



April 4, 2008

Dear Cephalon Stockholder:

It is my pleasure to invite you to Cephalon's 2008 Annual Meeting of Stockholders. We will hold the meeting on Thursday, May 22, 2008 at 8:30 a.m., Philadelphia time, at our corporate headquarters located at 41 Moores Road, Frazer, PA 19355.

During the Annual Meeting, we will discuss each item of business described in the Notice of Annual Meeting and Proxy Statement that follows, update you on important developments in our business and respond to any questions that you may have about the Company.

We have elected to take advantage of new Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders on the Internet. We believe that the new rules will allow us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our Annual Meeting.

Your vote is important. Whether or not you plan to attend the Annual Meeting, I hope that you will vote as soon as possible. Please review the instructions on each of your voting options described in the Notice of Internet Availability of Proxy Materials.

On behalf of your Board of Directors, thank you for your continued support and interest in Cephalon. I look forward to seeing you at the meeting on May 22.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Frank Baldino, Jr.', written in a cursive style.

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



CEPHALON, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On May 22, 2008

TO THE STOCKHOLDERS OF CEPHALON, INC.:

The Annual Meeting of Stockholders of Cephalon, Inc. will be held at the Company's headquarters at 41 Moores Road, Frazer, PA 19355, on Thursday, May 22, 2008, at 8:30 a.m., Philadelphia time. At the meeting, the holders of the Company's outstanding Common Stock will act upon the following matters:

1. To elect eight directors;
2. To approve amendments to the Company's 2004 Equity Compensation Plan increasing the number of shares authorized for issuance and establishing performance goals that will qualify stock awards granted under the Plan as qualified performance-based compensation;
3. To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accountants for the year ending December 31, 2008; and
4. To transact such other business as may properly come before the Annual Meeting or any postponements or adjournments thereof.

All stockholders of record as of the close of business on March 27, 2008 are entitled to notice of the Annual Meeting and to vote at the Annual Meeting and any postponements or adjournments thereof. A list of stockholders of the Company entitled to vote at the Annual Meeting will be available for inspection by any stockholder at the Annual Meeting and during normal business hours at the Company's corporate offices during the 10-day period immediately prior to the date of the Annual Meeting.

By Order of the Board of Directors,

JOHN M. LIMONGELLI
Assistant Secretary

Frazer, Pennsylvania
April 4, 2008

EACH STOCKHOLDER IS URGED TO VOTE VIA THE INTERNET, BY TELEPHONE OR, IF YOU HAVE RECEIVED A PRINTED SET OF PROXY MATERIALS, BY COMPLETING, SIGNING AND RETURNING THE PROXY CARD IN THE ENVELOPE PROVIDED, IN EACH CASE IN THE MANNER DESCRIBED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS. IF A STOCKHOLDER DECIDES TO ATTEND THE MEETING, HE OR SHE MAY, IF SO DESIRED, REVOKE THE PROXY AND VOTE THE SHARES IN PERSON.

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CEPHALON, INC.
41 Moores Road
Frazer, PA 19355

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board”) of Cephalon, Inc. (the “Company” or “Cephalon”), for use at the 2008 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at 41 Moores Road, Frazer, Pennsylvania 19355 on Thursday, May 22, 2008, at 8:30 a.m., Philadelphia time, and any postponements or adjournments thereof. This proxy statement and the accompanying proxy card are being distributed to stockholders on or about April 8, 2008.

ABOUT THE MEETING

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting, including the election of directors and the approval of amendments to the Company’s 2004 Equity Compensation Plan. In addition, management will report on the performance of the Company and respond to questions from stockholders.

Who is entitled to vote at the meeting?

Only stockholders of record at the close of business on March 27, 2008, the record date for the Annual Meeting, are entitled to receive notice of and to participate in the Annual Meeting. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

What are the voting rights of the holders of Cephalon Common Stock?

Each outstanding share of Cephalon Common Stock will be entitled to one vote on each matter considered at the meeting.

Why did I receive in the mail a one-page Notice of Internet Availability of Proxy Materials this year instead of a full set of printed proxy materials?

Pursuant to rules recently adopted by the Securities and Exchange Commission (the “SEC”), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the “Notice”) to our stockholders of record and beneficial owners. All stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

How can I get electronic access to the proxy materials?

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our Annual Meeting on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Who can attend the meeting?

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport.

Please also note that if you hold your shares in "street name" (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the Common Stock outstanding on the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, 67,732,785 shares of Common Stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of Common Stock representing at least 33,866,393 votes will be required to establish a quorum.

Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

How do I vote my shares?

If you are a registered stockholder (that is, if you hold your stock in certificate form), you may vote by telephone, or electronically through the Internet, by following the instructions provided in the Notice. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on May 21, 2008. If your shares are held in "street name," please contact your broker or nominee to determine whether you will be able to vote by telephone or electronically.

If you have received a printed set of proxy materials, and you complete and properly sign the proxy card and return it to the Company, it will be voted as you direct. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

Can I change my vote after I have submitted my proxy?

Yes. Even after you have submitted your proxy, you may revoke or change your vote at any time before the proxy is exercised by filing with the Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date (or by submitting a new proxy via the Internet or by telephone). If you attend the meeting in person, you may request that the powers of the proxy holders

be suspended with respect to your shares, although attendance at the meeting will not by itself revoke a previously granted proxy.

How do I vote my 401(k) shares?

If you participate in the Cephalon, Inc. 401(k) Profit Sharing Plan (the “401(k) Plan”), you may give voting instructions as to the number of shares of Cephalon Common Stock equivalent to the interest in Cephalon Common Stock credited to your account as of the record date. You may provide voting instructions to The Vanguard Group online, by telephone or, if you have received a printed set of proxy materials, by completing and returning the proxy card included therein. The trustee will vote your shares in accordance with your duly executed instructions received by May 19, 2008. If you do not send instructions, the trustee will vote the number of shares equal to the share equivalents credited to your account in the same proportion that it votes shares for which it did receive timely instructions.

What are the Board’s recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. The Board’s recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

- FOR election of the nominated slate of directors (see Item 1);
- FOR the approval of amendments to the Company’s 2004 Equity Compensation Plan increasing the number of shares authorized for issuance and establishing performance goals so that stock awards granted under the Plan may qualify as qualified performance-based compensation (see Item 2); and
- FOR the ratification of appointment of PricewaterhouseCoopers, LLP (“PwC”) as independent registered public accountants for the year ending December 31, 2008 (see Item 3).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What vote is required to approve each item?

Item 1: The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of directors. A properly executed proxy marked “Withhold” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. As a result, the director nominees receiving the highest number of votes will be elected to the Board.

Items 2 and 3: The affirmative vote of the majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote on these matters is required to approve each matter. A properly executed proxy marked “Abstain” with respect to a matter will have the effect of a vote against such matter. Broker non-votes are not considered shares entitled to vote and therefore will not be taken into account in determining the outcome of the vote.

Your vote is important. Regardless of whether or not you plan to attend the meeting, please submit your proxy via the Internet or by telephone or, if you have received a printed set of proxy materials, complete, sign and return the proxy card included therein. If you plan to attend the meeting to vote in person and your shares are registered with the Company’s transfer agent in the name of a broker or bank, you must secure a proxy card from the broker or bank assigning voting rights to you for your shares.

GOVERNANCE OF THE COMPANY

Who are the current members of the Board?

The members of the Board of Directors on the date of this proxy statement, and the committees of the Board on which they serve, are identified below:

<u>Director</u>	<u>Stock Option and Compensation Committee</u>	<u>Audit Committee</u>	<u>Corporate Governance and Nominating Committee</u>
Frank Baldino, Jr., Ph.D.			
William P. Egan†		*	
Martyn D. Greenacre	*		**
Vaughn M. Kailian	*		*
Kevin E. Moley		*	
Charles A. Sanders, M.D.	**		
Gail R. Wilensky, Ph.D.			*
Dennis L. Winger		**	

* Member

** Chair

† Presiding Director

Each of the above directors, with the exception of Dr. Baldino, is considered independent. See “How does the Board determine which directors are considered independent?” below.

How often did the Board meet during fiscal 2007?

The Board of Directors of the Company met seven times during the fiscal year ended December 31, 2007. The Audit, Stock Option and Compensation, and Corporate Governance and Nominating Committees met nine, five and three times, respectively, during this same period. Each director attended all of the meetings of the Board of Directors and the respective committee or committees on which he or she served during such period. Under the Company’s *Corporate Governance Guidelines*, each director is expected to regularly attend meetings of the Board and his or her respective Committees, with the understanding that on occasion a director may be unable to attend a meeting.

Under a policy adopted by the Corporate Governance and Nominating Committee in 2005, all directors are expected to make every reasonable effort to attend the Annual Meeting of Stockholders. All of the directors of the Company, with the exception of Dr. Sanders and Mr. Kailian, attended the 2007 Annual Meeting of Stockholders and we expect that all of the nominees for election will be present for the 2008 Annual Meeting on May 22, 2008.

What is the role of the Board’s committees?

The bylaws of the Company provide that the Board may designate committees by resolution, each of which shall consist of one or more directors. The Board presently has standing Audit, Stock Option and Compensation, and Corporate Governance and Nominating Committees.

Audit Committee. The functions of the Audit Committee are described in detail below under the heading “Report of the Audit Committee.” The charter of the Audit Committee is available on the Investor Information section of the Company’s website (www.cephalon.com) by selecting “Corporate

Governance” and then “Board Committees/Charters.” The Audit Committee met nine times during fiscal 2007.

Mr. Winger has chaired the Audit Committee since June 2003. Mr. Winger is qualified as an audit committee financial expert within the meaning of SEC regulations. In addition, the Board has determined, in accordance with the listing standards of the NASDAQ Stock Market, that Mr. Winger meets the standards of financial sophistication set forth therein and that each other member of the Audit Committee is able to read and understand fundamental financial statements.

All of the members of the Audit Committee are independent within the meaning of SEC regulations, Rule 4200(a)(15) of the listing standards of the NASDAQ Stock Market and the Company’s *Corporate Governance Guidelines*.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee (the “Nominating Committee”) is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Company’s *Corporate Governance Guidelines*. In addition, the Nominating Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Nominating Committee also prepares and supervises the Board’s review of director independence and the Board’s performance evaluation. The charter of the Nominating Committee is available on the Investor Information section of the Company’s website (www.cephalon.com) by selecting “Corporate Governance” and then “Board Committees/Charters.” The Nominating Committee met three times during fiscal 2007. All of the members of the Nominating Committee are independent within the meaning of SEC regulations, the listing standards of the NASDAQ Stock Market and the Company’s *Corporate Governance Guidelines*.

Stock Option and Compensation Committee. The Stock Option and Compensation Committee (the “Compensation Committee”) annually reviews the performance and total compensation package for the Company’s executive officers, including the Chief Executive Officer; considers the modification of existing compensation and employee benefit programs, and the adoption of new plans; administers the terms and provisions of the Company’s equity compensation plans; and reviews the compensation and benefits of non-employee directors. The charter of the Compensation Committee is available on the Investor Information section of the Company’s website (www.cephalon.com) by selecting “Corporate Governance” and then “Board Committees/Charters.” The Compensation Committee met five times during 2007. All of the members of the Compensation Committee are independent within the meaning of SEC regulations, the listing standards of the NASDAQ Stock Market and the Company’s *Corporate Governance Guidelines*.

Who is the Board’s Presiding Director?

In 2003, the Board created the position of Presiding Director, whose primary responsibility is to preside over the executive sessions of the Board in which the Chairman of the Board (if a member of management), management directors and other members of management do not participate. In 2007, the Board met five times in executive session. The Presiding Director also reviews and approves meeting schedules, Board agendas and related information prior to distribution to the Board, and performs such other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. The independent directors of the Board have designated Mr. Egan to serve as Presiding Director in this capacity until Cephalon’s 2008 Annual Meeting of Stockholders.

How does the Board select nominees for the Board?

The Nominating Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. The Nominating Committee also retains third-party executive search firms to identify candidates from time to time. A stockholder who

wishes to recommend a prospective nominee for the Board should notify the Company's Secretary or any member of the Nominating Committee in writing and provide the information set forth in Section 2.10 of the Company's bylaws. The Nominating Committee also will consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Company's bylaws relating to stockholder nominations as described in "Additional Information—Advance Notice Provisions," below.

Once the Nominating Committee has identified a prospective nominee, the Nominating Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Nominating Committee with the recommendation of the prospective candidate, as well as the Nominating Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Nominating Committee determines, in consultation with the Chairman of the Board and other Board members as appropriate, that additional consideration is warranted, it may request that a third-party search firm gather additional information about the prospective nominee's background and experience and to report its findings to the Nominating Committee. The Nominating Committee then evaluates the prospective nominee against the standards and qualifications set out in the Company's *Corporate Governance Guidelines*, including:

- the ability of the prospective nominee to represent the best interests of all of the stockholders of the Company;
- the prospective nominee's standards of integrity, ethics, commitment and independence of thought and judgment;
- the prospective nominee's record of professional accomplishment in his/her chosen field;
- the prospective nominee's independence from a material personal, financial or professional interest in any present or potential competitor of the Company;
- the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties on the Board and its Committees, including the prospective nominee's service on other public company Boards; and
- the extent to which the prospective nominee contributes to the range of talent, skill and expertise currently present on the Board.

The Nominating Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Nominating Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Nominating Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the Nominating Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Nominating Committee.

How does the Board determine which directors are considered independent?

Pursuant to the Company's *Corporate Governance Guidelines*, the Nominating Committee is charged with undertaking an annual review of director independence. Under the Guidelines, at least a majority of the directors must satisfy the "independence" requirements of the Securities Exchange Act

of 1934 and the NASDAQ Stock Market, and all members of the Audit Committee must meet the specific independence requirements for audit committee members under the Sarbanes-Oxley Act of 2002 and NASDAQ Stock Market regulations. A copy of these independence standards is available on the Investor Information section of the Company's website (www.cephalon.com) by selecting "Corporate Governance" and then "Director Independence Standards."

In December 2007, the Nominating Committee undertook its review of director independence. During this review, the Nominating Committee considered whether any transactions and relationships existed between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. The Nominating Committee also examined whether any transactions or relationships were present between directors and members of the Company's senior management. The purpose of this review was to determine whether any such transactions or relationships exist and, if so, whether any such transactions or relationships or were inconsistent with a determination that the director is independent.

In considering director independence, the Nominating Committee considered the ongoing agreement the Company has with BMP Sunstone Corp. (formerly Beijing Med-Pharm Corporation), a publicly-traded pharmaceutical marketing and distribution company, to develop and register certain Cephalon products in China. Mr. Greenacre serves as the Chairman of the Board of BMP Sunstone Corp. but owns less than one percent of the outstanding capital stock of the company. This transaction is not considered a related party transaction under SEC rules and does not impair Mr. Greenacre's independence under the Company's Guidelines or under NASDAQ Stock Market regulations or SEC rules.

As a result of the review conducted by the Nominating Committee, the Board affirmatively determined that all of the directors nominated for election at the Annual Meeting are independent, with the exception of Dr. Baldino. Dr. Baldino is considered an inside director because of his employment as an executive of the Company.

What processes and procedures does the Compensation Committee follow in considering and determining executive officer and director compensation?

Under its charter, the Compensation Committee has the authority to review and determine executive officer and non-employee director compensation. Specifically, the charter provides that the Compensation Committee shall:

- review and approve the corporate objectives relevant to the compensation of the Company's executive officers;
- evaluate the CEO's performance in light of these goals and objectives and, based on this evaluation, set the CEO's compensation level and components;
- review and approve the compensation level and components for the other executive officers of the Company;
- approve any employment agreements, consulting arrangements, severance or retirement arrangements and/or change-in-control agreements or provisions covering any current or former executive officer of the Company; and
- periodically review and make recommendations to the Board regarding director compensation.

To assist it in carrying out its responsibilities in 2007, the Compensation Committee retained Mercer (US) Inc. ("Mercer"), an outside compensation consulting firm. Specifically, the Compensation

Committee engaged Mercer to provide information, analyses and advice on all matters related to the compensation of the Company's executive officers. This included advice relating to, among other things:

- the development of a peer group for competitive pay and performance benchmarking;
- the relative percentages of stock options, restricted stock awards and cash compensation;
- the levels of base salaries;
- the design of the annual incentive bonus plan; and
- the type and level of other benefits, including perquisites, offered to the Company's executive officers.

With respect to non-employee director compensation, Mercer provides every other year publicly-available information with respect to director cash retainer fees, annual equity compensation, committee service fees and per meeting fees, among other things, at comparable companies. For additional information concerning the role of Mercer in advising the Compensation Committee, please see the "Compensation of Executive Officers and Directors—Compensation Discussion and Analysis" beginning on page 13 of this Proxy Statement.

In addition to Mercer, the Compensation Committee also solicits the input of the Company's management with respect to non-employee director compensation and certain aspects of executive compensation. For non-employee director compensation, management utilizes the information compiled by Mercer to develop recommendations that are then presented to the Compensation Committee. For base salaries of the Company's executive officers other than the CEO, the Company's CEO will make preliminary recommendations to the Compensation Committee concerning any proposed adjustments to salary for the executive officers other than the CEO. Also, in developing the annual incentive bonus plan, the Compensation Committee will review management's preliminary recommendations concerning the performance objectives contained within the plan. Management also may recommend to the Compensation Committee that certain other benefits or perquisites be offered to executives. Management has no input with respect to the level or mix of equity award compensation.

The Compensation Committee considers the advice of Mercer and, in the instances described above, the recommendations of management, before it determines executive and non-employee director compensation. Following approval, the Compensation Committee submits its compensation decisions to the independent members of the Board for ratification.

The Compensation Committee has the authority to delegate all or a portion of its duties and authority related to executive compensation to subcommittees comprised of members of the Board. In 2007, the Compensation Committee did not exercise this right to delegate authority.

How are directors compensated?

The Company compensates its non-employee directors through a mix of base cash compensation and stock option grants. For a more complete description of our compensation program for non-executive directors, including details of amounts earned in 2007, please see the "2007 Non-Employee Director Compensation Table" beginning on page 35 of this Proxy Statement.

How do stockholders communicate with the Board?

Stockholders may communicate with the Company's Board by sending their communications to Cephalon, Inc. Board of Directors, c/o Secretary, 41 Moores Road, Frazer, PA 19355. The Nominating Committee has approved a process for handling letters received by the Company and addressed to independent members of the Board. Under that process, the Secretary reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all

correspondence that, in the opinion of the Secretary, deals with the functions of the Board or its committees, or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Company's internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Does the Company have a "Code of Ethics"?

The Company has a Code of Conduct that is applicable to all employees of the Company. The Company also has a Code of Ethics for Financial Officers covering financial and non-financial business practices and procedures and that applies to the Company's Chief Executive Officer, Chief Financial Officer and certain other employees of the Company responsible for accounting and financial reporting. Both of these documents are available on the Investor Information section of the Company's website (www.cephalon.com) by selecting "Corporate Governance" and then "Codes of Conduct." The Company intends to post amendments to or waivers from its Code of Conduct (to the extent applicable to the Company's chief executive officer, principal financial officer or principal accounting officer) at this location on its website.

Does the Company have a policy and procedures related to the review, approval or ratification of transactions with related parties?

Yes. Under its charter, the Audit Committee is responsible for reviewing and approving all related party transactions that would require disclosure under SEC rules. Under these rules and the Company's policy, a "related party transaction" is a transaction in which the Company participates and in which a related party has a direct or indirect material financial interest, other than transactions involving less than \$120,000 in any calendar year. In determining whether to approve or ratify a related party transaction, the Audit Committee will take into account whether the transaction is on terms no less favorable to the Company than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction, as well as any other factors the Audit Committee deems appropriate. During 2007, there were no related party transactions that were required to be approved by the Audit Committee or disclosed in this Proxy Statement.

Does the Company have a mandatory retirement age for directors?

No. The Nominating Committee conducts a rigorous evaluation of the Board and its committees that it believes provides a sound basis for determining if each director continues to be an active and positive contributor to the Board. Directors who do not actively and positively contribute to the Board, regardless of age, will not be nominated for re-election at the Annual Meeting.

Does the Company have a Pre-Approval Policy regarding independent auditor services?

Under the Sarbanes-Oxley Act of 2002, the Audit Committee is responsible for the appointment, compensation and oversight of the work of the Company's independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor's independence from the Company. To implement these provisions of Sarbanes-Oxley, the SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. Accordingly, the Audit Committee has adopted, and the Board has ratified, the

Audit and Non-Audit Pre-Approval Policy that sets forth the procedures and conditions pursuant to which services proposed to be performed by the independent auditor may be pre-approved.

Under the Pre-Approval Policy, the Audit Committee considers whether services performed by the independent auditor are consistent with the SEC's rules on auditor independence. The Audit Committee also considers whether the independent auditor is best positioned to provide the most effective and efficient service, for reasons such as its familiarity with the Company's business, people, culture, accounting systems, risk profile and other factors, and whether the service might enhance the Company's ability to manage or control risk or improve audit quality. All such factors are considered as a whole, and no one factor is necessarily determinative.

The Audit and Non-Audit Pre-Approval Policy provides for the annual pre-approval of specifically described categories of services (Audit, Audit-Related, Tax and All Other) to be performed by the independent auditor and an expected range of fees associated with each such category. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifies a different period. If a proposed service has not been pre-approved as part of the annual pre-approval process, the Audit Committee must specifically pre-approve the service and its expected range of fees. The Pre-Approval Policy also delegates pre-approval authority to the Chair of the Audit Committee. There were no exceptions to the Pre-Approval Policy in 2007.

How much did the Company pay to its independent auditors for non-audit services?

During 2007, the Company's independent auditors, PwC, performed certain non-audit services for the Company. The Audit Committee has considered whether the provision of these non-audit services is compatible with maintaining PwC's independence. Please see "Item 3—Ratification of Appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accountants for the Year Ending December 31, 2008" for further detail regarding aggregate fees billed to us by PwC.

Where can I find more information about the corporate governance practices of the Company?

Cephalon's corporate governance practices and policies are published on the Investor Information section of the Company's website (www.cephalon.com) by selecting "Corporate Governance."

NOTWITHSTANDING ANYTHING TO THE CONTRARY, THE FOLLOWING REPORTS OF THE AUDIT COMMITTEE AND THE COMPENSATION COMMITTEE SHALL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THIS INFORMATION BY REFERENCE, AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Company's Board of Directors is composed of three independent directors and operates under a written charter adopted by the Board that is designed to comply with rules adopted by the Nasdaq Stock Market and the SEC. A copy of the written charter is available on the Investor Information section of the Company's website (www.cephalon.com) by selecting "Corporate Governance" and then "Board Committees/Charters." The current members of the Audit Committee are Mr. Egan, Ambassador Moley and Mr. Winger (chair).

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. The Company's independent registered public accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes, including the selection of the Company's independent registered public accountants.

The Audit Committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent registered public accountant, nor can the Audit Committee certify that the independent accountant is "independent" under applicable rules. The Audit Committee serves a Board-level oversight role, in which it provides advice, counsel and direction to management and the auditors on the basis of the information it receives, discussions with management and the auditors and the experience of the Committee's members in business, financial and accounting matters.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accountants, including meetings with the independent accountants during which management was not present. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accountants. The Audit Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statement on Auditing Standards No. 90 (Audit Committee Communications).

The Company's independent registered public accountants also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent accountants that firm's independence.

Based upon the Audit Committee's discussion with management and the independent registered public accountants and the Audit Committee's review of the representation of management and the report of the independent registered public accountants to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC.

Respectfully submitted,
Audit Committee:
William P. Egan
Kevin E. Moley
Dennis L. Winger (Chair)

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for the Company's Chairman and Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and the three most highly-compensated executive officers other than the CEO and CFO (collectively, the "Named Executive Officers" or "NEOs") for 2007. It includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide.

Objectives of Our Compensation Program

The Stock Option and Compensation Committee of our Board of Directors (the "Committee") consists of three independent members of the Board of Directors and has responsibility for reviewing and approving all compensation decisions for the NEOs. The Committee submits its decisions to the independent members of the Board for ratification. The Committee acts pursuant to a charter that has been approved by our Board. In connection with these duties, the Company's Human Resources Department supports the Committee in its work. In addition, the Committee retains Mercer (US) Inc. ("Mercer"), an outside compensation consulting firm, to advise the Committee on all matters related to the compensation of the NEOs.

The compensation program for our NEOs is designed to attract, retain and reward talented executives who can contribute to the Company's long-term success and thereby build value for our stockholders. In general terms, the Committee believes that by placing greater weight on variable pay incentives and longer-term compensation than its Peer Group (defined below), rather than base salary compensation, it will more effectively align the interests of executives with the Company's stockholders. Furthermore, this emphasis enables the Company to attract executives who are willing to sacrifice current earnings and the retirement benefits generally offered by larger biotechnology and pharmaceutical companies for potential long-term gains in a less stable and riskier environment. The Committee believes that Cephalon stockholders share a similar risk profile.

The fundamental principle of our compensation program is "Pay for Performance" and, as such, we strive to closely align the compensation paid to our executive officers with the performance of the Company on both a short-term and long-term basis. The total compensation program for executive officers consists of the following components:

- base salary;
- annual cash incentive award;
- long-term incentive compensation in the form of stock options and/or restricted stock units; and
- certain other benefits, including perquisites.

The Committee believes that our stockholders are best served when we can attract and retain talented executives by providing compensation packages that are competitive but fair. The Committee seeks to structure a compensation program for NEOs that delivers total compensation that is generally at the 50th percentile of the total compensation delivered by certain comparable publicly-traded biotechnology and pharmaceutical companies with which we compete for executive talent (the "Peer Group"). At the same time, the Committee believes it is important to provide its NEOs with the opportunity to exceed this level for achievement of key strategic initiatives and superior operational performance as evidenced by such benchmarks as revenue and earnings growth, management of capital, and value creation reflected in stock price appreciation relative to a Peer Group.

In 2007, Mercer assisted the Committee in updating the Peer Group for competitive pay and performance benchmarking. The Peer Group was selected based on the following criteria as of

December 31, 2006: industry classification (pharmaceutical/biotechnology); total revenues relative to a guideline range of Cephalon's revenue (one-half to two times Cephalon's revenues); and business model (research and development capabilities and proprietary pharmaceutical products). The appropriateness of the Peer Group is reviewed annually by the Committee against these criteria. Based on this review, companies may be excluded due to acquisitions or changes in trading status or size; likewise, relevant peer companies may be added. In 2007, there were three new companies added to the Peer Group and three companies from the Peer Group used in 2006 were removed. For 2007, the Peer Group consisted of the following eleven companies:

Allergan Inc.	Genzyme Corp.
Biogen Idec Inc.	Gilead Sciences Inc.
Biovail Corp. International	King Pharmaceuticals Inc.
Celgene Corp.	Sepracor Inc.
Endo Pharmaceuticals Holdings Inc.	Valeant Pharmaceuticals International
Forest Laboratories, Inc.	

The Peer Group data is supplemented with published survey data for biotechnology and pharmaceutical companies of comparable size to Cephalon (as measured by revenues). The Committee uses this survey data as a general reference tool in its consideration and analysis of compensation components and levels for the NEOs.

By providing our executives with a mix of equity and cash compensation, the Committee believes it can better align the interests of our executives with the short- and long-term interests of our stockholders. While there is no pre-established target for the allocation of equity and cash compensation, the Committee believes that the current mix of compensation programs for the executive officers strikes the correct balance between equity and cash compensation and is aligned with the Company's stated pay philosophy. The Committee believes that, by delivering the majority of compensation in the form of equity, the level of executive compensation will correlate with the creation of long-term value for our stockholders as measured by stock price appreciation. Depending on whether, and to what extent, established strategic, financial and operational goals are achieved, the actual split between cash and equity compensation in any given year could vary from the target levels. For 2007, the mix of compensation between cash and equity as reflected in the Summary Compensation Table was approximately 25% and 75%, respectively, for the NEOs. This percentage of equity compensation is higher than that of the Peer Group, but is consistent with the Company's compensation philosophy of placing greater weight on long-term compensation.

The equity component of our compensation plan for executive officers historically has taken the form of stock options and restricted stock units, which we believe are appropriate instruments to drive long-term stockholder value, provide retention incentives to our NEOs and manage our equity shares in an efficient manner. In each case, these awards vest ratably on the first, second, third, and fourth anniversary of the award grant date. For our CEO, approximately 49% of the total value of equity granted in 2007 was in the form of stock options and 51% in restricted stock units ("RSUs"), as reflected in the "2007 Grants of Plan-Based Awards Table" located on page 27 of this Proxy Statement. For the other NEOs, the mix for 2007 was approximately 59% in stock options and 41% in restricted stock units. In determining the mix of stock options and restricted stock units, the Committee considered the following factors: the performance and contribution of the NEOs; the total shares available in the equity pool and the most efficient use of the available shares; Peer Group comparisons; and, finally, retention of the NEOs.

Material Tax and Accounting Implications of the NEO Executive Compensation Program

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to

the company's Chief Executive Officer and the three other most highly compensated executive officers. Specified compensation, including qualified performance-based compensation, will not be subject to the deduction limit if certain requirements are met. Where possible, the Committee generally seeks to structure compensation amounts and plans that meet the requirements for deductibility under this provision. Specifically, the Committee has taken steps to qualify the stock option awards as performance-based compensation for this purpose. While the Committee believes it is important to consider Section 162(m), it also believes that stockholder interests are best served by not restricting the Committee's discretion and flexibility in crafting the executive compensation program, even though such programs may result in non-deductible compensation expenses.

At this Annual Meeting, stockholders will consider whether to amend the 2004 Equity Compensation Plan to establish the material terms of performance goals that could apply to grants of employee stock awards. If approved, the Compensation Committee will have the flexibility to impose and specify specific performance goals that must be met in order for future grants of stock awards to employees to qualify for the qualified performance-based compensation exception under Section 162(m) of the Code.

The Committee also considers the accounting implications to the Company of its executive compensation decisions, including, among other things, the financial statement impact of equity compensation awards as determined pursuant to Financial Accounting Standards Board Statement No. 123R, "Share Based Payment" ("SFAS 123R").

Discussion and Analysis of our 2007 Compensation Program and Awards

This section describes and analyzes each of the elements of our compensation program for our NEOs, including why the Committee chooses to include these items in the compensation program, the details of the compensation amounts granted to NEOs in 2007 and the Committee's rationale for awarding these compensation amounts.

Cash Compensation

Total cash compensation is delivered in the form of salary and annual cash incentive awards or bonuses under a performance-based Management Incentive Compensation Plan (the "MICP") approved by the Committee at the beginning of each fiscal year. Base salary is included in the Company's NEO compensation package because the Committee believes it is both necessary and appropriate that some portion of the compensation be provided to NEOs in a form that is fixed and liquid. Performance-based bonuses under the MICP are included in the package because they permit the Committee to incentivize our NEOs, in any particular year, to pursue particular objectives that the Committee believes are consistent with the overall goals and strategic direction that the Board has set for our Company and that also are aligned with stockholder interests. The components comprising the cash portion of total compensation are described below.

For 2007, base salary of the CEO constituted approximately 35% of total cash compensation (excluding all other compensation); for the other NEOs, base salaries constituted approximately 57% to 63% of the total cash compensation (excluding all other compensation), with bonuses in each case constituting the remaining portion of cash compensation. The Committee felt that the final split between base salary and bonuses awarded for 2007 under the MICP appropriately reflects the strong individual and Company performance delivered by each of the NEOs.

Salary. The Committee reviews and approves the salaries of the NEOs on an annual basis, as well as at the time of a promotion or other change in responsibilities. Increases in salary are based on an evaluation of an individual's performance compared to the individual performance goals set forth in the MICP, contribution, and level of pay compared to the Peer Group. For the NEOs other than the CEO, our CEO makes recommendations to the Committee concerning adjustments to salary. In setting

salaries, the Committee is generally mindful of its overall goal of keeping base salary compensation for its executive officers at the 50th percentile of base salary compensation paid by companies in the Peer Group. Because over the past few years, the Company's business has become more complex and the industry environment has become more challenging, particular care is taken to ensure that these factors are recognized in the calculation of base salary. Merit increases for the next fiscal year are typically approved in December each year and are effective as of January 1 of the new year. As the value of the annual bonus is expressed as a multiple of base salary, a higher base salary will result in a higher bonus award, assuming the same level of achievement against goals.

For 2007, our CEO's base salary was set by the Committee at \$1,196,700, which is consistent with the 75th percentile of CEO base salaries paid by our Peer Group. Given Dr. Baldino's tenure at Cephalon and his significance to the Company both internally and externally, the Committee believes it is appropriate to set Dr. Baldino's base salary in this range. Salaries for our other NEOs ranged from \$438,000 to \$556,500. The Committee believes that, overall, these other NEO base salaries are consistent with the 50th percentile of executive base salaries paid by our Peer Group companies for comparable positions.

Bonus Plan. Our NEOs participate in a cash bonus plan, the MICP. This plan provides cash compensation to NEOs only if, and to the extent that, annual performance conditions set by the Committee are achieved. Whether, and to what extent, bonuses under the MICP are paid depends entirely on the extent to which the established corporate objectives contained within the MICP for that year are attained. The Committee believes that the achievement of these objectives ultimately will contribute to the long-term success of the Company.

The performance objectives contained within the MICP are developed with input from management, the Committee and the Board. Based on a review of internal forecasts, management, including the NEOs, develops preliminary recommendations for the Committee's review. The Committee reviews management's preliminary recommendations and establishes the final MICP goals and weighting, which are intended to reflect the most important strategic and financial objectives for the Company. The final MICP goals and weightings are then ratified by the full Board. In establishing final goals, the Committee strives to ensure that the incentives provided pursuant to the MICP are consistent with the strategic goals set by the Board for the Company, that the objectives set are sufficiently ambitious to provide a meaningful incentive and to ensure that bonus payments, assuming target levels of performance are attained, will be consistent with the overall philosophy of the executive compensation program established by the Committee. The Committee reserves the discretion to reduce or not pay bonuses under the MICP, even if the relevant performance targets are met, or to increase the bonus amount awarded under the MICP. In 2007, the Committee exercised its discretion to reduce the calculated bonuses for the NEOs under the MICP in amounts ranging from 11% to 14%. Notwithstanding that the NEOs met the Company and personal performance targets set out in the MICP, the Committee decided to reduce bonus payments in consideration of the significance to the Company of the agreement in principle reached in late 2007 with the U.S. Attorney's Office in Philadelphia.

The MICP for 2007 was approved by the Board at its February 2007 meeting. The MICP objectives for 2007 consisted of both financial and operational components, in varying percentages as detailed in the tables below. The Committee felt that a 40% weighting on operational goals for the CEO provided a strong incentive to focus on attaining goals that further the creation of long-term value for stockholders. The Committee believes that the combination of the financial and operational performance objectives within the 2007 MICP created a significantly high hurdle for achievement by each NEO.

At the outset of each year, the Committee sets target bonuses under the MICP for each NEO. In determining the amount of target bonuses under the MICP, the Committee considers several factors, including:

- the target bonuses set, and actual bonuses paid, in recent years;
- the desire to ensure that a substantial portion of total compensation is performance-based;
- the relative importance, in any given year, of the short-term performance objectives established pursuant to the MICP; and
- the advice of Mercer as to compensation practices at other companies in the Peer Group.

For 2007, the Committee set the target bonus under the MICP at 100% of base salary for the CEO and 50% of base salary for the other NEOs. These target levels are consistent with the 50th percentile of the Company's Peer Group. The actual amount of an MICP bonus award is determined based on each NEO's level of achievement against his or her individual objectives set out in the MICP. The MICP provides the NEOs with the opportunity to earn bonuses that exceed target levels for exceeding performance objectives and, conversely, penalizes the NEOs for missing their objectives. If a minimum MICP score is not achieved, a NEO will not be eligible to receive any award under the MICP. At the end of each fiscal year, the Committee is responsible for assessing the performance of each NEO against the MICP performance criteria and determining the level of awards, if any, under the MICP. The Committee presents its decisions to the independent members of the Board for ratification.

The following two tables summarize the components of the 2007 MICP and the actual awards granted by the Committee for fiscal year 2007. The first table describes the MICP for the CEO; the second table describes the MICP for the other NEOs.

Chief Executive Officer

	<u>2007 MICP</u>	<u>2007 Actual MICP Results</u>
Financial Goals (60%) . . .	<ul style="list-style-type: none"> • Total product sales target of \$1.738 billion • Pro forma net income target of \$285 million 	Weighted average score = 65
Operational Goals (40%) .	Performance goals in the areas of clinical (20%), manufacturing (10%) and R&D (10%)	Weighted average score = 42
MICP “Score”	<ul style="list-style-type: none"> • Weighted average minimum MICP score of 85 of the above listed components required for CEO to be eligible for an MICP award • For each MICP point below 100, target bonus percentage of 100% is decreased by approximately 7% (e.g., MICP score of 98 yields a bonus payout of 87% of base salary) • For each MICP point above 100, target bonus percentage is increased by an average of approximately 14% for MICP scores from 101 to 111. For example, an MICP score of 102 yields a bonus payout of 128% of base salary. At an MICP score of 112, the maximum bonus will be earned. 	107
Target MICP Bonus	100% of 2007 base salary	—
Calculated MICP Percentage	Could range from 0% (for an MICP score below 85) to 300% of base salary (at maximum performance)	200%
Calculated MICP Dollar Value	Could range from \$0 (for an MICP score below 85) to \$3,387,000 (for maximum performance).	\$2,393,400
Actual MICP Award Dollar Value	—	\$2,213,900

In 2007, total product sales for the Company were \$1.727 billion, which was below the MICP target by \$11 million. With respect to pro forma net income, the Company exceeded the pro forma net income target in the MICP by \$23.8 million, or approximately 8.4%. Pro forma net income is considered a “non-GAAP financial measure” under SEC rules. To arrive at pro forma net income, the Company starts with the Company’s audited net income or loss under U.S. generally accepted accounting principles (GAAP) and excludes or includes certain items, including certain one-time or infrequent items that may not affect the Company’s operations or that may not meet the strict GAAP definition of unusual, non-recurring items. Each quarter, management reviews with the Audit Committee each proposed pro forma adjustments made to arrive at pro forma net income. Following this, pro forma net income is disclosed and reconciled to GAAP net income or loss by the Company in its quarterly and year-end earnings press releases. In assessing whether the pro forma net income target under the MICP has been met, the Compensation Committee uses the reported pro forma net income disclosed in the Company’s year-end press release.

The Operational Goals included in the MICP were all exceeded during 2007. In the area of clinical research, the Company filed three applications with the U.S. Food and Drug Administration (FDA) and one with the European Committee for Medicinal Products; and, it secured FDA approval of NUVIGIL. As a result of these accomplishments, the Committee determined that the Company achieved 106% of its clinical goal. For manufacturing, the Committee determined that the Company had achieved 104% of its established objectives. This was primarily attributable to the Company exceeding by 60% its objective to reduce cost of goods sold for the Company’s products. For R&D, the Company exceeded its established objective of advancing the Company’s research and development plan by filing one investigational new drug (IND) application in 2007 and recommending two molecules for IND filing. The Company also continued the advancement of three compounds, two in oncology and one in CNS, through pre-clinical development. As a result of these accomplishments, the Committee determined that the Company achieved 109% of its R&D goal.

Based on the above, the Committee calculated a MICP score for 2007 of 107, which yielded a MICP award percentage of 200% of base salary for Dr. Baldino. However, as stated earlier, because of the significance of the agreement in principle reached in late 2007 with the U.S. Attorney’s Office in Philadelphia, the Committee exercised its discretion to reduce Dr. Baldino’s bonus payment from 200% of base salary to 185% of base salary, or \$2,213,900.

Other NEOs

	2007 MICP	2007 Actual MICP Results
Financial Goals (30%) . . .	<ul style="list-style-type: none"> • Total product sales target of \$1.738 billion • Pro forma net income target of \$285 million 	Weighted average score = 32.5 (See discussion above)
Individual Performance		
Goals (70%)	Objectives specific to individual NEO and areas of responsibility	MICP score determined for each individual NEO
MICP “Score”	<ul style="list-style-type: none"> • Weighted average minimum MICP score of 90 of the above listed components required for NEO to be eligible for an MICP award • For each MICP point above or below 100, target bonus percentage of 100% is increased or decreased by 3.5%, respectively (e.g., MICP score of 98 yields a bonus payout of 43% of base salary). At an MICP score of 120, the maximum bonus will be earned. 	Ranged from 106 to 111
Target MICP bonus	50% of 2007 base salary	—
Calculated MICP		
Percentages	Could range from 0% (for an MICP score below 90) to 110% of an NEO’s base salary (at maximum performance)	Calculated percentages ranged from 70% to 87% of base salary
Calculated MICP Dollar		
Value	Individual awards could range from \$0 (for an MICP score below 90) to approximately \$560,200 (for maximum performance).	Calculated values ranged from \$311,600 to \$381,100
Actual MICP Award		
Dollar Value	—	Awards granted ranged from \$267,100 to \$356,500

The results of the Financial Goals for the other NEOs are described above. For each NEO, the Committee determined, based on input from the CEO, the MICP score for the individual performance component based on the level of achievement against the established individual performance goals. The

range of MICP scores was 106 to 111, which yielded MICP bonuses in the range of 70% to 87% of base salary, depending on the NEO. However, consistent with the approach taken with the CEO's bonus, the Committee lowered each NEO's bonus percentage. With this reduction, the bonus percentages for the NEOs are in the range of 60% to 77%. The dollar amount of awards granted to the other NEOs for 2007 ranged from \$267,100, to \$356,500.

With respect to Section 162(m), payments under the Company's MICP are generally subject to the Section 162(m) limits on deductibility and will not qualify as "performance-based compensation," within the meaning of the applicable regulations as the MICP has not been approved by stockholders.

Long-term Incentive Compensation

The Committee believes that placing a heavy emphasis on equity compensation will better align the interests of NEOs with our stockholders.

Types of Equity Awards. Equity awards to our NEOs are made pursuant to our 2004 Equity Compensation Plan (the "2004 Plan"), which has been approved by Cephalon stockholders. Our officers and directors are not eligible to participate in the Company's 2000 Equity Compensation Plan for Employees and Key Advisors. The 2004 Plan provides for awards in the form of incentive stock options and non-qualified stock options (collectively, "stock options") and restricted stock units. The mix between these forms of awards changes somewhat from year to year. In determining the mix of stock options to restricted stock, the Committee considers the following factors: the performance and contribution of the NEOs; the total shares available in the equity pool and the most efficient use of the available shares; Peer Group comparisons; and, finally, retention of the NEOs.

Equity Compensation Awarded in 2007. In 2007, the Committee approved, and the independent members of the Board ratified, equity awards to the NEOs that had a total value calculated under the Black-Scholes model equal to approximately four times cash compensation (including bonus opportunities, assuming performance at "target" levels) for Dr. Baldino and between 3 to 3.5 times cash compensation for the other NEOs.

On December 13, 2007, the Board ratified the Committee's approval of a grant to our CEO of 160,000 stock options at an exercise price of \$76.11, which was the closing price of our common stock on the date of grant, and 80,000 units of restricted stock. The stock options and RSUs awarded to the CEO in December 2007 represent the same number of shares granted in 2006.

For each of the other NEOs with the exception of Mr. Savini, the Board also ratified the Committee's approval of a grant of 50,000 stock options and 15,000 units of restricted stock. For Mr. Savini, the Board ratified the Committee's approval of a grant of 60,000 stock options and 15,000 units of restricted stock in recognition of Mr. Savini's noteworthy individual performance during the year. The stock option grants to NEOs were granted at an exercise price of \$76.11, which was the closing price of our common stock on the date of grant. The stock options and RSUs awarded to the other NEOs represent the same number of shares granted to each of the other NEOs in 2006. The stock options and RSUs awarded during 2007 vest over a four-year period, with 25% becoming exercisable on each anniversary of the grant date. The stock options have a 10-year term.

The value of the equity compensation awards granted to the NEOs in 2007 is above the 75th percentile of estimated equity values awarded to executives at the Peer Group companies and also above the 50th percentile target levels. For the stock options, the estimated equity value was calculated based on the methodology defined in SFAS 123R; for RSUs, the estimated value was calculated based on the value of the underlying common stock on the date of grant. In determining the level of equity awards granted to the NEOs in 2007, the Committee put emphasis on its desire to retain the current management team in light of the business challenges facing the Company. The Committee also felt that

the progress made in 2007 by the NEOs in furthering the Company's long-term business plan supported equity awards at this level.

The Company's equity compensation plans satisfy the requirements of Section 162(m) with respect to stock options, but not with respect to awards of RSUs. Accordingly, compensation recognized by the NEOs in connection with stock options is fully deductible, but compensation with respect to RSUs is subject to the \$1,000,000 limit on deductibility.

Practices Regarding the Grant of Options. The Company generally has followed a practice of making all annual stock option grants to its executive officers on a single date each year. For at least the last 10 years, at its last regularly-scheduled meeting usually in early- to mid-December, the Board has ratified the annual option grants made by the Committee. The Committee approves these annual grants, subject to the ratification by the Board, at a meeting prior to the scheduled December Board meeting. Historically, the December Board meeting date has occurred approximately four to six weeks following the issuance of the press release reporting our third quarter financial results for the then-current fiscal year. The dates of the December Board and Committee meetings are determined at least a year in advance based on the Board members availability for an in-person meeting. The Committee believes that it is appropriate that annual awards be made at a time when material information regarding our performance for the current fiscal year has been disclosed. We do not otherwise have any program, plan or practice to time annual option grants to our executives in coordination with the release of material non-public information.

While the bulk of our stock option awards to NEOs have historically been made pursuant to our annual grant program, the Committee retains the discretion to make additional awards to NEOs at other times, in connection with the initial hiring of a new officer, for retention purposes or otherwise. No such awards were made to the NEOs during 2007. The Committee has generally followed the practice of making such awards only during a time when our NEOs would be permitted, pursuant to our insider trading policy, to trade in our securities. Other than in this respect, we do not have any program, plan or practice to time equity awards in coordination with the release of material non-public information.

All stock option awards made to our NEOs are made pursuant to our 2004 Plan. As noted above, all options under the 2004 Plan (as well as awards to employees other than our officers under our 2000 Equity Compensation Plan) are granted with an exercise price that may not be less than the fair market value of our common stock on the date the grants are ratified by the Board. Fair market value is defined under the 2004 Plan to be the closing sale price of a share of our common stock on the date of grant as reported on the NASDAQ Stock Market. While the Charter of the Committee permits delegation of the Committee's authority to grant options in certain circumstances, this delegated authority has never been exercised.

Other Benefits

Perquisites. Our NEOs receive various perquisites provided by or paid for by the Company. These perquisites include automobile allowances, financial and estate planning services, supplemental long-term disability insurance, personal use of the corporate aircraft (subject to the execution of a Time Sharing Agreement as described below), executive health care benefits and gross-up payments equal to the taxes payable on certain perquisites.

We provide these perquisites because in many cases the perquisite makes our executives more efficient and effective and thereby is a benefit to the Company. Additionally, perquisites are provided by many companies in the Peer Group to their named executive officers and it is therefore necessary for retention and recruitment purposes that we do the same.

The Committee reviews the perquisites provided to its NEOs on a regular basis, in an attempt to ensure that they continue to be appropriate in light of the Committee's overall goal of designing a compensation program for NEOs that maximizes the interests of our stockholders.

The benefits are summarized as follows:

Estate and Financial

- Planning* The CEO is reimbursed annually for up to \$15,000, net of taxes, of individual estate and financial planning advice; the other NEOs are reimbursed annually for up to \$10,000, net of taxes.
- Automobile Allowance* NEOs (other than the Chairman and CEO) receive an annual, taxable, automobile allowance of \$13,200. The CEO receives the use of a Company-provided automobile; any personal use of such automobile is imputed to the CEO and included in the Summary Compensation Table.
- Health Care Benefit* NEOs are reimbursed annually for up to \$1,000, net of taxes, for health care services not otherwise covered under the Company's group health plan.
- Long-term Disability* Employees at the Vice President-level and above, including the NEOs, are eligible to receive Company paid supplemental long-term disability coverage that provides coverage of 60% of salary and bonus, to a maximum of \$25,000 per month.
- Tax Gross-ups* Payment of gross-ups equal to the taxes payable on estate and financial planning reimbursement and health care benefit reimbursement.

We also provide our executive officers with the option to utilize Cephalon's corporate aircraft for personal use, subject to the execution of a Time Sharing Agreement with the Company. Under the Time Sharing Agreement and the Company's internal policies, an executive must reimburse the Company for the personal use of the aircraft by the executive and the executive's guests. It is our intent that, in all cases, the amount reimbursed by the executive for personal use is the greater of the incremental operating costs associated with the use of the aircraft and the amount of income that would be required to be imputed to the executive under Internal Revenue Service regulations, subject in each case to the maximum reimbursement amount permitted under Part 91 of the U.S. Federal Aviation Administration regulations.

Dr. Baldino has reimbursed the Company \$106,082 for his personal use of the corporate aircraft during 2007. Messrs. Buchi and Savini also reimbursed the Company \$555 and \$3,133, respectively, for the carriage of guests on flights made in connection with business travel. Because the payments made by these NEOs to the Company exceeded the value of the personal use as calculated in accordance with the standard industry fare level, or SIFL, rates set by the IRS, we did not impute any income to Dr. Baldino or Messrs. Buchi or Savini in 2007. Likewise, for SEC reporting purposes, we have determined that the amount reimbursed to the Company exceeded the estimated incremental cost to the company of the personal use of the aircraft. For this reason, the Summary Compensation Table shown on page 26 does not include any compensation to Dr. Baldino or Messrs. Buchi or Savini related to this perquisite.

Deferred Compensation Plan. Our Deferred Compensation Plan allows employees at the level of Vice President and above, including the NEOs, to defer receipt of all or a portion of bonus received under the MICP until either a date specified at election by the employee or retirement. Deferred amounts are credited with an annual fixed rate of return that is set each year by the Committee. The Committee determines the interest rate for the Deferred Compensation Plan based on the Prime Rate plus 1-3%. For 2007, the interest rate was 9%; for 2008, the interest rate will remain at 9%. We do not

“match” amounts that are deferred by employees pursuant to the Deferred Compensation Plan. Distributions from the plan are paid in a lump sum upon the six-month anniversary of the termination of the employee’s employment with the Company. Currently, only two NEOs participate in the Deferred Compensation Plan.

The obligations under the Deferred Compensation Plan are not funded by the Company, and therefore participants have an unsecured contractual commitment from the Company to pay the amounts due under the Deferred Compensation Plan. Because the plan is unsecured, the Committee believes it is appropriate to provide an above-market interest rate to compensate for this risk. When payments are due under the Deferred Compensation Plan, the cash will be distributed from the Company’s general assets.

We provide this benefit because the Committee wishes to permit certain of our employees to defer the obligation to pay taxes on bonuses that they are entitled to receive. The Deferred Compensation Plan permits them to do this, while also receiving interest on deferred amounts, as described above. We believe that provision of this benefit is important as a retention and recruitment tool as many of the companies with which we compete for executive talent provide a similar plan to their senior employees.

Executive Severance Agreements. While the Company does not have employment agreements with the NEOs, in 2002, it entered into executive severance agreements with the NEOs. These agreements provide for payments and other benefits if the officer’s employment is involuntarily terminated by the Company for any reason other than “Cause,” death or “Disability,” as these terms are defined in the severance agreements. These severance agreements also provide for payments and other benefits upon a qualifying event or circumstances after there has been a “Change in Control” (as defined in the agreements) of the Company. The Committee reviews and approves the terms of each executive severance agreement prior to execution and believes that the terms contained in these agreements are reasonable and customary for agreements of this type. Additional information regarding the executive severance agreements, including a definition of key terms and a quantification of benefits that would have been received by our NEOs had termination occurred on December 31, 2007, is found under the heading “2007 Potential Payments upon Termination or Change in Control” on pages 32-34 of this Proxy Statement.

The Committee believes that these severance arrangements are an important part of overall compensation for our NEOs. The Committee believes that these agreements will help to secure the continued employment and dedication of our NEOs, notwithstanding any concern that they might have at such time regarding their own continued employment, prior to or following a change in control. The Committee also believes that these agreements are important as a recruitment and retention device, as most of the companies with which we compete for executive talent have similar agreements in place for their executive officers.

401(k) Profit Sharing Plan. Under the Cephalon, Inc. 401(k) Profit Sharing Plan (the “401(k) Plan”), a tax-qualified retirement savings plan, all employees located in the United States, including our NEOs, may contribute up to 100 percent of regular earnings on a before-tax basis into their 401(k) Plan accounts, subject to the limits imposed by the IRS. In addition, under the 401(k) Plan, we may determine to make a matching contribution to a participating employees account. Historically, we have determined to match an amount equal to one dollar for each dollar contributed by participating employees on the first six percent of their regular earnings, subject to any limitations imposed by the IRS. Because we do not sponsor a defined benefit pension plan, the 401(k) Plan matching contribution allows Cephalon to remain competitive with other companies in its industry that provide retirement savings vehicles for their executives and employees. Cephalon employees are immediately and fully vested in all matching contributions made by the Company under the 401(k) Plan. As of December 31, 2007, approximately 90% of the Company’s U.S.-based employees were participants in the 401(k) Plan.

REPORT OF THE STOCK OPTION AND COMPENSATION COMMITTEE

The Stock Option and Compensation Committee of the Board of Directors of Cephalon, Inc. oversees the Company's compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussions referred to above, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and the Company's Proxy Statement to be filed in connection with the Company's 2008 Annual Meeting of Stockholders, each of which will be filed with the Securities and Exchange Commission.

STOCK OPTION AND COMPENSATION COMMITTEE

Martyn D. Greenacre
Vaughn M. Kailian
Charles A. Sanders, M.D. (Chair)

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Messrs. Greenacre and Kailian and Dr. Sanders. There are currently no compensation committee interlocks or insider participation on the Compensation Committee.

Executive Compensation Tables

The following table summarizes the compensation of the Company's NEOs for the periods ended December 31, 2007 and 2006.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)(5)	All Other Compensation (\$)(6)(7)	Total (\$)
Frank Baldino, Jr., Ph.D. <i>Chairman & CEO</i>	2007	\$1,196,700	—	\$5,096,053	\$4,925,316	\$2,213,900	—	\$76,897	\$13,508,866
	2006	\$1,129,000	—	\$4,056,715	\$4,497,683	\$1,772,500	\$ 3,872	\$73,848	\$11,533,618
J. Kevin Buchi <i>Executive Vice President & Chief Financial Officer</i>	2007	\$ 509,300	—	\$ 941,597	\$1,381,186	\$ 356,500	—	\$51,976	\$ 3,240,559
	2006	\$ 476,000	—	\$ 736,849	\$1,069,714	\$ 380,800	—	\$53,009	\$ 2,716,372
Peter E. Grebow, Ph.D. <i>Executive Vice President, Worldwide Technical Operations</i>	2007	\$ 492,900	—	\$ 941,597	\$1,381,186	\$ 330,200	\$20,559	\$45,697	\$ 3,212,139
	2006	\$ 465,000	—	\$ 736,849	\$1,061,763	\$ 325,500	\$20,404	\$40,966	\$ 2,650,482
Carl A. Savini <i>Executive Vice President, Chief Administrative Officer</i>	2007	\$ 445,200	—	\$ 941,597	\$1,388,853	\$ 267,100	—	\$45,325	\$ 3,088,075
	2006	\$ 420,000	—	\$ 736,849	\$1,072,049	\$ 306,600	—	\$40,180	\$ 2,575,678
Jeffry L. Vaught, Ph.D. <i>Executive Vice President, Research & Development</i>	2007	\$ 438,000	—	\$ 941,597	\$1,381,186	\$ 337,300	—	\$41,763	\$ 3,139,846
	2006	\$ 405,600	—	\$ 736,849	\$1,037,912	\$ 365,000	—	\$50,470	\$ 2,595,831

- (1) Amounts in this column would include non-equity guaranteed or discretionary bonus, hiring bonuses and relocation bonuses. Bonuses awarded under the Company's 2006 and 2007 MICP are reflected in the column entitled "Non-Equity Incentive Plan Compensation."
- (2) The amounts shown in this column represent compensation expense recognized in 2007 related to (i) the portion of RSUs granted to the NEO in 2007 and (ii) the portions of RSUs granted to the NEOs in 2006, 2005 and 2004 that were expensed in 2007. The amounts shown were calculated in accordance with SFAS 123R, excluding the effect of certain forfeiture assumptions, and are based on a number of key assumptions described in Note 3 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. For information related to stock awards made to the NEOs in 2007, see the Grants of Plan-Based Awards table beginning on page 27 of this Proxy Statement. The amount of compensation, if any, actually realized by an NEO from the sale of common stock underlying a RSU will depend on numerous factors, including the continued employment of the NEO during the vesting period of the award and the price of common stock underlying a RSU at the date of sale.
- (3) The amounts shown in this column represent compensation expense recognized in 2007 related to (i) stock options granted to the NEOs in 2007 and (ii) the portions of stock options granted in 2006, 2005, 2004 and 2003 that were expensed in 2007. The amounts shown were calculated in accordance with SFAS 123R, excluding the effect of certain forfeiture assumptions, and are based on a number of key assumptions described in the Note 3 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. For information related to stock option awards made to the NEOs in 2007, see the Grants of Plan-Based Awards table beginning on page 27 of this Proxy Statement. The amount of compensation, if any, actually realized by an NEO from the exercise and sale of vested stock options will depend on numerous factors, including the continued employment of the NEO during the vesting period of the award and the amount by which the stock price on the day of exercise and sale exceeds the stock option exercise price.
- (4) The amounts shown in this column constitute awards earned in 2007 under the 2007 MICP; amounts earned were paid on February 20, 2008. For a further discussion of these awards, see the Compensation Discussion and Analysis beginning on page 13 of this Proxy Statement.
- (5) The amounts shown in this column represent the value of deferred compensation interest amounts above the 120% applicable federal rate.

- (6) The amounts in this column include the value of the following perquisites paid to the NEOs in 2007. Perquisites, except with respect to tax gross-up amounts, are valued at actual amounts paid to each provider of such perquisites.

Name	Executive Long-Term Disability Insurance Premium (\$)	Auto Allowance (\$)	Financial Planning Benefits (\$)	Executive Medical Reimbursement (\$)	Tax Gross-Up on Financial Planning Benefits and Executive Medical Reimbursement (\$)
Frank Baldino, Jr., Ph.D.	\$ 5,946	\$33,240*	\$14,500	—	\$9,711
J. Kevin Buchi	\$ 9,372	\$13,200	\$10,000	\$235	\$5,669
Peter E. Grebow, Ph.D.	\$11,680	\$13,200	\$ 5,077	—	\$2,240
Carl A. Savini	\$10,210	\$13,200	\$ 5,769	—	\$2,646
Jeffrey L. Vaught, Ph.D.	\$ 9,278	\$13,200	\$ 4,000	—	\$1,785

* For Dr. Baldino, the amount shown reflects the amount of imputed income related to personal use of a company-provided automobile.

- (7) For each NEO, amounts include Company matching contributions of \$13,500 to the Company's 401(k) Plan made on behalf of each of the NEOs.

2007 Grants of Plan-Based Awards Table

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards (\$/ Sh)(3)	Grant Date Fair Value of Stock and Option Awards \$(4)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Frank Baldino, Jr., Ph.D.	1/1/2007	\$179,500	\$ 1,196,700	\$ 3,590,100							
	12/13/2007								160,000	\$76.11	\$6,348,500
	12/13/2007							80,000		\$76.11	\$6,088,800
J. Kevin Buchi	1/1/2007	\$ 76,400	\$ 254,700	\$ 560,200							
	12/13/2007								50,000	\$76.11	\$1,295,300
	12/13/2007							15,000		\$76.11	\$1,141,650
Peter E. Grebow, Ph.D.	1/1/2007	\$ 73,900	\$ 246,500	\$ 542,200							
	12/13/2007								50,000	\$76.11	\$1,295,300
	12/13/2007							15,000		\$76.11	\$1,141,650
Carl A. Savini	1/1/2007	\$ 66,800	\$ 222,600	\$ 489,700							
	12/13/2007								60,000	\$76.11	\$1,554,300
	12/13/2007							15,000		\$76.11	\$1,141,650
Jeffrey L. Vaught, Ph.D.	1/1/2007	\$ 65,700	\$ 219,000	\$ 481,800							
	12/13/2007								50,000	\$76.11	\$1,295,300
	12/13/2007							15,000		\$76.11	\$1,141,650

- (1) Represents the range of possible payments under the 2007 MICP, which was adopted on February 8, 2007. For 2007, the Compensation Committee granted the following awards to the NEOs under the 2007 MICP, all of which are reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table located on page 26 of this Proxy Statement: Dr. Baldino: \$2,213,900; Mr. Buchi: \$356,500; Dr. Grebow: \$330,200; Mr. Savini: \$267,100; and Dr. Vaught: \$337,300.
- (2) Consists of RSUs awarded during 2007 under our 2004 Plan. The RSUs vest 25% on each of the first through fourth anniversaries of the grant date.
- (3) Consists of stock options awarded during 2007 under our 2004 Plan. The stock option awards vest 25% on each of the first through fourth anniversaries of the grant date. The stock options have a ten-year term and an exercise price equal to the closing market price of the Cephalon Common Stock on the date of grant.
- (4) Amounts shown for awards of RSUs and stock options are valued based on the aggregate full fair value of the awards granted in 2007 determined pursuant to SFAS 123R. See Note 3 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for a discussion of the assumptions used in calculating the grant date fair value pursuant to SFAS 123R.

Narrative to Summary Compensation and Grants of Plan-Based Awards Tables

Salary

We do not have employment agreements with any of our NEOs. Base salaries for each NEO are reviewed and approved on at least an annual basis by the Compensation Committee.

Each of the NEOs has entered into an Executive Severance Agreement with us. For a more complete description of these agreements, please see “2007 Potential Payments upon Termination or Change in Control” beginning on page 32 of this Proxy Statement.

Awards

In early 2007, the Compensation Committee approved the 2007 MICP, which provided our NEOs with the opportunity to earn a cash incentive award if certain pre-established objectives were attained. For 2007, each NEO earned a bonus amount that was above the target bonus levels established under the 2007 MICP, but significantly below the maximum payout provided for under the plan. The bonus amounts earned by the NEOs are reported as “Non-Equity Incentive Plan Compensation” in the 2007 Summary Compensation Table above.

On December 13, 2007, each of our NEOs received a grant of stock options and RSUs. The RSUs and the stock options generally vest on the basis of passage of time and continued employment, with restrictions lapsing with respect to 25% of the award on each of the first four anniversaries of the grant date. Upon vesting, the stock options are exercisable at a price of \$76.11, and the RSUs convert into shares of our common stock on a one-to-one basis. The terms of the RSUs do not provide for the right to vote or receive dividends or other distributions in respect of our common stock prior to the lapse of the restrictions. In 2007, Dr. Baldino received a total of 160,000 stock options and 80,000 RSUs. Each of the other NEOs received 50,000 stock options, except Mr. Savini who received 60,000 stock options, and 15,000 RSUs.

Salary and Bonus in Proportion to Total Compensation

For 2007, approximately 25% of our CEO's total compensation was delivered in the form of base salary and incentive bonus; for the other NEOs, the percentages ranged from approximately 23% to 27% of total compensation. As noted in the “Compensation Discussion and Analysis,” we believe that our current compensation program aligns the interests of our NEOs with the interests of our stockholders, while also permitting the Compensation Committee to incentivize the NEOs to pursue specific performance goals. Please see “Compensation Discussion and Analysis” beginning on page 13 of this Proxy Statement for a description of our compensation program and overall compensation philosophy.

Outstanding Equity Awards at Fiscal Year-End 2007

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date(2)	Number of Shares or Units of Stock that Have Not Vested(3)	Market Value of Shares or Units of Stock that Have Not Vested (\$)(4)	Equity Incentive Plan Awards: Number of Shares, Units, or Other Rights that Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested (\$)
Frank Baldino, Jr., Ph.D.	70,000	0	—	\$ 7.875	12/16/2008	206,250	\$14,800,500	—	—
	41,000	0	—	\$27.625	12/15/2009				
	150,000	0	—	\$51.125	12/13/2010				
	150,000	0	—	\$71.960	12/20/2011				
	300,000	0	—	\$51.170	12/19/2012				
	150,000	0	—	\$48.200	12/16/2013				
	97,500	32,500	—	\$48.060	12/15/2014				
	80,000	80,000	—	\$51.080	11/30/2015				
	40,000	120,000	—	\$71.070	12/18/2016				
	0	160,000	—	\$76.110	12/13/2017				
J. Kevin Buchi	30,000	0	—	\$51.125	12/13/2010	38,250	\$ 2,744,820	—	—
	47,500	0	—	\$71.960	12/20/2011				
	55,000	0	—	\$51.170	12/19/2012				
	25,000	0	—	\$48.200	12/16/2013				
	15,000	5,000	—	\$48.060	12/15/2014				
	25,000	25,000	—	\$51.080	11/30/2015				
	12,500	37,500	—	\$71.070	12/18/2016				
	0	50,000	—	\$76.110	12/13/2017				
Peter E. Grebow, Ph.D.	32,800	0	—	\$71.960	12/20/2011	38,250	\$ 2,744,820	—	—
	22,926	0	—	\$48.200	12/16/2013				
	15,000	5,000	—	\$48.060	12/15/2014				
	25,000	25,000	—	\$51.080	11/30/2015				
	12,500	37,500	—	\$71.070	12/18/2016				
	0	50,000	—	\$76.110	12/13/2017				
Carl A. Savini	48,700	0	—	\$71.960	12/20/2011	38,250	\$ 2,744,820	—	—
	6,375	0	—	\$48.200	12/16/2013				
	5,000	5,000	—	\$48.060	12/15/2014				
	0	25,000	—	\$51.080	11/30/2015				
	12,500	37,500	—	\$71.070	12/18/2016				
	0	60,000	—	\$76.110	12/13/2017				
Jeffry L. Vaught, Ph.D.	33,100	0	—	\$71.960	12/20/2011	38,250	\$ 2,744,820	—	—
	25,000	0	—	\$48.200	12/16/2013				
	15,000	5,000	—	\$48.060	12/15/2014				
	25,000	25,000	—	\$51.080	11/30/2015				
	12,500	37,500	—	\$71.070	12/18/2016				
	0	50,000	—	\$76.110	12/13/2017				

(1) The following table provides information with respect to the vesting dates of each outstanding stock option held by the NEOs as of December 31, 2007:

Stock Option Vesting Date	Dr. Baldino	Mr. Buchi	Dr. Grebow	Mr. Savini	Dr. Vaught
December 1, 2008	40,000	12,500	12,500	12,500	12,500
December 16, 2008	32,500	5,000	5,000	5,000	5,000
December 19, 2008	40,000	12,500	12,500	12,500	12,500
December 13, 2008	40,000	12,500	12,500	15,000	12,500
December 1, 2009	40,000	12,500	12,500	12,500	12,500
December 19, 2009	40,000	12,500	12,500	12,500	12,500
December 13, 2009	40,000	12,500	12,500	15,000	12,500
December 19, 2010	40,000	12,500	12,500	12,500	12,500
December 13, 2010	40,000	12,500	12,500	15,000	12,500
December 13, 2011	40,000	12,500	12,500	15,000	12,500
Totals	392,500	117,500	117,500	127,500	117,500

- (2) The option grant date for each award listed is 10 years prior to the respective option expiration date.
- (3) The following table provides information with respect to the vesting dates of each outstanding RSU held by the NEOs as of December 31, 2007:

RSUs Vesting Date	Dr. Baldino	Mr. Buchi	Dr. Grebow	Mr. Savini	Dr. Vaught
February 1, 2008	1,250	—	—	—	—
December 1, 2008	20,000	3,750	3,750	3,750	3,750
December 16, 2008	22,500	4,500	4,500	4,500	4,500
December 19, 2008	20,000	3,750	3,750	3,750	3,750
December 13, 2008	20,000	3,750	3,750	3,750	3,750
February 1, 2009	1,250	—	—	—	—
December 1, 2009	20,000	3,750	3,750	3,750	3,750
December 19, 2009	20,000	3,750	3,750	3,750	3,750
December 13, 2009	20,000	3,750	3,750	3,750	3,750
February 1, 2010	1,250	—	—	—	—
December 19, 2010	20,000	3,750	3,750	3,750	3,750
December 13, 2010	20,000	3,750	3,750	3,750	3,750
December 13, 2011	20,000	3,750	3,750	3,750	3,750
Totals	206,250	38,250	38,250	38,250	38,250

- (4) Calculated as the number of unvested RSUs multiplied by the closing price of our common stock on December 31, 2007 (\$71.76).

Option Exercises and Stock Vested in 2007

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting (\$)
Frank Baldino, Jr., Ph.D.	60,000	\$3,857,220	85,000	\$6,322,750
J. Kevin Buchi	—	—	15,750	\$1,171,868
Peter E. Grebow, Ph.D.	52,074	\$1,269,370	15,750	\$1,171,868
Carl A. Savini.	50,125	\$1,415,210	15,750	\$1,171,868
Jeffrey L. Vaught, Ph.D.	70,000	\$2,045,131	15,750	\$1,171,868

(1) Represents the vesting on various dates in December 2007 of RSUs originally granted in December 2004, 2005 and 2006, and, for Dr. Baldino, the vesting of RSUs originally granted in February 2006.

2007 Non-qualified Deferred Compensation

Name	Executive Contributions in Last FY \$(1)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY \$(2)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE \$(3)
Frank Baldino, Jr., Ph.D. . .	—	—	—	—	—
J. Kevin Buchi	—	—	—	—	—
Peter E. Grebow, Ph.D. . .	\$107,415	—	\$55,768	—	\$663,924
Carl A. Savini.	—	—	—	—	—
Jeffrey L. Vaught, Ph.D. . . .	—	—	—	—	—

- (1) Amounts shown in this column represent amounts deferred by the NEO in early 2007 from bonus amounts paid under the 2006 MICP. For Dr. Grebow, the amounts shown were included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table included in last year's Proxy statement relating to our 2007 Annual Meeting of Stockholders.
- (2) Of the amounts reported in this column, \$20,559 is included for Dr. Grebow in the 2007 Summary Compensation Table shown on page 26 of this Proxy Statement.
- (3) For Dr. Grebow, \$309,973 has been reported in the Summary Compensation Table in previous years.

The 2007 Nonqualified Deferred Compensation table above presents amounts deferred under our Deferred Compensation Plan. Employees at the level of Vice President and above, including the NEOs, are permitted to defer receipt of all or a portion of bonus received under the MICP until either a date specified at election by the employee or retirement. Deferred amounts are credited with an annual fixed rate of return that is set each year by the Compensation Committee. The Committee determines the interest rate for the Deferred Compensation Plan based on the Prime Rate plus 1-3%. For 2007, the interest rate was 9%; for 2008, the interest rate is set at 9%. The Company does not "match" amounts that are deferred by employees pursuant to the Deferred Compensation Plan. Distributions from the Deferred Compensation Plan are paid in a lump sum upon the six-month anniversary of the termination of the employee's employment with the Company.

2007 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

We have entered into Executive Severance Agreements with each of our NEOs. These agreements provide for compensation and benefits in the event that the NEO's employment with us is terminated prior to a Change in Control of Cephalon or on account of a Change in Control of Cephalon. Any of the following situations would constitute a "change of control" under the Executive Severance Agreements:

- the consummation of certain transactions, including mergers, where more than fifty percent of the combined voting power of our outstanding securities or the sale of more than seventy-five percent of our assets is transferred;
- the acquisition by any person or entity of the beneficial ownership of securities representing thirty percent or more of the combined voting power of our then outstanding voting securities; or
- a change in the composition of our Board over a period of twenty-four months or less such that a majority of the Board members ceases to be comprised of individuals who either (x) have been Board members continuously since the beginning of such period, or (y) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (x) who were still in office at the time such election or nomination was approved by the Board.

To be covered by the Executive Severance Agreements, an NEO must be either terminated "without cause" or subject to a "constructive termination." A termination of an NEO for "cause" would not trigger any liability to an NEO under the Executive Severance Agreement. Cause is when an NEO has engaged in any act of unethical conduct, willful misconduct, fraud or embezzlement, any unauthorized disclosure of confidential information or trade secrets or any other act that is materially and demonstrably detrimental to the Company.

The definition of a "constructive termination" depends on the NEO. For Dr. Baldino, he would be subject to a constructive termination if:

- prior to a change in control, he voluntarily resigns because either (i) we change his position, resulting in a material reduction in his level of responsibility or (ii) we reduce his base salary by more than twenty-five percent; or
- after or in connection with a change in control, he voluntarily resigns because we, or our successor, without his consent, (i) changes his position, resulting in a material reduction in his level of responsibility, (ii) reduces his aggregate level of compensation (including base salary, significant fringe benefits or any non-discretionary and objective-standard incentive payment or bonus award) by more than ten percent, or (iii) relocates his place of employment by more than fifty miles.

For our other NEOs, each is considered subject to a constructive termination if, after or in connection with a change in control, the NEO voluntarily resigns because we, or our successor, without the NEO's consent, (i) changes his or her position which materially reduces the level of responsibility, (ii) reduces his or her aggregate level of compensation (including base salary, significant fringe benefits or any non-discretionary and objective-standard incentive payment or bonus award) by more than ten percent, or (iii) relocates the NEO's place of employment by more than fifty miles.

The Executive Severance Agreements require, as a precondition to the receipt of any benefits, that the NEO sign a standard form of release waiving any and all current and future claims against the Company relating to his or her employment with, or termination by, the Company.

Payment Obligations under Executive Severance Agreements upon Termination of Employment of a Named Executive Officer

The following table sets forth our lump-sum payment obligations under the Executive Severance Agreements upon a termination of the employment of our NEOs under various scenarios. The table assumes termination on December 31, 2007 and payment of such termination obligations within a reasonable time thereafter.

Name	Benefit(3)	Prior to Change in Control(1)		After or In Connection With Change of Control(2)	
		Agreement Provision	Dollar Value of Benefit	Agreement Provision	Dollar Value of Benefit
Frank Baldino, Jr., Ph.D.	Severance—Base Salary(4)	3x base salary	\$3,590,100	3x base salary	\$ 3,590,100
	Severance—Bonus(4)	3x target bonus + prorata bonus for current year	\$4,786,800	3x target bonus + prorata bonus for current year	\$ 4,786,800
	Stock Options and RSUs(5)	n/a	—	Unvested awards immediately vest	\$17,307,950
	Medical/Dental Benefits(6)	Coverage for 36 months	\$ 66,707	Coverage for 36 months	\$ 66,707
	Outplacement Services	Cash payment for outplacement	\$ 15,000	Cash payment for outplacement	\$ 15,000
	Tax Gross-ups(7)	n/a	—	Amount paid to cover excise tax	—
	Total		\$8,458,607	Total	\$25,766,557
J. Kevin Buchi	Severance—Base Salary(4)	1.5x base salary	\$ 763,950	3x base salary	\$ 1,527,900
	Severance—Bonus(4)	n/a	—	3x target bonus + prorata bonus for current year	\$ 1,018,800
	Stock Options and RSUs(5)	n/a	—	Unvested awards immediately vest	\$ 3,406,195
	Medical/Dental Benefits(6)	Coverage for 18 months	\$ 18,189	Coverage for 36 months	\$ 38,027
	Outplacement Services	Cash payment for outplacement	\$ 15,000	Cash payment for outplacement	\$ 15,000
	Tax Gross-ups(7)	n/a	—	Amount paid to cover excise tax	—
	Total		\$ 797,139	Total	\$ 6,005,922
Peter E. Grebow, Ph.D.	Severance—Base Salary(4)	1.5x base salary	\$ 739,350	3x base salary	\$ 1,478,700
	Severance—Bonus(4)	n/a	—	3x target bonus + prorata bonus for current year	\$ 986,000
	Stock Options and RSUs(5)	n/a	—	Unvested awards immediately vest	\$ 3,406,195
	Medical/Dental Benefits(6)	Coverage for 18 months	\$ 18,189	Coverage for 36 months	\$ 38,027
	Outplacement Services	Cash payment for outplacement	\$ 15,000	Cash payment for outplacement	\$ 15,000
	Tax Gross-ups(7)	n/a	—	Amount paid to cover excise tax	—
	Other(8)	Distribution of amounts held under Deferred Compensation Plan	\$ 663,924	Distribution of amounts held under Deferred Compensation Plan	\$ 663,924
Total		\$1,436,463	Total	\$ 6,587,846	
Carl A. Savini	Severance—Base Salary(4)	1.5x base salary	\$ 667,800	3x base salary	\$ 1,335,600
	Severance—Bonus(4)	n/a	—	3x target bonus + prorata bonus for current year	\$ 890,400
	Stock Options and RSUs(5)	n/a	—	Unvested awards immediately vest	\$ 3,406,195
	Medical/Dental Benefits(6)	Coverage for 18 months	\$ 31,867	Coverage for 36 months	\$ 66,623
	Outplacement Services	Cash payment for outplacement	\$ 15,000	Cash payment for outplacement	\$ 15,000
	Tax Gross-ups(7)	n/a	—	Amount paid to cover excise tax	—
	Total		\$ 714,667	Total	\$ 5,713,818

Name	Benefit(3)	Prior to Change in Control(1)		After or In Connection With Change of Control(2)	
		Agreement Provision	Dollar Value of Benefit	Agreement Provision	Dollar Value of Benefit
Jeffrey L. Vaught, Ph.D.	Severance—Base Salary(4)	1.5x base salary	\$ 657,000	3x base salary	\$ 1,314,000
	Severance—Bonus(4)	n/a	—	3x target bonus + prorata bonus for current year	\$ 876,000
	Stock Options and RSUs(5)	n/a	—	Unvested awards immediately vest	\$ 3,406,195
	Medical/Dental Benefits(6)	Coverage for 18 months	\$ 31,867	Coverage for 36 months	\$ 66,623
	Outplacement Services	Cash payment for outplacement	\$ 15,000	Cash payment for outplacement	\$ 15,000
	Tax Gross-ups(7)	n/a	—	Amount paid to cover excise tax	—
		Total		\$ 703,867	Total

- (1) For termination prior to a Change in Control, an NEO (other than Dr. Baldino) is entitled to benefits under the Executive Severance Agreement if terminated on account of an involuntary termination for any reason other than Cause, death or Disability. Dr. Baldino is entitled to benefits under his Executive Severance Agreement if he is terminated on account of (i) an involuntary termination for any reason other than Cause, death or Disability or (ii) a voluntary termination for Constructive Termination.
- (2) For termination after or in connection with a Change in Control, an NEO is entitled to benefits under the Executive Severance Agreement if the NEO is terminated on account of (i) an involuntary termination for any reason other than Cause, death or Disability, (ii) a voluntary termination for Constructive Termination, (iii) an involuntary termination other than for Cause, death or Disability prior to or in connection with a change in control at the request of the acquirer, or (iv) a voluntary termination for any reason other than Cause, death or Disability during the thirty day period immediately following the first anniversary of the occurrence of a Change in Control.
- (3) The Company will not pay benefits to an NEO under the Executive Severance Agreement if an NEO is terminated for Cause by the Company.
- (4) For termination prior to a Change in Control, the payment due to an NEO (other than Dr. Baldino) is equal to one and a half (1.5) times the NEO's then-current base salary. For Dr. Baldino, the payment is equal to the sum of (i) three (3) times his then-current base salary, (ii) three (3) times his target annual bonus and (iii) the pro-rata portion of his target annual bonus earned as of the termination date. For termination after or in connection with a Change in Control, the payment due to an NEO is equal to the sum of (i) three (3) times the NEO's then-current base salary, (ii) three (3) times the NEO's target annual bonus and (iii) the pro-rata portion of the NEO's target annual bonus earned as of the termination date.
- (5) For termination after or in connection with a Change in Control, all unvested stock options and RSUs held by an NEO vest immediately. For stock options, the dollar value is calculated for "in-the-money" options by multiplying the number of accelerated options by the difference of \$71.76, the closing price of the Company's common stock on December 31, 2007, and the option exercise price.
- (6) Under the Executive Severance Agreement, medical and dental coverage is provided to the NEO and his/her spouse and dependents for a certain period of time, depending on the nature of the NEO's termination. The Company may, at its sole discretion, elect to pay the NEO cash in lieu of such coverage in an amount equal to the NEO's after-tax cost of continuing such coverage, where such coverage may not be continued. For termination prior to a Change in Control, Dr. Baldino and each of the other NEOs will continue to receive medical and dental coverage for 36 months and 18 months, respectively. For termination after or in connection with a Change in Control, each NEO will continue to receive medical and dental coverage for 36 months. Values reported in the table reflect the projected present value based on premium equivalent rates for continued medical and dental coverage for the period specified for each NEO, assuming an annual discount rate of 4.65% and an estimated annual increase in health care costs of 10%.
- (7) Under the Executive Severance Agreement, the NEOs are eligible to receive "gross-up" payments for any payments they receive in connection with a Change in Control that would cause the NEO to incur excise taxes under Section 4999 of the Code.
- (8) Represents the distribution to the NEO of amounts owed to them under the Non-qualified Deferred Compensation Plan (see page 31 of this Proxy Statement). Amounts are paid in a lump sum upon the six-month anniversary of the termination of the NEO's employment with the Company.

An NEO is not eligible for the benefits set forth in the Executive Severance Agreement if his or her employment is terminated due to a "Disability." Instead, an NEO will receive disability benefits under any disability program maintained by the Company that covers the NEO. Likewise, in the case of a termination due to death of an NEO, an NEO will receive benefits only under any program (including life insurance) maintained by the Company that covers the NEO.

2007 NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)(1)</u>	<u>Stock Awards (\$)</u>	<u>Option Awards (\$)(2)</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
William P. Egan	\$78,000	—	\$289,395	—	—	—	\$367,395
Martyn D. Greenacre	\$70,000	—	\$289,395	—	—	—	\$359,395
Vaughn M. Kailian	\$67,000	—	\$364,057	—	—	—	\$431,057
Kevin E. Moley	\$58,000	—	\$472,027	—	—	—	\$530,027
Charles A. Sanders, M.D. . .	\$60,000	—	\$289,395	—	—	—	\$349,395
Gail R. Wilensky, Ph.D. . .	\$58,000	—	\$289,395	—	—	—	\$347,395
Dennis L. Winger	\$60,000	—	\$299,278	—	—	—	\$359,278

- (1) Consists of the amounts described below under “Cash Compensation.” With respect to Mr. Egan, includes \$20,000 paid for service as Presiding Director of the Board. With respect to Messrs. Greenacre and Winger and Dr. Sanders, includes \$12,000 paid to each for service as a committee chairperson.
- (2) On May 17, 2007, each of the non-employee directors received a grant of stock options to purchase 10,000 shares of Cephalon Common Stock at an exercise price of \$79.99 per share, which were immediately exercisable.

For each non-employee director, the amount shown consists of the equity compensation expense calculated under SFAS 123R, excluding the effect of certain forfeiture assumptions, for the May 2007 stock option grant. For Ambassador Moley, Mr. Kailian and Mr. Winger, the amounts also include equity compensation expense related to stock option awards received in May 2006, May 2005 and June 2003, respectively, upon their first election or appointment to the Board. These awards vest ratably over four years on each anniversary of the grant date. See Note 3 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions used in the SFAS 123R calculation. The fair value of each option award granted to directors in 2007 was \$289,395, as calculated under SFAS 123R.

Compensation for Service as a Non-Employee Director

The Company compensates its non-employee directors through a mix of cash compensation and stock option grants. The elements of the non-employee directors' compensation are as follows:

Cash Compensation:

- Board Service Annual Retainer \$35,000
- Per Board Meeting Fees
 - Attendance in person \$3,000/mtg.
 - Attendance by telephone \$2,000/mtg.
- Committee Service Fees
 - Committee Chair Annual Retainer \$12,000
 - Committee Member Annual Retainer \$10,000
- Presiding Director Annual Retainer \$20,000

Stock Option Compensation:

- Initial Grant (upon first election or appointment to Board) . . . 15,000 shares
- Annual Grant (upon the date of the Annual Meeting) 10,000 shares

Under the Company's 2004 Equity Compensation Plan (the "2004 Plan"), the initial grant of 15,000 stock options to a non-employee director is made at the time of the earlier to occur of such director's appointment as a director by the Board or first election to the Board by stockholders. This initial award generally vests over a four-year period, with 25% becoming exercisable on each anniversary of the grant date. Upon the date of re-election to the Board at the Annual Meeting, a non-employee director will receive an annual grant of 10,000 stock options that are fully exercisable on the date of grant. The Board of Directors also may grant options to non-employee directors in addition to the automatic grants described above. Stock options granted to non-employee directors have a ten-year term and are granted with an exercise price equal to the fair market value of our common stock on the date of grant.

In May 2007, all non-employee directors each received an annual grant of stock options to purchase 10,000 shares of common stock at an exercise price of \$79.99 per share, which were immediately exercisable.

Dr. Baldino receives no additional remuneration for his service as a director. The Company also reimburses directors for travel expenses incurred in connection with attending Board, committee and stockholder meetings and for other Company business-related expenses. The Company does not provide retirement benefits or other perquisites to non-employee directors under any current program.

STOCK OWNERSHIP AND PERFORMANCE

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the beneficial ownership of the Company's Common Stock as of February 28, 2008 (except as noted) by (i) the NEOs and the Company's directors; (ii) owners of more than five percent of the outstanding shares of the Company's Common Stock; and (iii) all executive officers and directors as a group. As of February 28, 2008, there were 67,676,358 shares of Common Stock outstanding.

Name	Amount and Nature of Beneficial Ownership(1)(2)	Percentage of Class(3)
Frank Baldino, Jr., Ph.D.	1,302,669	1.9%
J. Kevin Buchi	256,929	*
Peter E. Grebow, Ph.D.	126,225	*
Carl A. Savini	82,119	*
Jeffry L. Vaught, Ph.D.	138,482	*
William P. Egan	121,661	*
Martyn D. Greenacre	90,200	*
Vaughn M. Kailian	27,500	*
Kevin E. Moley	14,750	*
Charles A. Sanders, M.D.	76,000	*
Gail R. Wilensky, Ph.D.	65,000	*
Dennis L. Winger	55,000	*
FMR LLC(4)	9,919,984	14.8%
82 Devonshire Street Boston, MA 02109		
Wellington Management Company, LLP(5)	9,273,210	13.8%
75 State Street Boston, MA 02109		
T. Rowe Price Associates, Inc.(6)	6,395,023	9.5%
100 E. Pratt Street Baltimore, MD 21202		
UBS Global Asset Management (Americas) Inc.(7)	5,198,340	7.8%
One North Wacker Chicago, IL 60606		
The TCW Group, Inc.(8)	3,774,429	5.6%
865 South Figueroa Street Los Angeles, CA 90017		
All executive officers and directors as a group (16 persons)	2,608,431	3.7%

* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and means voting or investment power with respect to securities. Except as indicated below, the individuals or groups named in this table have sole voting and investment power with respect to all shares of Common Stock indicated above.
- (2) Includes shares that may be acquired upon the exercise of outstanding options that were exercisable within 60 days of February 28, 2008 as follows: Dr. Baldino 1,078,500 shares; Mr. Buchi 210,000 shares; Dr. Grebow 110,300 shares; Mr. Savini 72,575; Dr. Vaught 110,600 shares; Mr. Egan 100,000 shares; Mr. Greenacre 90,000 shares; Mr. Kailian 27,500 shares; Dr. Sanders

75,000 shares; Dr. Wilensky 65,000 shares; Mr. Winger 55,000; and all executive officers and directors as a group (16 persons) 2,241,575 shares.

- (3) Shares of Common Stock issuable upon the exercise of stock options that are exercisable within 60 days of February 28, 2008 and shares of Common Stock issuable upon the conversion of the Company's Convertible Subordinated Notes are deemed to be outstanding and beneficially owned by the person or group holding such option or notes, as the case may be, for purposes of computing such person's percentage ownership as of February 28, 2008, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person or group as of February 28, 2008.
- (4) Information is as of December 31, 2007 and is based upon a Schedule 13G filed by FMR LLC ("FMR") and others with the SEC on February 14, 2008 that states the following:
 - Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR, is the beneficial owner of 9,597,722 shares as a result of acting as investment adviser to various investment companies. Edward C. Johnson III and FMR, through its control of Fidelity, and the funds each has sole dispositive power of the 9,597,722 shares owned by Fidelity. Voting power over these shares resides with the Fidelity funds' Boards of Trustees.
 - Members of the family of Edward C. Johnson, III, Chairman of FMR, are the predominant owners of Series B voting common shares of FMR, representing approximately 49% of the voting power of FMR LLC. The Johnson family group and all other Class B shareholders have entered into a shareholder's voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.
 - Strategic Advisers, Inc., a wholly-owned subsidiary of FMR and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, provides investment advisory services to individuals. As such, FMR's beneficial ownership includes 113 shares of the common stock outstanding of Cephalon, Inc., beneficially owned through Strategic Advisers, Inc.
 - Pyramis Global Advisors Trust Company ("PGATC"), an indirect wholly-owned subsidiary of FMR and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 322,149 shares of the common stock outstanding of Cephalon, Inc., as a result of its serving as investment manager of institutional accounts owning such shares.
 - Edward C. Johnson, III and FMR, through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 322,149 shares and sole power to vote or to direct the voting of 284,949 shares of Common Stock owned by the institutional accounts managed by PGATC as reported above.
- (5) Information is as of December 31, 2007 and is based upon a Schedule 13G filed by Wellington Management Company, LLP ("WMC") with the SEC on February 14, 2008. WMC is investment adviser with respect to 9,273,210 shares that are held of record by clients of WMC. WMC has shared voting power with respect to 5,732,117 shares and shared dispositive power with respect to 9,273,210 shares.
- (6) Information is as of December 31, 2007 and is based upon a Schedule 13G filed with the SEC by T. Rowe Price Associates, Inc. ("T. Rowe Price") on February 13, 2008. These securities are owned by various individual and institutional investors, for which T. Rowe Price serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price is deemed to be

a beneficial owner of such securities; however, T. Rowe Price expressly disclaims that it is, in fact, the beneficial owner of such securities. T. Rowe Price has sole voting power to vote 1,505,911 shares and sole dispositive power over 6,395,023 shares.

- (7) Information is as of December 31, 2007 and is based upon a Schedule 13G filed with the SEC by UBS AG on February 11, 2008. UBS AG has sole voting power over 4,751,816 shares and shared dispositive power over 5,198,340 shares.
- (8) Information is as of December 31, 2007 and is based upon a Schedule 13G filed with the SEC by The TCW Group, Inc. (“TCW”) on February 11, 2008, on behalf of itself and its direct and indirect subsidiaries, which collectively constitute The TCW Group, Inc. business unit (the “TCW Business Unit”). TCW has shared voting power over 3,059,254 shares and shares dispositive power over 3,774,429 shares. As of July 6, 2001, the ultimate parent company of TCW is Societe Generale, S.A., a corporation formed under the laws of France (“SG”). The principal business of SG is acting as a holding company for a global financial services group, which includes certain distinct specialized business units that are independently operated, including the TCW Business Unit. SG, for purpose of the federal securities laws, may be deemed ultimately to control TCW and the TCW Business Unit. SG, its executive officers and directors, and its direct and indirect subsidiaries (including all business units except the TCW Business Unit), may beneficially own shares of the securities of the issuer to which this schedule relates and such shares are not reported in this statement. In accordance with SEC Release No. 34-39538, and due to the separate management and independent operation of its business units, SG disclaims beneficial ownership of shares beneficially owned by the TCW Business Unit. The TCW Business Unit disclaims beneficial ownership of shares beneficially owned by SG and any of SG’s other business units.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that each director and executive officer of the Company, and any other person who owns more than ten percent of the Company’s Common Stock, file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock of the Company. Such directors, executive officers and greater-than-ten-percent stockholders are required by regulation to furnish the Company with copies of such reports. To the knowledge of the Company, based solely upon its review of reports furnished to it, as well as written representations from its directors and executive officers to the effect that no other such reports were required to be filed, each covered person met all fiscal 2007 Section 16(a) filing requirements, except for Robert P. Roche, Jr., who, due to a clerical error, filed one transaction on a Form 4 one day late.

ITEM 1—ELECTION OF DIRECTORS

Eight directors are to be elected at the 2008 Annual Meeting. The term of each director expires at the next Annual Meeting of Stockholders and each director shall hold office until the election and qualification of his or her respective successor or until his or her earlier death, removal or resignation. The Board consists of such number of directors as is fixed from time to time by resolution adopted by the Board as provided in the Company's bylaws. The Board currently is authorized to have up to eight members.

The nominees for election as directors of the Company are Drs. Baldino, Sanders and Wilensky, Ambassador Moley and Messrs. Egan, Greenacre, Kailian and Winger. All nominees are presently directors of the Company whose current terms expire at the time of the 2008 Annual Meeting. All nominees have consented to be named, and have agreed to serve if elected. If this should not be the case, however, the proxies may be voted for a substitute nominee to be designated by the Board, or, as an alternative, the Board may reduce the number of directors to be elected at the meeting or leave the position(s) vacant.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE FOLLOWING NOMINEES FOR ELECTION AS DIRECTORS.

<u>Name of Director</u>	<u>Age</u>	<u>Principal Occupations During Past Five Years and Certain Directorships</u>	<u>Year First Became Director</u>
Frank Baldino, Jr., Ph.D.	54	Dr. Baldino, founder of the Company, has served as Chief Executive Officer and director since the Company's inception. He was appointed Chairman of the Board of Directors in 1999. He currently serves as a director of Acusphere, Inc., a drug delivery company, NicOx S.A., a pharmaceutical company, and Pharmacoopia, Inc., a developer of proprietary technology platforms for pharmaceutical companies. Dr. Baldino also holds several adjunct academic appointments and is a trustee of Temple University.	1987
William P. Egan	63	Mr. Egan is a founder and general partner of Alta Communications, a venture capital firm. He founded Alta's predecessor firm, Burr, Egan, Deleage & Co. in 1979 and has identified and backed several of America's leading growth companies in the communications and information industries. Mr. Egan currently serves as a director of CRH plc, a building materials supply company.	1988
Martyn D. Greenacre	66	Since July 2004, Mr. Greenacre has served as Chairman of BMP Sunstone Corporation, a pharmaceutical company. Mr. Greenacre also has served since 2002 as Chairman of Life Mist Technologies, Inc., a fire suppression equipment company. From 1997 to 2001, Mr. Greenacre served as Chief Executive Officer and director of Delsys Pharmaceutical Corporation, a formulation and drug delivery system company. From 1993 to 1997, Mr. Greenacre served as President and Chief Executive Officer and as a director of Zynaxis Inc., a biopharmaceutical company. From 1989 to 1992, Mr. Greenacre was Chairman Europe, SmithKline Beecham Pharmaceutical company. He joined SmithKline & French in	1992

Name of Director	Age	Principal Occupations During Past Five Years and Certain Directorships	Year First Became Director
		1973, where he held positions of increasing responsibility in its European organization. Mr. Greenacre currently serves as a director of Acusphere, Inc., a drug delivery company, Curis, Inc., a biotechnology company, and Orchestra Therapeutics, Inc., a vaccine company.	
Vaughn M. Kailian	63	Mr. Kailian is a General Partner of MPM Capital LP, a leading healthcare venture capital firm. He was Vice Chairperson of the Board of Directors of Millennium Pharmaceuticals, Inc. from February 2002 until December 2004. He served as CEO, President and Director of COR Therapeutics, Inc., a biotechnology company, from 1990 until its acquisition by Millennium in 2002. Prior to this, Mr. Kailian was employed by Marion Merrell Dow, Inc., a pharmaceutical company, and its predecessor companies, in various international and U.S. management, marketing and sales positions from 1967 to 1990, including President and General Manager, Merrell Dow USA and Corporate Vice President of Global Commercial Development, Marion Merrell Dow, Inc. Mr. Kailian currently serves on the board of directors of NicOx, S.A., a pharmaceutical company, and Memory Pharmaceuticals, a biopharmaceutical company. He is also a director of BIO Ventures for Global Health and serves on the Emerging Companies Section Governing Body of BIO.	2005
Kevin E. Moley	61	Ambassador Moley currently serves as Chairman of the Board of Project Concern International, a not for profit organization based in San Diego, CA, that provides poverty and health care solutions in eleven countries serving over three million people. Ambassador Moley served as the U.S. Permanent Representative to the United Nations and Other International Organizations in Geneva from September 2001 to April 2006. Ambassador Moley also served in the administration of George H.W. Bush as an Assistant Secretary of the U.S. Department of Health and Human Services (HHS) from 1989 to 1992 and as the Deputy Secretary of HHS from 1992 to 1993. In addition to his government service, Ambassador Moley was President and Chief Executive Officer of Integrated Medical Systems Inc. from 1996 to 1998 and was a Senior Vice President of PCS Health Systems, Inc. from 1993 to 1996. Ambassador Moley also serves on the Board of Directors of Merge Technologies Inc., a developer of medical imaging and information management software and services. Ambassador Moley previously served as a member of the Cephalon Board of Directors from 1994 to 2001.	2006
Charles A. Sanders, M.D. . .	76	Dr. Sanders is retired from Glaxo, Inc., where he served as Chief Executive Officer from 1989 through 1994 and	2001

Name of Director	Age	Principal Occupations During Past Five Years and Certain Directorships	Year First Became Director
Gail R. Wilensky, Ph.D. . . .	64	<p>Chairman of the Board from 1992 through 1995. He also has served on the Board of Directors of Glaxo plc. Previously, Dr. Sanders held a number of positions at Squibb Corporation. Dr. Sanders currently serves as Chairman of the Board of Vertex Pharmaceuticals, a biotechnology company. He also serves as a director of Genentech, Inc., a biopharmaceutical company, Bidel Inc., a specialty pharmaceutical company, and Icagen, Inc., a biopharmaceutical company.</p>	2002
Dennis L. Winger	60	<p>Mr. Winger currently serves as Senior Vice President and Chief Financial Officer of Applera Corp., a life sciences company, where he is responsible for developing financial and business strategies. He is a member of Applera's Executive Committee. From 1989 to 1997, Mr. Winger served as Senior Vice President, Finance and Administration, and Chief Financial Officer of Chiron Corporation. From 1982 to 1989, Mr. Winger was with Cooper Companies, Inc., where he held positions of increasing responsibility, including that of Chief Financial Officer. Prior to this, Mr. Winger was with Continental Can Company holding a number of positions including Head of Finance for its international division and General Manager of its Latin American Operations. Mr. Winger currently serves as a director of Cell Genesys, Inc., a pharmaceutical company. Mr. Winger also serves on the Board of Trustees of Siena College.</p>	2003

**ITEM 2—APPROVAL OF AMENDMENTS TO THE 2004 EQUITY COMPENSATION PLAN
INCREASING THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE AND ESTABLISHING
PERFORMANCE GOALS SO THAT STOCK AWARD GRANTED UNDER THE PLAN MAY
QUALIFY AS QUALIFIED PERFORMANCE-BASED COMPENSATION**

On January 30, 2008, the Compensation Committee of the Board of Directors (the “Compensation Committee”) adopted, subject to stockholder approval at this Annual Meeting, an amendment to the 2004 Plan that would increase by 1,500,000 shares the total number of shares of Common Stock authorized for issuance under the 2004 Plan from 12,450,000 shares to 13,950,000 shares. This amendment also provides that no more than 500,000 shares of Common Stock may be issued pursuant to Stock Awards that are granted under the 2004 Plan after May 22, 2008. The Compensation Committee also amended the Plan to provide the Compensation Committee with the flexibility to grant to employees stock awards that qualify as “qualified performance-based compensation” under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”) so that such grants would be exempt from the deduction limitation under Section 162(m) of the Code. These amendments were approved by the Compensation Committee pursuant to an amendment and restatement of the Plan, which also incorporated the prior amendments to the Plan since its last restatement in March 2003 into one plan document. The Board of Directors has directed that the proposal to increase the number of shares of Common Stock authorized for issuance under the 2004 Plan, as well as the material terms of the performance goals so that stock awards granted under the 2004 Plan may qualify as “qualified performance-based compensation” under Section 162(m) of the Code and the amendment and restatement of the 2004 Plan, be submitted to the Company’s stockholders for their approval (“Item 2”). If approved by stockholders, these amendments to the Plan, along with the amendment and restatement of the 2004 Plan, will become effective on May 23, 2008.

As of March 15, 2008, there were only 752,257 shares available for issuance under the 2004 Plan. The Compensation Committee believes that this number is not sufficient in view of the Company’s compensation structure and strategy. The Compensation Committee has concluded that the Company’s ability to attract, retain and motivate top quality management and employees is material to the Company’s success and would be enhanced by the Company’s continued ability to grant equity compensation. In addition, the Compensation Committee believes that the interests of the Company and its stockholders will be advanced if the Company can continue to offer its employees and non-employee directors the opportunity to acquire or increase their proprietary interests in the Company. The Compensation Committee believes that the availability of the additional 1,500,000 shares of Common Stock will ensure that the Company continues to have a sufficient number of shares of Common Stock authorized for issuance under the 2004 Plan.

As of March 15, 2008, the total number of shares of Common Stock to be issued upon the exercise of outstanding options, warrants and rights granted under the Company’s equity compensation plans (including the 2004 Plan) was 7,374,599, which is equal to approximately 10.9% percent of the Company’s total outstanding shares of Common Stock as of March 15, 2008.

Currently, only stock options granted under the 2004 Plan would qualify as qualified performance-based compensation under Section 162(m) of the Code. The Compensation Committee would also like to have the flexibility to grant stock awards under the 2004 Plan that qualify as qualified performance-based compensation since such grants would be excluded from the \$1,000,000 deduction limitation under Section 162(m) of the Code for certain covered employees.

The material terms of the 2004 Plan are summarized below. This summary of the 2004 Plan is not intended to be a complete description of the 2004 Plan and is qualified in its entirety by the actual text of the 2004 Plan to which reference is made. A copy of the amended and restated 2004 Plan, which provides for this increase in the number of shares of Common Stock, as well as the performance goals so that stock awards granted under the 2004 Plan may qualify as qualified performance-based

compensation, is attached to the electronic copy of this proxy statement filed with the SEC and may be accessed from the SEC's home page (www.sec.gov).

Material Features of the 2004 Plan

General. The 2004 Plan provides for the grant of incentive stock options and non-qualified stock options (collectively, "Stock Options") and stock awards ("Stock Awards"). The 2004 Plan currently authorizes up to 12,450,000 shares of Common Stock for issuance, subject to adjustment in certain circumstances as discussed below. Stockholders are being asked to consider and approve an amendment that would, commencing on May 23, 2008, increase the number of shares of Common Stock available for grants under the 2004 Plan by an additional 1,500,000 shares, so that a total of 13,950,000 shares may be issued for grants under the 2004 Plan. Under this amendment, no more than 500,000 shares of Common Stock may be issued pursuant to Stock Awards that are granted under the 2004 Plan after May 22, 2008. If, prior to the end of their original term, Stock Options granted under the 2004 Plan terminate or are cancelled, forfeited, exchanged or surrendered without having been exercised, or if any Stock Awards are forfeited prior to the end of the applicable restriction period, the shares of Common Stock subject to such grants will again be available for future issuance under the 2004 Plan. Shares of Common Stock that were subject to Stock Options that expire at the end of their original term without being exercised and shares that were not issued pursuant to a Stock Option that was exercised through the use of shares are not available for future issuance under the 2004 Plan. The 2004 Plan currently provides that the maximum aggregate number of shares of Common Stock that may be granted pursuant to Stock Options to any individual during a calendar year is 500,000 shares. If the amendment and restatement of the 2004 Plan is approved by the stockholders, the 2004 Plan will provide that the maximum aggregate number of shares of Common Stock that may be granted pursuant to Stock Options and Stock Awards to any individual during a calendar year is 500,000 shares.

Administration of the 2004 Plan. The 2004 Plan is administered and interpreted by the Compensation Committee. The Compensation Committee has the sole authority to (i) determine the persons to whom Stock Options and/or Stock Awards may be granted under the 2004 Plan, (ii) determine the type, size and other terms and conditions of each grant, (iii) determine the time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms of any previously issued grant, so long as no previously granted Stock Option is repriced, replaced, or regranted through cancellation, or by lowering the exercise price of a previously granted Stock Option, unless the stockholders of the Company provide prior approval, and (v) deal with any other matters arising under the 2004 Plan.

Grants. All grants are subject to the terms and conditions set forth in the 2004 Plan and to those other terms and conditions consistent with the 2004 Plan as the Compensation Committee deems appropriate and as are specified in writing by the Compensation Committee to the designated individual (the "Grant Notice"). Grants under the 2004 Plan need not be uniform as among other recipients of the same type of grant.

Eligibility for Participation. All of the employees of the Company and its subsidiaries and advisors and consultants of the Company and its subsidiaries are eligible for grants under the 2004 Plan. The Compensation Committee determines which employees and consultants will receive grants under the 2004 Plan. Non-employee directors of the Company also are eligible to receive grants under the 2004 Plan. As of March 15, 2008, approximately 145 employees and 7 non-employee directors were eligible for grants under the 2004 Plan; it is not possible to specify in advance the number of advisors and consultants who may be eligible for grants.

Stock Options. The Compensation Committee may grant Stock Options intended to qualify as incentive stock options ("ISOs") within the meaning of Section 422 of the Code or so-called

“non-qualified stock options” that are not intended to so qualify (“NQSOs”) or any combination of ISOs or NQSOs. Non-employee directors, consultants and advisors only receive NQSOs.

The Compensation Committee fixes the exercise price per share on the date of grant. The exercise price of any NQSO or ISO granted under the 2004 Plan may not be less than the fair market value of the underlying shares of Common Stock on the date of grant. The current measure of fair market value on a particular date is the closing sale price of a share of Common Stock as reported on The Nasdaq Stock Market on that date. However, if the grantee of an ISO is a person who holds more than 10% of the combined voting power of all classes of outstanding stock of the Company, the exercise price per share of an ISO must be at least 110% of the fair market value of a share of Common Stock on the date of grant. To the extent that the aggregate fair market value of shares of Common Stock, determined on the date of grant, with respect to which ISOs become exercisable for the first time by a grantee during any calendar year exceeds \$100,000, such ISOs must be treated as NQSOs.

The Compensation Committee determines the term of each Stock Option; provided, however, that the exercise period may not exceed ten years from the date of grant and, if the grantee of an ISO is a person who holds more than 10% of the combined voting power of all classes of outstanding stock of the Company, the term may not exceed five years from the date of grant. The vesting period for Stock Options commences on the date of grant and ends on such date as is determined by the Compensation Committee, in its sole discretion, which is specified in the Grant Notice. A grantee may exercise a Stock Option by delivering notice of exercise to the Compensation Committee and paying the exercise price (i) in cash, (ii) with approval of the Compensation Committee, by delivering shares of Common Stock already owned by the grantee and having a fair market value on the date of exercise equal to the exercise price, or through attestation to ownership of such shares, or (iii) by such other method as the Compensation Committee may approve. The grantee must pay, at the time of exercise, the exercise price and the amount of any applicable federal, state or local withholding tax due in connection with such Stock Option exercise at the time specified by the Compensation Committee.

Formula Grants to Non-employee Directors. Non-employee directors of the Company will automatically receive, without the exercise of discretion by the Compensation Committee, annual grants of NQSOs. Under the 2004 Plan, each non-employee director will receive a grant of an NQSO to purchase 15,000 shares of Common Stock immediately upon his or her first becoming a member of the Board of Directors (whether by election or appointment) and will receive a grant of an NQSO to purchase 10,000 shares of Common Stock upon their annual re-election to the Board. The date of grant of such annual grants will be the date of the Annual Meeting. The Board of Directors has the authority to determine the terms of these grants to non-employee directors. The Board of Directors may also grant NQSOs to non-employee directors in addition to the automatic grants described above. Currently, seven non-employee directors are entitled to receive automatic grants of NQSOs and are eligible to receive discretionary NQSO grants under the 2004 Plan.

Stock Awards. The Compensation Committee may issue shares of Common Stock under a Stock Award for such cash consideration, if any, as is determined by the Compensation Committee. Non-employee directors are not eligible for Stock Awards under the 2004 Plan. The number of shares of Common Stock granted to each grantee is determined by the Compensation Committee. The Grant Notice may provide for a period during which the Stock Award will remain subject to certain restrictions, including restrictions on transferability (the “Restriction Period”). During the Restriction Period, a grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of Common Stock to which such Restriction Period applies, except to a successor grantee in the event of the grantee’s death. Unless the Compensation Committee determines otherwise, if a grantee’s employment terminates or if a grantee who is an advisor or consultant ceases to perform services for the Company during the Restriction Period, the Stock Award terminates with respect to all shares of Common Stock covered by the Stock Award as to which the restrictions have not lapsed, and those shares of Common Stock shall be forfeited by the grantee and, if issued, immediately returned to the Company. All

restrictions imposed under the Stock Award lapse upon the expiration of the applicable Restriction Period. In addition, the Compensation Committee may determine as to any or all Stock Awards that all restrictions will lapse under such other circumstances as it deems appropriate. The grantee does not have the right to vote or receive dividends or other distributions in respect of any shares of Common Stock covered by a Stock Award until the applicable Restriction Period has expired, unless the Compensation Committee provides otherwise in the Grant Notice. To ensure enforcement of the restrictions during the Restriction Period, the Company issues certificates for Stock Awards only when the applicable Restriction Period has lapsed.

Qualified Performance-Based Compensation. Prior to the amendments to the 2004 Plan described in this Item 2, only Stock Options granted under the 2004 Plan qualified as qualified performance-based compensation. As amended and restated, the 2004 Plan will permit the Compensation Committee to impose and specify specific performance goals that must be met with respect to grants of Stock Awards to employees in order for such grants to qualify for the qualified performance-based compensation exception under Section 162(m) of the Code. The Committee will determine the performance periods for the performance goals for Stock Awards intended to qualify as qualified performance-based compensation. Forfeiture of all or part of any such Stock Awards will occur if the performance goals are not met, as determined by the Compensation Committee. Prior to, or soon after the beginning of, the performance period, the Compensation Committee will establish in writing the performance goals that must be met, the applicable performance periods, the amounts to be paid if the performance goals are met, and any other conditions.

The performance goals, to the extent designed to meet the requirements of Section 162(m) of the Code, will be based on one or more of the following measures: stock price, earnings per share, net earnings, operating earnings, earnings before income taxes, EBITDA (earnings before income tax expense, interest expense, and depreciation and amortization expense), return on assets, stockholder return, return on equity, growth in assets, unit volume, sales or market share, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, geographic business expansion goals, cost targets or goals relating to acquisitions or divestitures. The foregoing measures may be based on the employee's business unit or the performance of the Company and its parent and subsidiaries as a whole, or any combination of the foregoing.

Amendment and Termination of the 2004 Plan. The Board of Directors and, pursuant to authority delegated to the Compensation Committee by the Board of Directors, the Compensation Committee may amend or terminate the 2004 Plan at any time, subject to stockholder approval if required to comply with the Code, other applicable laws, applicable NASDAQ requirements, or the terms of the 2004 Plan. The 2004 Plan will terminate on February 4, 2014, unless terminated earlier by the Board of Directors or extended by the Board of Directors with approval of the stockholders.

Amendment and Termination of Outstanding Grants. A termination or amendment of the 2004 Plan that occurs after a grant is made will not result in the termination or amendment of the grant unless the grantee consents; provided, however, that the Compensation Committee may revoke any grant the terms of which are contrary to applicable law, or modify any grant to bring it into compliance with any then applicable government regulation. The Board of Directors cannot reprice, replace, or regrant any outstanding grant, unless the Company's stockholders consent. The termination of the 2004 Plan will not impair the power and authority of the Compensation Committee with respect to outstanding grants.

Adjustment Provisions. If there is any change in the number or kind of shares of Common Stock outstanding by reason of (i) a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of such shares, (ii) a merger, reorganization or consolidation of the Company, (iii) reclassification or change in the par value, or (iv) any other extraordinary or unusual event, that, in each case, affects the outstanding shares of Common Stock as a class without the Company's receipt of

consideration, or if the value of outstanding shares of Common Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Common Stock available for grants, the maximum limit on the number of shares that may be granted to any individual under the 2004 Plan in any year, the number of shares covered by outstanding grants, the kind of shares issued under the 2004 Plan, and the price per share of such grants will be equitably adjusted by the Compensation Committee, in such manner as the Compensation Committee deems appropriate, to reflect any increase or decrease in the number or kind of issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of the rights and benefits under the 2004 Plan and such grants.

Corporate Transactions/Change in Control of the Company. In the event of a "Corporate Transaction," unless (i) outstanding Stock Options and Stock Awards are assumed by the successor or parent of the successor, (ii) replaced with shares of the capital stock of the successor or parent having comparable value and terms, (iii) replaced with a cash incentive option or stock that preserves the Stock Option spread or Stock Award value existing at the time of the transaction and provides for subsequent payout in accordance with the same terms and conditions of the Stock Option and Stock Award, (iv) the Stock Option and Stock Award is replaced by a grant under another incentive program which the Compensation Committee determines is reasonably equivalent in value, or (v) the vesting period under the Stock Option or the Stock Award is subject to other limitations imposed by the Compensation Committee at the time of grant, all outstanding Stock Options will automatically accelerate and become immediately exercisable and all restrictions with respect to Stock Awards will lapse.

The 2004 Plan defines "Corporate Transaction" to mean the occurrence of either of the following stockholder-approved transactions to which the Company is a party: (i) a merger or consolidation in which more than 50% of the combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or (ii) the sale, transfer or other disposition of more than 75% of the Company's assets in a single or related series of transactions. "Change in Control" is generally defined in the 2004 Plan as a change in ownership or control of the Company through (a) the acquisition of more than 30% of the combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board of Directors does not recommend such stockholders accept; or (b) a change in the composition of the Board of Directors over a 24-month or shorter period such that a majority of the Board of Directors' members cease to continue as members subject to certain conditions described in the 2004 Plan.

In the event of a grantee's cessation of services by reason of an "Involuntary Termination" within 36 months after a Corporate Transaction in which such grantee's outstanding Stock Options were assumed or replaced or Stock Awards were replaced, or within 36 months after a "Change in Control," each Stock Option (or replacements thereof) will automatically accelerate and become fully exercisable and all restrictions applicable to Stock Awards (or replacements thereof) will lapse. The Stock Option will remain exercisable until the earlier of the expiration of the Stock Option term or the one-year period after the date of the Involuntary Termination.

The 2004 Plan defines "Involuntary Termination" to mean the termination of the service of any grantee of the Company or any successor thereto which occurs by reason of (i) such individual's involuntary dismissal or discharge by the Company or the successor thereto for reasons other than the commission of any act of fraud, embezzlement or dishonesty by the grantee, any unauthorized use or disclosure by such individual of confidential information or trade secrets of the Company or its successor, or any other intentional misconduct by such individual adversely affecting the business or affairs of the Company, or its successor in a material manner, or (ii) such individual's voluntary resignation, in either case following: (a) a change in his or her position with the Company or the successor thereto which materially reduces his or her level of responsibility, (b) a reduction in his or

her level of compensation (including base salary, significant fringe benefits or any non-discretionary and objective-standard incentive payment or bonus award) by more than 10% in the aggregate, or (c) a relocation of such individual's place of employment by more than 50 miles, only if such change, reduction or relocation is effected by the Company or the successor thereto without the individual's consent.

With respect to Stock Options granted to non-employee directors, upon the occurrence of a Corporate Transaction or upon Involuntary Termination of a non-employee director within 36 months following a Change in Control, each Stock Option of such non-employee director will automatically accelerate and become fully exercisable and will remain exercisable until the expiration of the option term or earlier surrender of such Stock Option.

The foregoing provisions do not serve to limit the Compensation Committee's ability to take other actions with respect to outstanding Stock Options and Stock Awards, including acceleration of exercisability or vesting, under its broad discretionary authority under the 2004 Plan.

Option and Stock Award Information. As of March 15, 2008, Stock Awards representing an aggregate of 2,071,600 shares of Common Stock (net of cancellations) had been awarded under the 2004 Plan, of which 727,575 remain subject to restrictions under the 2004 Plan, and Stock Options to purchase an aggregate of 9,620,743 shares of Common Stock (net of cancellations) had been granted under the 2004 Plan, of which 5,079,892 were outstanding. If the amendment and restatement of the 2004 Plan to increase the number of shares authorized to be issued under the 2004 Plan is approved, the total number of shares of Common Stock that may be issued under the 2004 Plan will be 13,950,000 shares, of which 2,252,257 shares will be available for issuance under the 2004 Plan.

No grants have been made under the 2004 Plan that are subject to stockholder approval at the Annual Meeting. Other than the automatic grants to non-employee directors, it is not possible at present to predict the number of grants that will be made or who will receive any such grants under the 2004 Plan after the Annual Meeting.

The last sales price of the Company's Common Stock on March 14, 2008, was \$59.63 per share.

Federal Income Tax Consequences. The following is a brief description of the U.S. federal income tax consequences generally arising with respect to grants that may be awarded under the 2004 Plan. This discussion is intended for the information of the stockholders considering how to vote at the Annual Meeting and not as tax guidance to individuals who participate in the 2004 Plan.

The grant of an ISO or NQSO will create no tax consequence for the grantee or the Company. A grantee will not recognize taxable income upon exercising an ISO (except that the alternative minimum tax may apply), and the Company will receive no deduction at that time. Upon exercising an NQSO, the grantee must generally recognize ordinary income equal to the difference between the exercise price and the fair market value of the freely transferable and non-forfeitable shares received. The Company generally will be entitled to a deduction equal to the amount recognized as ordinary income by the grantee.

A grantee's disposition of shares acquired upon the exercise of an option generally will result in capital gain or loss measured by the difference between the sale price and the grantee's tax basis in such shares (the exercise price of the option in the case of shares acquired by exercise of an ISO and held for the applicable ISO holding periods). Generally, there will be no tax consequence to the Company in connection with a disposition of shares acquired under an option, except that the Company will be entitled to a deduction (and the grantee will recognize ordinary income) if shares acquired upon exercise of an ISO are disposed of before the applicable ISO holding periods are satisfied.

With respect to grants of Stock Awards under the 2004 Plan that are either not restricted as to transferability or not subject to a substantial risk of forfeiture, the grantee must generally recognize ordinary income equal to the fair market value of the shares received less any amounts paid for the shares. The Company generally will be entitled to a deduction for the same amount. With respect to Stock Awards involving shares that are restricted as to transferability and subject to a substantial risk of forfeiture, the grantee must generally recognize ordinary income equal to the fair market value of the shares received at the time that the shares become transferable or not subject to a substantial risk of forfeiture, whichever occurs earlier. The Company generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee. In certain circumstances, a grantee may elect to be taxed at the time of receipt of the grant of such restricted shares rather than upon the lapse of the restriction on transferability or the substantial risk of forfeiture, but if the grantee subsequently forfeits the shares, the grantee would not be entitled to any tax deduction, including a capital loss, for the value of the shares on which the grantee previously paid tax. Such election must be made and filed with the Internal Revenue Service within thirty (30) days after the date of the grant.

Section 162(m) of the Code generally disallows a public corporation's tax deduction for compensation paid to its principal executive officer and any of its three other most highly compensated executive officers (other than its principal executive officer and principal financial officer) in excess of \$1,000,000 in any year. Compensation that qualifies as "qualified performance-based compensation" is excluded from the \$1,000,000 deductibility cap, and therefore remains fully deductible by the corporation that pays it. The Company intends that Stock Options granted under the 2004 Plan by the Compensation Committee will qualify as "qualified performance-based compensation." If the amendment and restatement of the 2004 Plan is approved by the stockholders, Stock Awards granted under the 2004 Plan may be granted as qualified performance-based compensation, but will only qualify as qualified performance-based compensation when the Compensation Committee conditions such grants on the achievement of specific performance goals in accordance with the requirements of Section 162(m) of the Code.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information about the Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's existing equity compensation plans as of December 31, 2007, the 2004 Plan and the 2000 Equity Compensation Plan for Employees and Key Advisors (the "2000 Plan"). There are no stock options or shares that remain available for grant under the 1987 Stock Option Plan (which expired in 1997).

Equity Compensation Plan Information

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)</u>	<u>(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(1)</u>	<u>(c) Number of Securities Remaining Available for Future Issuance (Excludes Securities Reflected in Column (a))(2)</u>
Equity compensation plans approved by stockholders	5,941,167(3)	\$51.79	712,632
Equity compensation plans not approved by stockholders(4) . . .	<u>1,594,792</u>	\$61.55	<u>94,662</u>
Total	<u>7,535,959(5)</u>	\$53.86	<u>807,294(6)</u>

(1) The foregoing does not include options assumed under the Anesta Corp. 1993 Stock Option Plan (the "Anesta Plan") as a result of our acquisition of Anesta Corp. in 2000. As of December 31, 2007, there were 16,988 shares of common stock subject to outstanding options under the Anesta

Plan, with a weighted average exercise price of these options of \$26.75 per share. No additional shares are reserved for issuance under the Anesta Plan.

- (2) The 2004 Plan permits the Board or the Compensation Committee of the Board to award stock awards to participants. Up to 75,150 of the shares remaining available for issuance under equity compensation plans approved by stockholders may be issued as restricted stock awards. Restricted stock awards are not permitted to be made under the terms of the 2000 Plan.
- (3) Includes awards covering 747,050 shares of unvested restricted stock units that are outstanding under the 2004 Plan.
- (4) Issued under the 2000 Plan, which does not require the approval of, and has not been approved by, Cephalon stockholders.
- (5) As of March 15, 2008, the total number of shares to be issued upon exercise of outstanding options, warrants or rights was 7,374,599, which is equal to approximately 10.9 percent of the Company's total issued and outstanding shares of Common Stock as of March 15, 2008.
- (6) Does not include 1,500,000 additional shares of Common Stock that would be available for issuance if this Item 2 is approved.

2000 Equity Compensation Plan for Employees and Key Advisors

On December 13, 2000, the Board adopted the 2000 Plan. The 2000 Plan has been amended several times since its adoption, most recently on July 25, 2002. The 2000 Plan provides that options may be granted to the Company's employees who are not officers or directors of the Company and consultants and advisors who perform services for the Company. At the time of its initial approval, the 2000 Plan was not submitted to, nor was it required to be submitted to, the Company's stockholders for approval. Amendments to the 2000 Plan, including amendments increasing the number of shares of Common Stock reserved for issuance under the 2000 Plan, also did not require approval of the Company's stockholders. In light of changes to the NASDAQ stockholder approval requirements for stock option plans, the Board has decided that it will not further increase the number of shares authorized for issuance under the 2000 Plan, but will continue to use any shares authorized for issuance under the 2000 Plan for future grants until the 2000 Plan expires according to its terms in 2010.

The purpose of the 2000 Plan is to promote the Company's success by linking the personal interests of the Company's non-executive employees and consultants and advisors to those of the Company's stockholders and by providing grantees with an incentive for outstanding performance. The 2000 Plan currently authorizes the granting of NQSOs only. The 2000 Plan is administered and interpreted by the Compensation Committee of the Board. The Compensation Committee determines the individuals who will receive an NQSO grant under the 2000 Plan, the number of shares of Common Stock subject to the NQSO, the period during which the NQSO becomes exercisable, the term of the NQSO (but not to exceed 10 years from the date of grant) and the other terms and conditions of the NQSO consistent with the terms of the 2000 Plan. All of the NQSOs that are currently outstanding under the 2000 Plan become exercisable ratably over a four-year period beginning on the date of grant and expire ten years from the date of grant. The exercise price of an NQSO granted under the 2000 Plan will be determined by the Compensation Committee, but may not be less than the fair market value of the underlying stock on the date of grant. A grantee may exercise an NQSO granted under the 2000 Plan by delivering notice of exercise to the Compensation Committee and paying the exercise price (i) in cash, (ii) with approval of the Compensation Committee, by delivering shares of Common Stock already owned by the grantee and having a fair market value on the date of exercise equal to the exercise price, or through attestation to ownership of such shares, or (iii) through such other method as the Compensation Committee may approve.

The Board has the authority to amend or terminate the 2000 Plan at any time without stockholder approval. The 2000 Plan will terminate on December 12, 2010, unless it is terminated earlier by the Board or is extended by the Board. No amendment or termination of the 2000 Plan may adversely affect any option previously granted under the 2000 Plan without the written consent of the grantee, unless required by applicable law.

The consequences described above under the description of the 2004 Plan with respect to a “Corporate Transaction/Change in Control of the Company” also apply to outstanding NQSOs under the 2000 Plan in the event of a Corporate Transaction or Change in Control.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ITEM 2.

**ITEM 3—RATIFICATION OF APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE
YEAR ENDING DECEMBER 31, 2008**

The Board, on the recommendation of the Audit Committee, has reappointed PricewaterhouseCoopers LLP (“PwC”) as the Company’s independent registered public accountants for the year ending December 31, 2008, and has further directed that management submit the selection of PwC as independent registered public accountants for ratification by the stockholders at the Annual Meeting. Stockholder ratification of the selection of PwC as the Company’s independent registered public accountants is not required by Cephalon’s bylaws, Delaware corporate law or otherwise. The Board has elected to seek such ratification as a matter of good corporate practice. Should the stockholders fail to ratify the selection of PwC as independent registered public accountants, the Board will reconsider whether to retain that firm for fiscal 2008.

PwC has audited the Company’s financial statements since their appointment in June 2002. Representatives of PwC are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

The following table sets forth the aggregate fees billed by PwC to the Company for:

	<u>2006</u>	<u>2007</u>
Audit fees(1)	\$2,374,353	\$2,257,570
Audit-Related fees(2)	426,020	489,090
Tax fees(3)	969,709	1,048,740
All other fees(4)	0	200,000
TOTAL	<u><u>\$3,770,082</u></u>	<u><u>\$3,995,400</u></u>

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- (1) Fees for professional services performed by PwC for the audit of the Company’s annual financial statements and review of financial statements included in the Company’s Form 10-Q filings, and services that are normally provided in connection with statutory regulatory filings or engagements.
 - (2) Fees for assurance and related services performed by PwC that are reasonably related to the performance of the audit or review of the Company’s financial statements. This includes: employee benefit and compensation plan audits; attestations by PwC that are not required by statute or regulation; and advice on financial accounting/reporting standards.
 - (3) Fees for professional services performed by PwC with respect to tax compliance (\$344,115 in 2006 and \$392,724 in 2007) and tax advice (\$625,594 in 2006 and \$656,016 in 2007). This includes preparation of original and amended tax returns for the Company and its consolidated subsidiaries; refund claims; payment planning; tax audit assistance; and tax work stemming from “Audit-Related” items.
 - (4) Fees for other permissible work performed by PwC that does not meet the above category descriptions, including fees in 2007 for advice related to risk management and regulatory compliance.

The Audit Committee's policy is to pre-approve the engagement of PwC to render all audit and tax-related services for the Company, as well as any changes to the terms of the engagement. The Audit Committee also will pre-approve all non-audit related services proposed to be provided by the Company's independent auditors. The Audit Committee reviews the terms and description of, and budget for, the engagement. The request for services must be specific as to the particular services to be provided. Requests are aggregated and submitted to the Audit Committee in one of the following ways: requesting approval of services at a meeting of the Audit Committee, through a written consent or by a designated member of the Audit Committee. All services performed by PwC in 2007 were pre-approved by the Audit Committee in accordance with the Audit and Non-Audit Pre-Approval Policy.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ITEM 3.

OTHER MATTERS

The Board is not aware of any matters not set forth herein that may come before the meeting. If, however, further business properly comes before the meeting in accordance with the Company's bylaws, the persons named in the proxies will vote the shares represented thereby in accordance with their judgment on such matters. The chairman of the meeting may refuse to allow the transaction of any business not presented, or to acknowledge the nomination of any person not made, in compliance with the foregoing procedures.

ADDITIONAL INFORMATION

"Householding" of Proxy Materials

Cephalon has adopted a method of delivery for its proxy materials called "householding." Under this method, the Company delivers only one copy of the proxy materials to one or more stockholders who share the same last name and address (and who have chosen not to participate in electronic delivery), unless such stockholders have notified the Company that they wish to continue to receive multiple copies. Cephalon adopted the householding method to reduce the amount of duplicative material that its stockholders receive and to lower printing and mailing costs. Householding is in effect for the 2008 Annual Meeting of Stockholders and will remain in effect for all future Annual Meetings.

If you are a registered stockholder who previously received multiple copies and wish to continue to receive multiple copies of the Company's proxy materials at the same address, additional copies will be provided to you upon request. You may request multiple copies by notifying the Company in writing or verbally that you wish to opt out of the householding program at Investor Relations, Cephalon, Inc., 41 Moores Road, Frazer, Pennsylvania 19355, (610) 738-6376. You may opt out of householding at any time prior to 30 days prior to the mailing of proxy materials in April of each year. If you own the Company's common stock in nominee name (such as through a broker), please notify your broker if you wish to continue to receive multiple copies of the proxy materials.

Proxy Solicitation Costs

In addition to the use of the mails, proxies may be solicited by telephone by officers, directors and a small number of regular employees of the Company who will not be specially compensated for such services. The Company also has requested banks, brokers and other custodians, nominees and fiduciaries to solicit proxies from beneficial owners, where appropriate, and will reimburse such persons for reasonable expenses incurred in that regard.

Advance Notice Provisions

Under the Company's bylaws, no business may be brought before an Annual Meeting unless it is specified in the notice of the meeting or is otherwise brought before the meeting at the direction of the Board or by a stockholder entitled to vote who has delivered written notice to the Secretary of the Company not earlier than the close of business on the one hundred and twentieth day nor later than the close of business on the ninetieth day prior to the first anniversary of the preceding year's Annual Meeting. In addition, any stockholder who wishes to submit a nomination to the Board must deliver written notice of the nomination within this time period and comply with the information requirements in the bylaws relating to stockholder nominations. See "*Governance of the Company—How does the Board select nominees for the Board?*" for additional information about stockholder nominations. These requirements are separate from and in addition to requirements that a stockholder must meet in order to have a stockholder proposal included in the Company's proxy statement.

Stockholder Proposals for the 2009 Annual Meeting

Stockholders interested in submitting a proposal for inclusion in the proxy materials for the Annual Meeting of Stockholders in 2009 may do so by following the procedures prescribed in SEC Rule 14a-8. To be eligible for inclusion, stockholder proposals must be received by the Secretary of the Company at its offices at 41 Moores Road, Frazer, PA 19355, no later than December 14, 2008.

Annual Report on Form 10-K

The Company will furnish without charge to each person whose proxy is being solicited, upon the request of such person, a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, including the financial statements and schedules thereto, but excluding exhibits. Requests for copies of such report should be directed to Investor Relations, Cephalon, Inc., 41 Moores Road, Frazer, Pennsylvania 19355, (610) 738-6376. The Annual Report on Form 10-K accompanies this proxy statement, but does not constitute a part of this proxy statement.

By Order of the Board of Directors,

JOHN M. LIMONGELLI
Assistant Secretary

Frazer, Pennsylvania
April 4, 2008