



LETTER OF COMMENT NO. 4

October 9, 2007

Mr. Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference: Proposed FSP APB 14-a

Dear Mr. Golden:

Cephalon appreciates the opportunity to respond to the guidance that the Financial Accounting Standards Board (the Board) has proposed in FASB Staff Position No. APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. Our comments are included below.

The inconsistencies between accounting for Instrument C convertible debt and conventional convertible debt would be misleading to investors

Under the proposed guidance, the debt balances for Instrument C issuers would be lower, and interest expense and equity would be higher compared to convertible debt with similar terms that were not subject to settlement in cash. This would negatively impact the comparability of financial statements between peer companies, making investment decisions more difficult for financial statement users.

It is also conceivable that the difference between accounting for Instrument C convertible debt and conventional convertible debt would not be fully understood by investors. More importantly, because of the inconsistencies in treatment investors and analysts may adjust reported results to eliminate the difference in the accounting. This would negate the impact of FSP APB 14-a and negatively impact the public's confidence in GAAP financial reporting.

Changes to Instrument C accounting guidance would be more appropriately addressed in connection with the Board's liability and equity standard setting project

The proposed guidance would result in considerable change to existing accounting, including the restatement of prior periods. Such a change would be more appropriately accomplished utilizing the full due diligence process of the Board's standard setting process, especially given that a project to address liability and equity accounting is currently in progress and the EITF's inability to reach a consensus on this same issue.

Moreover, the proposed guidance would not result in convergence with international accounting standards, whereas the Board's standard setting process is intended to do so.

Any change to Instrument C accounting should also address the accounting for related financial instruments that are integral to the debt structure

It is a common practice for the issuers of Instrument C debt to also purchase call options and sell stock warrants that together increase the effective strike price of the convertible debt to the issuer. Under such a structure, a third party delivers to the issuer the number of shares that are due to the holders of the convertible securities and no net additional shares are issued upon conversion as long as the conversion price is below the strike price of the call option. However, the current accounting for computing diluted EPS treats each of these arrangements separately. Therefore, diluted EPS is negatively impacted by the potentially issuable shares under the terms of the Instrument C debt but the offsetting anti-dilutive impact of the call option is ignored. This treatment does not reflect the economic substance of the financing structure, taken as a whole. A holistic review of Instrument C accounting should also include the diluted EPS impact of this frequently used financing structure.

Current accounting more accurately reflects the nature of the transaction

We believe the revised treatment is not consistent with the economics and ultimate financial impact of Instrument C convertible debt. Financially, upon settlement the issuer will be required to repay the principal balance in cash plus any conversion premium in either cash or stock. The current accounting guidance of recognizing the full principal balance as a liability plus the diluted EPS impact by including potentially issuable shares associated with the conversion premium properly recognizes this outcome.

While the Instrument C debt does carry a below market coupon rate, this discount is associated with the potential for appreciation in the stock price. If the stock appreciation occurs and the conversion feature is exercised, the resulting payments are more appropriately recorded as an equity transaction, rather than as interest expense.

The proposed guidance understates the debt balance to be paid in cash. Only after the imputed interest is fully amortized is the debt balance fully stated. Additionally, due to early conversion features that are frequently present in Instrument C debt, under existing accounting guidance when the stock price exceeds the conversion price the principal balance is presented as a current liability. However, under the proposed guidance, a significant portion of that principal balance would be presented as an increase to equity, even though it would be payable only in cash and could become due upon request of the holder.

We believe that paragraph B3 of FSP APB 14-a does not provide sufficient basis to conclude that Instrument C debt is not subject to paragraph 12 of Opinion 14

Paragraph B3 of FSP APB 14-a contends that because the form of settlement can vary between stock and cash that the Instrument C debt and conversion option are subject to

separation and, therefore, are more consistent with debt issued with detachable warrants. However, neither the holder nor the issuer can separate the debt and conversion option as both must be exercised together. Consistent with paragraph 7 of Opinion 14, “the holder cannot exercise the option to convert unless he foregoes the right to redemption, and vice versa”. This inseparability of the debt and conversion option was critical to the conclusions in paragraph 12 of Opinion 14. Additionally, Instrument C debt complies with the definition of convertible debt securities in paragraph 3 of Opinion 14. We believe the FSP should provide more significant reasoning for reaching a conclusion that would seem inconsistent with existing category (a) accounting guidance.

Cephalon appreciates the opportunity to comment on the proposed FSP. If you have any questions or would like additional information on the comments we have provided, please contact David Palmer at 610.727.6193 or me at 610.344.0200.

Sincerely,

/S/ J. KEVIN BUCHI

J. Kevin Buchi
Executive Vice President and Chief Financial Officer