell survival and death, and our researchers use their advanced understanding of apoptosis, cell signaling pathways, kinase inhibition and angiogenesis to develop new medicines where the target and impact of disease are firmly established.

Our goal is to develop the next generation of drugs that may halt the progression of neurological disorders and slow the growth of cancerous tumors. The following projects hold the promise to be high-growth, marketed products that can change the course of human disease.



*Parkinson's disease (CEP-1347).* While studying neuronal death, researchers at Cephalon discovered that a family of protein kinases—called mixed lineage kinase or MLK—is involved in neuronal apoptosis, or programmed cell death. Our researchers found that CEP-1347, one of the company's proprietary small molecules that inhibit MLK, could protect neuronal cells from apoptosis.

Pre-clinical research with this molecule demonstrated that treatment with CEP-1347 protected against loss of dopamine neurons in regions of the brain affected by Parkinson's disease and prevented the appearance of behavioral symptoms associated with loss of dopamine neurons.

In collaboration with H. Lundbeck A/S, we are now studying CEP-1347 in the company's largest clinical trial to-date. This 800-patient randomized, double-blind, placebo-controlled, Phase II/III clinical trial is designed to determine if CEP-1347 can mitigate the death of neurons in Parkinson's disease.

This clinical trial represents one of our most complex and collaborative research initiatives ever—and demonstrates our broad abilities across the drug development continuum. Sixty-five study centers in the United States and Canada are participating in this clinical trial. This study uses SPECT brain-imaging technology (Single Proton Emission Computed Tomography) to measure the progress of disease in patients with Parkinson's disease, making it one of the world's most innovative clinical trials conducted in patients with early-stage Parkinson's disease.

*Acute myelogenous leukemia, prostate cancer (CEP-701).* A trk (tyrosine kinase) and flt-3 inhibitor, CEP-701 is being evaluated in prostate cancer and acute myelogenous leukemia (AML). We have observed positive signals in treatment with CEP-701, and are now conducting Phase II studies in these indications with earlier-stage patients and in combination with other therapies.

*Solid-tumor cancers (CEP-7055).* We are collaborating with Sanofi-Synthélabo on the development of kinase inhibitors to block the process of angiogenesis in solid tumors. Angiogenesis is the natural process by which blood vessels are formed. In cancer, tumors begin by using this natural mechanism to fuel their survival and growth. A clinical trial of our lead angiogenesis inhibitor, CEP-7055, is in progress to evaluate safety and tolerability in patients with treatment refractory tumors.



We see a world in which therapeutic value to patients is maximized and no opportunity is overlooked. To create this world, we seek ways to advance our company and the industry towards an ever more flexible and responsible approach to drug development. We deliver more.

10k





**DIRECTORS**

**A Frank Baldino, Jr., Ph.D.**  
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**C Robert J. Feeney, Ph.D.**  
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**D Martyn D. Greenacre**  
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Former Chairman  
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Chairman & Chief Executive Officer

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Senior Vice President, Clinical Research  
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Senior Vice President & President,  
Research & Development

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*Johns Hopkins University, Sidney Kimmel  
Cancer Center*

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*Johns Hopkins University School of  
Medicine*

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*University of Pittsburgh*

**Robert H. Roth, Ph.D.**  
*Yale University School of Medicine*

**CORPORATE HEADQUARTERS**

**Cephalon, Inc.**  
145 Brandywine Parkway  
West Chester, PA 19380 USA  
610-344-0200

**INVESTOR RELATIONS**

Cephalon invites stockholders, security analysts, representatives of the financial community and members of the business media to contact:

investorrelations@cephalon.com  
610-738-6376

145 Brandywine Parkway  
West Chester, PA 19380 USA

Interested parties may obtain news and information about the company and its financial performance on the Internet at [www.cephalon.com](http://www.cephalon.com).

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**COMMON STOCK LISTING  
AND PRICE RANGE**

The common stock of Cephalon is traded on the Nasdaq National Market System under the symbol CEPH. The following table lists the high and low trading prices for Cephalon common stock as reported by Nasdaq. (see chart below)

COMMON STOCK LISTING AND PRICE RANGE	2003		2002	
	High	Low	High	Low
Fourth Quarter	\$ 49.46	\$ 44.29	\$ 59.20	\$ 38.36
Third Quarter	\$ 50.71	\$ 40.27	\$ 49.00	\$ 35.82
Second Quarter	\$ 48.70	\$ 36.91	\$ 66.97	\$ 41.40
First Quarter	\$ 54.95	\$ 39.82	\$ 78.88	\$ 52.18

There were 589 stockholders of record on March 5, 2004.

**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 610-738-6376, or by viewing the Investor Relations section of our website, [www.cephalon.com](http://www.cephalon.com).

**TRANSFER AGENT AND REGISTRAR**

**StockTrans, Inc.**  
44 W. Lancaster Avenue  
Ardmore, PA 19003  
[www.stocktrans.com](http://www.stocktrans.com)  
610-649-7300

Cephalon's transfer agent offers a variety of stockholder services, including:  
- Change of address  
- Lost stock certificates  
- Stock transfer  
- Account consolidation

**ANNUAL MEETING**

Cephalon stockholders are invited to attend our annual meeting, which is scheduled to be held at 9:30 a.m. on May 13, 2004, at Cephalon Corporate Headquarters.

**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**

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