SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTER ENDED JUNE 30, 2018

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

INDIANA	35-0470950
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

LILLY CORPORATE CENTER, INDIANAPOLIS, INDIANA 46285
(Address of principal executive offices)

Registrant's telephone number, including area code (317) 276-2000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of a "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o
		Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☒

The number of shares of common stock outstanding as of July 23, 2018:

Class	Number of Shares Outstanding
Common	1,073,987,856

Eli Lilly and Company

Form 10-Q
For the Quarter Ended June 30, 2018

Table of Contents

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” or similar expressions.

In particular, information appearing under “Management's Discussion and Analysis of Results of Operations and Financial Condition” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we (Lilly or the company) express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the timing of anticipated regulatory approvals and launches of new products;
- market uptake of recently launched products;
- competitive developments affecting current products;
- the expiration of intellectual property protection for certain of our products;
- our ability to protect and enforce patents and other intellectual property;
- the impact of actions of governmental and private payers affecting pricing of, reimbursement for, and access to pharmaceuticals;
- regulatory compliance problems or government investigations;
- regulatory actions regarding currently marketed products;
- unexpected safety or efficacy concerns associated with our products;
- issues with product supply stemming from manufacturing difficulties or disruptions;
- regulatory changes or other developments;
- changes in patent law or regulations related to data-package exclusivity;
- litigation involving past, current, or future products as we are largely self-insured;
- unauthorized disclosure or misappropriation of trade secrets or other confidential data stored in our information systems, networks, and facilities, or those of third parties with whom we share our data;
- changes in tax law;
- changes in foreign currency exchange rates, interest rates, and inflation;
- asset impairments and restructuring charges;
- changes in accounting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC);
- acquisitions and business development transactions and related integration costs;
- uncertainties and risks related to the potential IPO of Elanco Animal Health;
- information technology system inadequacies or operating failures;
- reliance on third-party relationships and outsourcing arrangements; and
- the impact of global macroeconomic conditions.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017, particularly under the caption “Risk Factors”, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

All forward-looking statements herein speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report.

PART I. Financial Information

Item 1. Financial Statements

Consolidated Condensed Statements of Operations
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars and shares in millions, except per-share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenue	**$ 6,355.2**	$ 5,824.3	**$ 12,055.2**	$ 11,052.6
Costs, expenses, and other:				
Cost of sales	**1,702.7**	1,571.7	**3,274.0**	2,919.6
Research and development	**1,333.1**	1,272.1	**2,510.0**	2,530.4
Marketing, selling, and administrative	**1,653.7**	1,730.4	**3,153.7**	3,298.1
Acquired in-process research and development (Note 3)	**1,624.5**	—	**1,624.5**	857.6
Asset impairment, restructuring, and other special charges (Note 5)	**74.4**	50.0	**152.7**	263.9
Other–net, (income) expense (Note 12)	**(38.0)**	(60.4)	**(105.5)**	(138.7)
	6,350.4	4,563.8	**10,609.4**	9,730.9
Income before income taxes	**4.8**	1,260.5	**1,445.8**	1,321.7
Income taxes (Note 8)	**264.7**	252.5	**488.3**	424.5
Net income (loss)	**$ (259.9)**	$ 1,008.0	**$ 957.5**	$ 897.2
Earnings (loss) per share:				
Basic	**$ (0.25)**	$ 0.96	**$ 0.92**	$ 0.85
Diluted	**$ (0.25)**	$ 0.95	**$ 0.92**	$ 0.85
Shares used in calculation of earnings (loss) per share:				
Basic	**1,030.2**	1,055.0	**1,039.6**	1,055.6
Diluted	**1,030.2**	1,057.1	**1,041.6**	1,057.5
Dividends paid per share	**$ 0.5625**	$ 0.52	**$ 1.125**	$ 1.04

See notes to consolidated condensed financial statements.

Consolidated Condensed Statements of Comprehensive Income (Loss)
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income (loss)	**$ (259.9)**	$ 1,008.0	**$ 957.5**	$ 897.2
Other comprehensive income (loss), net of tax (Note 11) [(1)]	**(671.2)**	284.8	**(284.9)**	483.5
Comprehensive income (loss)	**$ (931.1)**	$ 1,292.8	**$ 672.6**	$ 1,380.7

[(1)] Other comprehensive income (loss) for the three and six months ended June 30, 2018 was all attributable to controlling interest. Other comprehensive income for the three and six months ended June 30, 2017 consisted of $289.4 million and $499.1 million of other comprehensive income attributable to controlling interest and $4.6 million and $15.6 million of other comprehensive loss attributable to non-controlling interest.

See notes to consolidated condensed financial statements.

Consolidated Condensed Balance Sheets
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	June 30, 2018	December 31, 2017
Assets	**(Unaudited)**	
Current Assets		
Cash and cash equivalents (Note 6)	**$ 6,817.3**	$ 6,536.2
Short-term investments (Note 6)	**92.2**	1,497.9
Accounts receivable, net of allowances of **$35.2 (2018)** and $38.7 (2017)	**4,823.0**	4,546.3
Other receivables	**756.1**	715.9
Inventories	**4,155.5**	4,458.3
Prepaid expenses and other	**1,688.6**	1,447.5
Total current assets	**18,332.7**	19,202.1
Other Assets		
Investments (Note 6)	**2,059.6**	5,678.8
Goodwill	**4,333.1**	4,370.1
Other intangibles	**3,772.1**	4,029.2
Deferred tax assets	**3,314.4**	1,166.4
Sundry	**1,776.5**	1,707.9
Total other assets	**15,255.7**	16,952.4
Property and equipment, net of accumulated depreciation of **$9,566.1 (2018)** and $9,264.6 (2017)	**8,770.8**	8,826.5
Total assets	**$ 42,359.2**	$ 44,981.0
Liabilities and Equity		
Current Liabilities		
Short-term borrowings and current maturities of long-term debt	**$ 3,049.1**	$ 3,706.6
Accounts payable	**1,316.9**	1,410.7
Employee compensation	**710.5**	997.9
Sales rebates and discounts	**4,745.1**	4,465.1
Dividends payable	**578.2**	590.6
Income taxes payable	**464.9**	532.9
Other current liabilities	**2,190.5**	2,832.1
Total current liabilities	**13,055.2**	14,535.9
Other Liabilities		
Long-term debt	**9,170.5**	9,940.5
Accrued retirement benefits (Note 9)	**3,420.5**	3,513.9
Long-term income taxes payable	**3,506.6**	3,776.5
Other noncurrent liabilities	**1,585.6**	1,546.3
Total other liabilities	**17,683.2**	18,777.2
Commitments and Contingencies (Note 10)		
Eli Lilly and Company Shareholders' Equity (Note 7)		
Common stock	**673.5**	687.9
Additional paid-in capital	**5,825.7**	5,817.8
Retained earnings	**14,247.3**	13,894.1
Employee benefit trust	**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 11)	**(6,108.7)**	(5,718.6)
Cost of common stock in treasury	**(69.4)**	(75.8)
Total Eli Lilly and Company shareholders' equity	**11,555.2**	11,592.2
Noncontrolling interests	**65.6**	75.7
Total equity	**11,620.8**	11,667.9
Total liabilities and equity	**$ 42,359.2**	$ 44,981.0

See notes to consolidated condensed financial statements.

Consolidated Condensed Statements of Cash Flows
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Six Months Ended June 30,	
	2018	**2017**
Cash Flows from Operating Activities		
Net income	**$ 957.5**	$ 897.2
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and amortization	**848.0**	782.5
Change in deferred income taxes	**134.8**	295.1
Stock-based compensation expense	**138.2**	139.2
Acquired in-process research and development	**1,624.5**	857.6
Other changes in operating assets and liabilities, net of acquisitions	**(1,932.1)**	(1,118.5)
Other non-cash operating activities, net	**183.1**	137.9
Net Cash Provided by Operating Activities	**1,954.0**	1,991.0
Cash Flows from Investing Activities		
Net purchases of property and equipment	**(546.5)**	(390.6)
Proceeds from sales and maturities of short-term investments	**2,496.7**	1,677.6
Purchases of short-term investments	**(112.2)**	(1,883.5)
Proceeds from sales of noncurrent investments	**3,395.1**	1,107.6
Purchases of noncurrent investments	**(676.5)**	(2,358.8)
Cash paid for acquisitions, net of cash acquired (Note 3)	**—**	(882.1)
Purchase of in-process research and development (Note 3)	**(1,548.2)**	(831.8)
Other investing activities, net	**(45.3)**	(116.9)
Net Cash Provided by (Used for) Investing Activities	**2,963.1**	(3,678.5)
Cash Flows from Financing Activities		
Dividends paid	**(1,166.6)**	(1,096.1)
Net change in short-term borrowings	**(248.7)**	125.7
Proceeds from issuance of long-term debt	**—**	2,232.0
Repayments of long-term debt	**(1,001.5)**	(630.5)
Purchases of common stock	**(2,050.7)**	(199.9)
Other financing activities, net	**(230.4)**	(247.0)
Net Cash Provided by (Used for) Financing Activities	**(4,697.9)**	184.2
Effect of exchange rate changes on cash and cash equivalents	**61.9**	(8.9)
Net increase (decrease) in cash and cash equivalents	**281.1**	(1,512.2)
Cash and cash equivalents at January 1	**6,536.2**	4,582.1
Cash and Cash Equivalents at June 30	**$ 6,817.3**	$ 3,069.9

See notes to consolidated condensed financial statements.

(Tables present dollars in millions, except per-share data)

Note 1: Basis of Presentation and Revenue

We have prepared the accompanying unaudited consolidated condensed financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States (GAAP). In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for a fair presentation of the results of operations for the periods shown. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2017. We issue our financial statements by filing with the Securities and Exchange Commission and have evaluated subsequent events up to the time of the filing.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of incremental shares from our stock-based compensation programs.

Adoption of Revenue Accounting Standard

Effective January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* and other related updates (see Note 2 for additional discussion). The new standard has been applied to contracts for which performance had not been completed as of the date of adoption. For those contracts that were modified prior to the date of adoption, we reflected the aggregate effect of those modifications when determining the appropriate accounting under the new standard. We don't believe the effect of applying this practical expedient resulted in material differences. Revenue presented for periods prior to 2018 was accounted for under previous standards and has not been adjusted. Revenue and net income for the three and six months ended June 30, 2018 do not differ materially from amounts that would have resulted from application of the previous standards.

The following table summarizes our revenue recognized in our consolidated condensed statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net product revenue	**$ 5,899.6**	$ 5,529.8	**$ 11,241.1**	$ 10,517.7
Collaboration and other revenue [(1)]	**455.6**	294.5	**814.1**	534.9
Revenue	**$ 6,355.2**	$ 5,824.3	**$ 12,055.2**	$ 11,052.6

[(1)] Collaboration and other revenue associated with prior year transfers of intellectual property was $133.6 million and $182.1 million during the three and six months ended June 30, 2018, respectively, and $35.0 million and $68.8 million during the three and six months ended June 30, 2017, respectively.

We recognize revenue primarily from two different types of contracts, product sales to customers (net product revenue) and collaborations and other arrangements. Revenue recognized from collaborations and other arrangements will include our share of profits from the collaboration, as well as royalties, upfront and milestone payments we receive under these types of contracts. See Note 4 for additional information related to our collaborations and other arrangements. Collaboration and other revenue disclosed above includes the revenue from the Trajenta™ and Jardiance® families of products resulting from our collaboration with Boehringer Ingelheim discussed in Note 4. Substantially all of the remainder of collaboration and other revenue is related to contracts accounted for as contracts with customers.

Net Product Revenue

Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation, which generally is at the time we ship the product to the customer. Payment terms differ by jurisdiction and customer, but payment terms in most of our major jurisdictions typically range from 30 to 75 days from date of shipment. Revenue for our product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when we transfer control of the

product and when we receive payment will be one year or less. Any exceptions are either not material or we collect interest for payments made after the due date. Provisions for rebates and discounts, and returns are established in the same period the related sales are recognized. We generally ship product shortly after orders are received; therefore, we generally only have a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on our sales of product and collected from a customer.

Significant judgments must be made in determining the transaction price for our sales of products related to anticipated rebates and discounts and returns. The following describe the most significant of these judgments:

Sales Rebates and Discounts - Background and Uncertainties

- Most of our pharmaceutical products are sold to wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. Animal health products are sold to wholesale distributors. We initially invoice our customers at contractual list prices. Contracts with direct and indirect customers may provide for various rebates and discounts that may differ in each contract. As a consequence, to determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we must estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates.
- The rebate and discount amounts are recorded as a deduction to arrive at our net product revenue. Sales rebates and discounts that require the use of judgment in the establishment of the accrual include managed care, Medicare, Medicaid, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We estimate these accruals using an expected value approach.
- The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, and chargeback contracts in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing. Although we accrue a liability for rebates related to these programs at the time we record the sale, the rebate related to that sale is typically paid up to six months later. Because of this time lag, in any particular period our rebate adjustments may incorporate revisions of accruals for several periods.
- Most of our rebates outside the U.S. are contractual or legislatively mandated and are estimated and recognized in the same period as the related sales. In some large European countries, government rebates are based on the anticipated budget for pharmaceutical payments in the country. An estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale.

Sales Returns - Background and Uncertainties

- When product sales occur, to determine the appropriate transaction price for our sales, we estimate a reserve for future product returns related to those sales using an expected value approach. This estimate is based on several factors, including: historical return rates, expiration date by product (on average, approximately 24 months after the initial sale of a product to our customer), and estimated levels of inventory in the wholesale and retail channels, as well as any other specifically-identified anticipated returns due to known factors such as the loss of patent exclusivity, product recalls and discontinuances, or a changing competitive environment. We maintain a returns policy that allows U.S. pharmaceutical customers to return product for dating issues within a specified period prior to and subsequent to the product's expiration date. Following the loss of exclusivity for a patent-dependent product, we expect to experience an elevated level of product returns as product inventory remaining in the wholesale and retail channels expires. Adjustments to the returns reserve have been and may in the future be required based on revised estimates to our assumptions. We record the return amounts as a deduction to arrive at our net product revenue. Once the product is returned, it is destroyed; we do not record a right of return asset. Our returns policies outside the U.S. are generally more restrictive than in the U.S. as returns are not allowed for reasons other than failure to meet product specifications in many countries. Our reserve for future product returns for product sales outside the U.S. is not material.

- As a part of our process to estimate a reserve for product returns, we regularly review the supply levels of our significant products sold to major wholesalers in the U.S. and in major markets outside the U.S., primarily by reviewing periodic inventory reports supplied by our major wholesalers and available prescription volume information for our products, or alternative approaches. We attempt to maintain U.S. wholesaler inventory levels at an average of approximately one month or less on a consistent basis across our product portfolio. Causes of unusual wholesaler buying patterns include actual or anticipated product-supply issues, weather patterns, anticipated changes in the transportation network, redundant holiday stocking, and changes in wholesaler business operations. In the U.S., the current structure of our arrangements provides us with data on inventory levels at our wholesalers; however, our data on inventory levels in the retail channel is more limited. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.
- Actual product returns have been less than 2 percent of our net revenue over each of the past three years and have not fluctuated significantly as a percentage of revenue, although fluctuations are more likely in periods following loss of patent exclusivity for major products in the U.S. market.

Adjustments to Revenue

Adjustments to revenue recognized as a result of changes in estimates for the judgments described above during the three and six months ended June 30, 2018, for product shipped in previous years were not material.

Disaggregation of Revenue

Our disaggregated revenue is disclosed in Note 13.

Collaborations and Other Arrangements

We recognize several types of revenue from our collaborations and other arrangements, which we discuss in general terms immediately below and more specifically in Note 4 for each of our material collaborations and other arrangements. Our collaborations and other arrangements are not contracts with customers but are evaluated to determine whether any aspects of the arrangements are contracts with customers.

- Revenue related to products we sell pursuant to these arrangements is included in net product revenue, while other sources of revenue (e.g., royalties and profit sharing from our partner) are included in collaboration and other revenue.
- Initial fees and developmental milestones we receive in collaborative and other similar arrangements from the partnering of our compounds under development are generally deferred and amortized into income through the expected product approval date.
- Profit-sharing due from our collaboration partners, which is based upon gross margins reported to us by our partners, is recognized as collaboration and other revenue as earned.
- Royalty revenue from licensees, which is based on sales to third-parties of licensed products and technology, is recorded when the third-party sale occurs and the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). This royalty revenue is included in collaboration and other revenue.
- For arrangements involving multiple goods or services (e.g., research and development, marketing and selling, manufacturing, and distribution), each required good or service is evaluated to determine whether it is distinct. If a good or service does not qualify as distinct, it is combined with the other non-distinct goods or services within the arrangement and these combined goods or services are treated as a single performance obligation for accounting purposes. The arrangement's transaction price is then allocated to each performance obligation based on the relative standalone selling price of each performance obligation. For arrangements that involve variable consideration where we have sold intellectual property, we recognize revenue based on estimates of the amount of consideration we believe we will be entitled to receive from the other party, subject to a constraint. These estimates are adjusted to reflect the actual amounts to be collected when those facts and circumstances become known.
- Significant judgments must be made in determining the transaction price for our sales of intellectual property. Because of the risk that products in development will not receive regulatory approval, we generally do not recognize any contingent payments that would be due to us upon or after regulatory approval.

- We have entered into arrangements whereby we transferred rights to products and committed to supply for a period of time. For those arrangements for which we concluded that the obligations were not distinct, any amounts received upfront are being amortized to revenue as net product revenue over the period of the supply arrangement as the performance obligation is satisfied.

Contract Liabilities

Our contract liabilities result from arrangements where we have received payment in advance of performance under the contract and do not include sales rebates and discounts. Changes in contract liabilities are generally due to either receipt of additional advance payments or our performance under the contract.

We have the following amounts recorded for contract liabilities:

	June 30, 2018	December 31, 2017
Contract liabilities	**$ 315.7**	$ 335.2

The contract liabilities amount disclosed above as of June 30, 2018, is primarily related to:

- The remaining license period of symbolic intellectual property, and
- Obligations to supply product for a defined period of time.

Revenue recognized from contract liabilities as of January 1, 2018, during the three and six months ended June 30, 2018, was not material. Revenue expected to be recognized in the future from contract liabilities as the related performance obligations are satisfied is not expected to be material in any one year.

Note 2: Implementation of New Financial Accounting Pronouncements

The following table provides a brief description of accounting standards that were effective January 1, 2018 and were adopted on that date:

Standard	Description	Effect on the financial statements or other significant matters
Accounting Standards Update 2014-09 and various other related updates, *Revenue from Contracts with Customers*	This standard replaced existing revenue recognition standards and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. We applied the latter approach.	Application of the new standard to applicable contracts resulted in an increase of approximately $5 million to retained earnings as of January 1, 2018. Disclosures required by the new standard are included in Note 1, Note 4, and Note 13.
Accounting Standards Update 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*	This standard requires entities to recognize changes in the fair value of equity investments with readily determinable fair values in net income (except for investments accounted for under the equity method of accounting or those that result in consolidation of the investee). An entity should apply the new standard through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.	Upon adoption, we reclassified from accumulated other comprehensive loss the after-tax amount of net unrealized gains resulting in an increase to retained earnings of approximately $105 million. Adoption of this standard did not result in a material change in net income for the three and six months ended June 30, 2018.

Standard	Description	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*	This standard requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time of transfer. This standard requires a modified retrospective approach to adoption.	Upon adoption, the cumulative effect of applying the standard resulted in an increase to deferred tax assets and retained earnings of approximately $2.5 billion. Adoption of this standard did not result in a material change in net income for the three and six months ended June 30, 2018.
Accounting Standards Update 2017-07, *Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*	This standard was issued to improve the transparency and comparability among organizations by requiring entities to separate their net periodic pension cost and net periodic postretirement benefit cost into a service cost component and other components. Previously, the costs of the other components along with the service cost component were classified based upon the function of the employee. This standard requires entities to classify the service cost component in the same financial statement line item or items as other compensation costs arising from services rendered by pertinent employees. The other components of net benefit cost are now presented separately from the line items that include the service cost component. When applicable, the service cost component is now the only component eligible for capitalization. An entity should apply the new standard retrospectively for the classification of the service cost and other components and prospectively for the capitalization of the service cost component.	Upon adoption of this standard, pension and postretirement benefit cost components other than service costs are presented in other–net, (income) expense. The application of the new standard resulted in reclassification to other income of $64.3 million for the three months ended June 30, 2017, while increasing cost of sales by $20.1 million, marketing, selling, and administrative expenses by $23.0 million, and research and development expenses by $21.2 million for the same period. The application of the new standard resulted in reclassification to other income of $127.5 million for the six months ended June 30, 2017, while increasing cost of sales by $40.3 million, marketing, selling, and administrative expenses by $46.0 million, and research and development expenses by $41.2 million for the same period. We do not expect application of the new standard to have a material impact on an ongoing basis.

The following table provides a brief description of the accounting standard that has not yet been adopted and could have a material effect on our financial statements:

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-02, Leases	This standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including leases classified as operating leases under current GAAP, on the balance sheet and requiring additional disclosures about leasing arrangements. This standard requires a modified retrospective approach to adoption.	This standard is effective January 1, 2019, with early adoption permitted. We intend to adopt this standard on January 1, 2019.	We are in the process of determining the impact on our consolidated financial statements. We have selected a software solution to be compatible with our enterprise software system. Development of our selected solution is ongoing, as it is not yet fully compliant with the requirements of the standard. The timely readiness of the lease software system is critical to ensure an efficient and effective adoption of the standard.

Note 3: Acquisitions

On January 3, 2017, we completed the acquisition of Boehringer Ingelheim Vetmedica, Inc.'s United States (U.S.) feline, canine, and rabies vaccine portfolio and other related assets (BIVIVP). This transaction, as further discussed in this note below in Acquisition of a Business, was accounted for as a business combination under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of this acquisition have been included in our consolidated condensed financial statements from the date of acquisition.

In addition to the acquisition of BIVIP, we acquired assets in development in the six months ended June 30, 2018, which are further discussed in this note below in Asset Acquisitions. Upon acquisition, the acquired in-process research and development (IPR&D) charges related to these products were immediately expensed because the products had no alternative future use. We incurred acquired IPR&D charges of $1.62 billion for the three and six months ended June 30, 2018 and $857.6 million for the six months ended June 30, 2017. There were no acquired IPR&D charges incurred during the three months ended June 30, 2017.

Acquisition of a Business

Boehringer Ingelheim Vetmedica, Inc. Vaccine Portfolio Acquisition

Overview of Transaction

In 2017, we acquired BIVIVP in an all-cash transaction for $882.1 million. Under the terms of the agreement, we acquired a manufacturing and research and development site and a U.S. vaccine portfolio, including vaccines used for the treatment of bordetella, Lyme disease, rabies, and parvovirus, among others.

Assets Acquired and Liabilities Assumed

The following table summarizes the amounts recognized for assets acquired and liabilities assumed as of the acquisition date:

Estimated Fair Value at January 3, 2017		
Inventories	$	108.6
Marketed products [(1)]		297.0
Property and equipment		148.2
Other assets and liabilities - net		8.2
Total identifiable net assets		562.0
Goodwill [(2)]		320.1
Total consideration transferred - net of cash acquired	$	882.1

[(1)] These intangible assets, which are being amortized to cost of sales on a straight-line basis over their estimated useful lives, were expected to have a weighted average useful life of 10 years.

[(2)] The goodwill recognized from this acquisition is attributable primarily to expected synergies from combining the operations of BIVIVP with our legacy animal health business, future unidentified projects and products, and the assembled workforce of BIVIVP. The goodwill associated with this acquisition is deductible for tax purposes.

Asset Acquisitions

The following table and narrative summarize our asset acquisitions during the six months ended June 30, 2018 and June 30, 2017.

Counterparty	Compound(s) or Therapy	Acquisition Month	Phase of Development [1]	Acquired IPR&D Expense
Sigilon Therapeutics (Sigilon)	Encapsulated cell therapies for the potential treatment of type 1 diabetes	April 2018	Pre-clinical	$ 66.9
AurKa Pharma, Inc. (AurKa)	AK-01, an Aurora kinase A inhibitor	June 2018	Phase I	81.8
ARMO Biosciences, Inc. (ARMO)	Cancer therapy - pegilodecakin	June 2018	Phase III	1,475.8
CoLucid Pharmaceuticals, Inc. (CoLucid)	Oral therapy for the acute treatment of migraine - lasmiditan	March 2017	Phase III	857.6

[1] The phase of development presented is as of the date of the arrangement and represents the phase of development of the most advanced asset acquired, where applicable.

In connection with the arrangements described herein, our partners may be entitled to future royalties and/or commercial milestones based on sales should these products be approved for commercialization and/or milestones based on the successful progress of the compounds through the development process.

We entered into a collaboration agreement with Sigilon to develop encapsulated cell therapies for the potential treatment of type 1 diabetes. Sigilon will create proprietary products comprised of induced pluripotent stem cells engineered into differentiated insulin-producing pancreatic beta cells and encapsulated using Sigilon's Afibromer technology. We will receive an exclusive worldwide license to Sigilon's Afibromer technology for islet cell encapsulation. Under the terms of the agreement, we paid an upfront fee of $62.5 million and made an equity investment in Sigilon.

We acquired AK-01 through the acquisition of AurKa. Under the terms of the agreement, we acquired all shares of AurKa for a cash purchase price of $81.3 million, net of cash acquired, plus net accrued liabilities assumed of $0.5 million. Substantially all the value of AurKa was related to AK-01, its only significant asset. The acquired IPR&D expense was not tax deductible.

We acquired pegilodecakin through the acquisition of ARMO. Under the terms of the agreement, we acquired all shares of ARMO for a cash purchase price of $1.40 billion, net of cash acquired, plus net accrued liabilities assumed of $75.8 million. Substantially all of the value of ARMO was related to pegilodecakin, its only significant asset. The acquired IPR&D expense was not tax deductible.

We acquired lasmiditan through the acquisition of CoLucid. Under the terms of the agreement, we acquired all shares of CoLucid for a cash purchase price of $831.8 million, net of cash acquired, plus net accrued liabilities assumed of $25.8 million. Substantially all of the value of CoLucid was related to lasmiditan, its only significant asset. The acquired IPR&D expense was not tax deductible.

In July 2018, we entered into a collaboration agreement with Anima Biotech (Anima) for the discovery and development of translation inhibitors for several target proteins by using Anima's Translation Control Therapeutics platform. Under the terms of the agreement, we paid an upfront fee of $30.0 million, which will be recorded as acquired IPR&D expense in the third quarter of 2018. Anima will use its technology platform to discover lead candidates that are translation inhibitors of our selected neuroscience targets. We will be responsible for all clinical development and commercialization activities and costs related to the collaboration.

Note 4: Collaborations and Other Arrangements

We often enter into collaborative and other similar arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These arrangements often require milestone and royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements or payments to the collaboration partner. See Note 1 for amounts of collaboration and other revenue recognized from these types of arrangements.

Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments due to or reimbursements due from our collaboration partners, with such reimbursements being recognized at the time the party becomes obligated to pay. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

Boehringer Ingelheim Diabetes Collaboration

We and Boehringer Ingelheim have a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Currently included in the collaboration are Boehringer Ingelheim's oral diabetes products: Trajenta, Jentadueto®, Jardiance, Glyxambi®, and Synjardy®, as well as our basal insulin: Basaglar®.

The table below summarizes significant regulatory and commercialization events and milestones (deferred) capitalized for the compounds included in this collaboration:

Product Family	Year Launched			Milestones (Deferred) Capitalized [1]	
	U.S.	Europe	Japan	Year	Amount
Trajenta [2]	2011	2011	2011	Cumulative [4] - all prior to 2017	$ 446.4
Jardiance [3]	2014	2014	2015	Cumulative [4] - all prior to 2017	299.5
Basaglar	2016	2015	2015	Cumulative [4] - all prior to 2017	(250.0)

[1] In connection with the regulatory approvals of Basaglar in the U.S., Europe, and Japan, milestone payments received were recorded as contract liabilities and are being amortized through the term of the collaboration (2029) to collaboration and other revenue. In connection with the regulatory approvals of Trajenta and Jardiance, milestone payments made were capitalized as intangible assets and are being amortized to cost of sales.

[2] Jentadueto is included in the Trajenta product family.

[3] Glyxambi and Synjardy are included in the Jardiance product family.

[4] The cumulative amount represents the total initial amounts that were (deferred) or capitalized from the start of this collaboration through the end of the reporting period.

In the most significant markets, we and Boehringer Ingelheim share equally the ongoing development costs, commercialization costs, and agreed upon gross margin for any product resulting from the collaboration. We record our portion of the gross margin associated with Boehringer Ingelheim's compounds as collaboration and other revenue. We record our sales of Basaglar to third parties as net product revenue with the payments made to Boehringer Ingelheim for their portion of the gross margin recorded as cost of sales. For all compounds under this collaboration, we record our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. Each company is entitled to potential performance payments depending on the sales of the molecules it contributes to the collaboration. These performance payments result in the owner of the molecule retaining a greater share of the agreed upon gross margin of that product. Subject to achieving these thresholds, in a given period, our reported revenue for Trajenta and Jardiance may be reduced by any performance payments we make related to these products. Similarly, performance payments we may receive related to Basaglar effectively reduce Boehringer Ingelheim's share of the gross margin, which reduces our cost of sales.

The following table summarizes our collaboration and other revenue recognized with respect to the Trajenta and Jardiance families of products and net product revenue recognized with respect to Basaglar:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basaglar	**$ 201.8**	$ 86.6	**$ 367.8**	$ 132.6
Jardiance	**147.2**	103.2	**298.2**	177.1
Trajenta	**141.7**	141.9	**282.8**	254.9

Erbitux®

We have several collaborations with respect to Erbitux. The most significant collaborations are or, where applicable, were in Japan, and prior to the transfer of commercialization rights in the fourth quarter of 2015, the U.S. and Canada (Bristol-Myers Squibb Company); and worldwide except the U.S. and Canada (Merck KGaA). Certain rights to Erbitux outside the U.S. and Canada (collectively, North America) will remain with Merck KGaA (Merck) upon expiration of that agreement.

The following table summarizes our revenue recognized with respect to Erbitux:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net product revenue	**$ 141.1**	$ 134.4	**$ 263.3**	$ 265.7
Collaboration and other revenue	**25.3**	24.7	**52.8**	47.8
Revenue	**$ 166.4**	$ 159.1	**$ 316.1**	$ 313.5

Bristol-Myers Squibb Company

Pursuant to commercial agreements with Bristol-Myers Squibb Company and E.R. Squibb (collectively, BMS), we had been co-developing Erbitux in North America exclusively with BMS. On October 1, 2015, BMS transferred their commercialization rights to us with respect to Erbitux in North America pursuant to a modification of our existing arrangement, and we began selling Erbitux at that time. This modification did not affect our rights with respect to Erbitux in other jurisdictions. In connection with the modification of terms, we provide consideration to BMS based upon a tiered percentage of net sales of Erbitux in North America estimated to average 38 percent through September 2018. The transfer of the commercialization rights was accounted for as an acquisition of a business. The consideration to be paid to BMS was accounted for as contingent consideration liability. See Note 6 for discussion regarding the estimation of this liability.

Merck KGaA

A development and license agreement grants Merck exclusive rights to market Erbitux outside of North America until December 2018. A separate agreement grants co-exclusive rights among Merck, BMS, and us in Japan and expires in 2032. This agreement was amended in 2015 to grant Merck exclusive commercialization rights in Japan but did not result in any changes to our rights.

Merck manufactures Erbitux for supply in its territory as well as for Japan. We receive a royalty on the sales of Erbitux outside of North America, which is included in collaboration and other revenue as the underlying sales occur. Royalties due to third parties are recorded as a reduction of collaboration and other revenue, net of any royalty reimbursements due from third parties.

Olumiant®

We have a worldwide license and collaboration agreement with Incyte Corporation (Incyte) which provides us the development and commercialization rights to its Janus tyrosine kinase inhibitor compound, now known as Olumiant, and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double-digit royalty payments on future global sales with rates ranging up to 20 percent if the product is successfully commercialized. The agreement provides Incyte with options to co-develop these compounds on an indication-by-indication basis by funding 30 percent of the associated development costs from the initiation of a Phase IIb trial through regulatory approval in exchange for increased tiered royalties ranging up to percentages in the high twenties. Incyte exercised its option to co-develop Olumiant in rheumatoid arthritis in 2010 and psoriatic arthritis, atopic dermatitis, alopecia areata, and systemic lupus erythematosus in 2017. The

agreement calls for payments by us to Incyte associated with certain development, success-based regulatory, and sales-based milestones. In 2016, we incurred milestone-related expenses of $55.0 million in connection with regulatory submissions in the U.S. and Europe, which were recorded as research and development expense. We capitalized as intangible assets $65.0 million in the first quarter of 2017 and $15.0 million of milestones in the third quarter of 2017 in connection with regulatory approvals in Europe and Japan, respectively, which are being amortized to cost of sales over the term of the collaboration. In the fourth quarter of 2017, we incurred milestone-related expense of $30.0 million as a result of the molecule moving into Phase III testing for the atopic dermatitis indication, which was recorded as research and development expense. We capitalized as an intangible asset $100.0 million in the second quarter of 2018 in connection with a milestone payment related to a regulatory approval in the U.S., which is being amortized to cost of sales over the term of the collaboration. As of June 30, 2018, Incyte is eligible to receive up to $150.0 million of additional payments from us contingent upon certain development and success-based regulatory milestones. Incyte is also eligible to receive up to $150.0 million of potential sales-based milestones.

Effient®

We are in a collaborative arrangement with Daiichi Sankyo Co., Ltd. (Daiichi Sankyo) to develop, market, and promote Effient. Marketing rights for major territories are shown below. We and Daiichi Sankyo each have exclusive marketing rights in certain other territories.

Territory	Marketing Rights	Selling Party
U.S.	Co-promotion	Lilly
Major European markets	Co-promotion	Daiichi Sankyo
Japan	Exclusive	Daiichi Sankyo

While major European markets are a co-promotion territory under the terms of our arrangement, Daiichi Sankyo exclusively promotes Effient in these markets.

The parties share approximately 50/50 in the profits, as well as in the costs of development and marketing in the co-promotion territories. A third party manufactures bulk product, and we produce the finished product for our exclusive and co-promotion territories, including the major European markets.

We record net product revenue in our exclusive and co-promotion territories where we are the selling party. Profit-share payments due to Daiichi Sankyo for co-promotion countries where we are the selling party are recorded as marketing, selling, and administrative expenses. Any profit-share payments due to us from Daiichi Sankyo for the major European markets are recorded as collaboration and other revenue. We also record our share of the expenses in these co-promotion territories as marketing, selling, and administrative expenses. In our exclusive territories, we pay Daiichi Sankyo a royalty specific to these territories. All royalties due to Daiichi Sankyo and the third-party manufacturer are recorded in cost of sales. Generic versions of Effient launched in the U.S. in the third quarter of 2017.

The following table summarizes our revenue recognized with respect to Effient:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	**$ 27.9**	$ 142.9	**$ 59.5**	$ 270.7

Tanezumab

We have a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the treatment of osteoarthritis pain, chronic low back pain, and cancer pain. Under the agreement, the companies share equally the ongoing development costs and, if successful, in gross margins and certain commercialization expenses. As of June 30, 2018, Pfizer is eligible to receive up to $350.0 million in success-based regulatory milestones and up to $1.23 billion in a series of sales-based milestones, contingent upon the commercial success of tanezumab.

Note 5: Asset Impairment, Restructuring, and Other Special Charges

The components of the charges included in asset impairment, restructuring, and other special charges in our consolidated condensed statements of operations are described below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Severance:				
Human pharmaceutical products	**$ (24.6)**	$ (1.7)	**$ (24.7)**	$ 111.3
Animal health products	**(2.7)**	0.7	**4.8**	56.3
Total severance	**(27.3)**	(1.0)	**(19.9)**	167.6
Asset impairment and other special charges - Animal health products	**101.7**	51.0	**172.6**	96.3
Total asset impairment, restructuring, and other special charges	**$ 74.4**	$ 50.0	**$ 152.7**	$ 263.9

Our severance charges recognized in the second half of 2017 as part of planned restructuring activities were based upon estimates for the number of employees that either lost or were going to lose their then current roles and would ultimately leave the company. During the second quarter of 2018, we determined that more displaced employees than expected were able to find other roles within the company, resulting in an immaterial reduction in the actual severance costs incurred. The severance cost accrual was reduced as of June 30, 2018 to reflect the amount we expect to pay for our remaining restructuring activities. We expect the majority of the remaining severance payments to be made in the next 12 months.

Asset impairment and other special charges recognized during the three months ended June 30, 2018 resulted primarily from the decision to suspend commercialization of Imrestor®, an animal health product. Additionally, we incurred expenses associated with the review of strategic alternatives for the Elanco animal health business.

Asset impairment, restructuring, and other special charges recognized during the six months ended June 30, 2018 are associated with the severance adjustment and exits costs discussed directly above, as well as the asset impairment, exit costs, and severance costs related to the decision to end Posilac® (rbST) production at the Augusta, Georgia manufacturing site. We are continuing to explore options related to exiting the site. We also incurred expenses associated with the review of strategic alternatives for the Elanco animal health business.

Severance costs recognized during the three and six months ended June 30, 2017 were incurred as a result of actions taken to reduce our cost structure, as well as the integration of Novartis Animal Health (Novartis AH). Asset impairment and other special charges recognized during the three and six months ended June 30, 2017, resulted primarily from integration costs of Novartis AH, as well as asset impairments due to site closures.

Note 6: Financial Instruments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-science products account for a substantial portion of our trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by our ongoing credit-review procedures and insurance. A large portion of our cash is held by a few major financial institutions. We monitor our exposures with these institutions and do not expect any of these institutions to fail to meet their obligations. Major financial institutions represent the largest component of our investments in corporate debt securities. In accordance with documented corporate risk-management policies, we monitor the amount of credit exposure to any one financial institution or corporate issuer. We are exposed to credit-related losses in the event of nonperformance by counterparties to risk-management instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

Our equity investments are accounted for using three different methods depending on the type of equity investment:

- Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method, with our share of earnings or losses reported in other-net, (income) expense.
- For equity investments that do not have readily determinable fair values, we measure these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Any change in recorded value is recorded in other-net, (income) expense.

- Our public equity investments are measured and carried at fair value. Any change in fair value is recognized in other-net, (income) expense.

We review equity investments other than public equity investments for indications of impairment on a regular basis.

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and are intended to offset losses and gains on the assets, liabilities, and transactions being hedged. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative instruments that are designated and qualify as fair value hedges, the derivative instrument is marked to market, with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of gains and losses is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings. For derivative and non-derivative instruments that are designated and qualify as net investment hedges, the effective portion of foreign currency translation gains or losses due to spot rate fluctuations are reported as a component of accumulated other comprehensive loss. Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in current earnings during the period of change.

We may enter into foreign currency forward or option contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, British pound, and the Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward and option contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other–net, (income) expense. We may enter into foreign currency forward and option contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months. At June 30, 2018, we had outstanding foreign currency forward commitments to purchase 1.77 billion U.S. dollars and sell 1.53 billion euro, commitments to purchase 1.08 billion euro and sell 1.26 billion U.S. dollars, commitments to purchase 396.4 million U.S. dollars and sell 43.67 billion Japanese yen, commitments to purchase 159.5 million Swiss Francs and sell 160.6 million U.S. dollars, and commitments to purchase 305.2 million U.S. dollars and sell 230.9 million British pounds, which will all settle within 30 days.

Foreign currency exchange risk is also managed through the use of foreign currency debt and cross-currency interest rate swaps. Our foreign currency-denominated notes had carrying amounts of $3.40 billion and $3.70 billion as of June 30, 2018 and December 31, 2017, respectively, and have been designated as, and are effective as, economic hedges of net investments in certain of our euro-denominated and Swiss franc-denominated foreign operations. Our cross-currency interest rate swaps that convert a portion of our U.S. dollar-denominated floating rate debt to foreign-denominated floating rate debt have also been designated as, and are effective as, economic hedges of net investments, primarily in our euro-denominated foreign operations.

In the normal course of business, our operations are exposed to fluctuations in interest rates which can vary the costs of financing, investing, and operating. We address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact of fluctuations in interest rates on earnings. Our primary interest-rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest-rate exposures, we strive to achieve an acceptable balance between fixed- and floating-rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance.

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements. Cash proceeds from or payments to counterparties resulting from the termination of interest rate swaps are classified as operating activities in our consolidated condensed statements of cash flows. At June 30, 2018, substantially all of our total long-term debt is at a fixed rate. We have converted 25 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps.

We may enter into forward contracts and designate them as cash flow hedges to limit the potential volatility of earnings and cash flow associated with forecasted sales of available-for-sale securities.

We also may enter into forward-starting interest rate swaps, which we designate as cash flow hedges, as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. Upon completion of a debt issuance and termination of the swap, the change in fair value of these

instruments is recorded as part of other comprehensive income (loss) and is amortized to interest expense over the life of the underlying debt.

The Effect of Risk-Management Instruments on the Consolidated Condensed Statements of Operations

The following effects of risk-management instruments were recognized in other–net, (income) expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fair value hedges:				
Effect from hedged fixed-rate debt	**$ (19.7)**	$ 15.0	**$ (74.5)**	$ 7.5
Effect from interest rate contracts	**19.7**	(15.0)	**74.5**	(7.5)
Cash flow hedges:				
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**3.7**	3.7	**7.3**	7.4
Net losses on foreign currency exchange contracts not designated as hedging instruments	**59.1**	25.8	**75.7**	62.9

During the six months ended June 30, 2018 and 2017, net losses related to ineffectiveness, as well as net losses related to the portion of our risk-management hedging instruments, fair value hedges, and cash flow hedges that were excluded from the assessment of effectiveness, were not material.

The Effect of Risk-Management Instruments on Other Comprehensive Income (Loss)

The effective portion of risk-management instruments that was recognized in other comprehensive income (loss) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net investment hedges:				
Foreign currency-denominated notes	**$ 208.5**	$ (194.4)	**$ 100.8**	$ (273.3)
Cross-currency interest rate swaps	**69.1**	(51.5)	**37.6**	(57.6)
Cash flow hedges:				
Forward-starting interest rate swaps	**—**	13.0	**—**	13.0

During the next 12 months, we expect to reclassify $14.9 million of pretax net losses on cash flow hedges from accumulated other comprehensive loss to other–net, (income) expense.

Fair Value of Financial Instruments

The following tables summarize certain fair value information at June 30, 2018 and December 31, 2017 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount and amortized cost of certain other investments:

			Fair Value Measurements Using			
	Carrying Amount	Cost [1]	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2018						
Cash equivalents	**$ 5,188.2**	**$ 5,188.2**	**$ 5,188.2**	**$ —**	**$ —**	**$ 5,188.2**
Short-term investments:						
U.S. government and agency securities	**$ 10.1**	**$ 10.1**	**$ 10.1**	**$ —**	**$ —**	**$ 10.1**
Corporate debt securities	**70.1**	**70.2**	**—**	**70.1**	**—**	**70.1**
Asset-backed securities	**7.8**	**7.8**	**—**	**7.8**	**—**	**7.8**
Other securities	**4.2**	**4.2**	**—**	**4.2**	**—**	**4.2**
Short-term investments	**$ 92.2**					
Noncurrent investments:						
U.S. government and agency securities	**$ 161.9**	**$ 167.9**	**$ 161.9**	**$ —**	**$ —**	**$ 161.9**
Corporate debt securities	**659.5**	**672.4**	**—**	**659.5**	**—**	**659.5**
Mortgage-backed securities	**106.5**	**110.5**	**—**	**106.5**	**—**	**106.5**
Asset-backed securities	**31.8**	**32.2**	**—**	**31.8**	**—**	**31.8**
Other securities	**136.0**	**39.3**	**—**	**—**	**136.0**	**136.0**
Marketable equity securities	**315.7**	**133.5**	**315.7**	**—**	**—**	**315.7**
Equity investments without readily determinable fair values [2]	**392.8**					
Equity method investments [2]	**255.4**					
Noncurrent investments	**$ 2,059.6**					
December 31, 2017						
Cash equivalents	$ 4,763.9	$ 4,763.9	$ 4,712.4	$ 51.5	$ —	$ 4,763.9
Short-term investments:						
U.S. government and agency securities	$ 217.8	$ 218.2	$ 217.8	$ —	$ —	$ 217.8
Corporate debt securities	1,182.3	1,183.2	—	1,182.3	—	1,182.3
Asset-backed securities	94.2	94.3	—	94.2	—	94.2
Other securities	3.6	3.6	—	3.6	—	3.6
Short-term investments	$ 1,497.9					
Noncurrent investments:						
U.S. government and agency securities	$ 360.0	$ 365.0	$ 360.0	$ —	$ —	$ 360.0
Corporate debt securities	3,464.3	3,473.5	—	3,464.3	—	3,464.3
Mortgage-backed securities	202.4	204.2	—	202.4	—	202.4
Asset-backed securities	653.9	656.0	—	653.9	—	653.9
Other securities	132.1	66.4	—	—	132.1	132.1
Marketable equity securities	281.3	131.0	281.3	—	—	281.3
Cost and equity method investments [2]	584.8					
Noncurrent investments	$ 5,678.8					

[1] For available-for-sale debt securities, amounts disclosed represent the securities' amortized cost.

[2] Fair value disclosures are not applicable for equity method investments and investments accounted for under the measurement alternative for equity investments that do not have readily determinable fair values.

	Carrying Amount	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Short-term commercial paper borrowings					
June 30, 2018	**$ (2,448.0)**	**$ —**	**$ (2,445.9)**	**$ —**	**$ (2,445.9)**
December 31, 2017	(2,696.8)	—	(2,690.6)	—	(2,690.6)
Long-term debt, including current portion					
June 30, 2018	**$ (9,771.6)**	**$ —**	**$ (10,063.5)**	**$ —**	**$ (10,063.5)**
December 31, 2017	(10,950.3)	—	(11,529.9)	—	(11,529.9)

	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2018					
Risk-management instruments:					
Interest rate contracts designated as fair value hedges:					
Other current liabilities	**$ (4.2)**	**$ —**	**$ (4.2)**	**$ —**	**$ (4.2)**
Other noncurrent liabilities	**(45.5)**	**—**	**(45.5)**	**—**	**(45.5)**
Cross-currency interest rate contracts designated as net investment hedges:					
Other receivables	**21.2**	**—**	**21.2**	**—**	**21.2**
Sundry	**4.2**	**—**	**4.2**	**—**	**4.2**
Other current liabilities	**(20.5)**	**—**	**(20.5)**	**—**	**(20.5)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**11.8**	**—**	**11.8**	**—**	**11.8**
Other current liabilities	**(9.6)**	**—**	**(9.6)**	**—**	**(9.6)**
Contingent consideration liabilities [(1)]:					
Other current liabilities	**(123.3)**	**—**	**—**	**(123.3)**	**(123.3)**
Other noncurrent liabilities	**(41.1)**	**—**	**—**	**(41.1)**	**(41.1)**
December 31, 2017					
Risk-management instruments:					
Interest rate contracts designated as fair value hedges:					
Other receivables	$ 0.8	$ —	$ 0.8	$ —	$ 0.8
Sundry	35.1	—	35.1	—	35.1
Other current liabilities	(0.2)	—	(0.2)	—	(0.2)
Other noncurrent liabilities	(10.5)	—	(10.5)	—	(10.5)
Cross-currency interest rate contracts designated as net investment hedges:					
Other current liabilities	(33.4)	—	(33.4)	—	(33.4)
Other noncurrent liabilities	(26.0)	—	(26.0)	—	(26.0)
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	26.8	—	26.8	—	26.8
Other current liabilities	(36.0)	—	(36.0)	—	(36.0)
Contingent consideration liabilities [(1)]:					
Other current liabilities	(208.0)	—	—	(208.0)	(208.0)
Other noncurrent liabilities	(45.2)	—	—	(45.2)	(45.2)

[(1)] Contingent consideration liabilities primarily relate to the Erbitux arrangement with BMS discussed in Note 4.

Risk-management instruments above are disclosed on a gross basis. There are various rights of setoff associated with certain of the risk-management instruments above that are subject to an enforceable master netting arrangement or similar agreements. Although various rights of setoff and master netting arrangements or similar agreements may exist with the individual counterparties to the risk-management instruments above, individually, these financial rights are not material.

We determine our Level 1 and Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. Level 3 fair value measurements for other investment securities are determined using unobservable inputs, including the investments' cost adjusted for impairments and price changes from orderly transactions. The fair values of equity method investments and investments measured under the measurement alternative for equity investments that do not have readily determinable fair values are not readily available.

Contingent consideration liabilities primarily include contingent consideration related to Erbitux, for which the fair value was estimated using a discounted cash flow analysis and Level 3 inputs, including projections representative of a market participant view for net sales in North America through September 2018 and an estimated discount rate. The amount to be paid is calculated as a tiered percentage of net sales (see Note 4) and will, therefore, vary directly with increases and decreases in net sales of Erbitux in North America. There is no cap on the amount that may be paid pursuant to this arrangement. The decrease in the fair value of the contingent consideration liabilities during the six months ended June 30, 2018 was due primarily to cash payments of $101.8 million related to Erbitux. The change in the fair value of the contingent consideration liabilities recognized in earnings during the three and six months ended June 30, 2018 and 2017 due to changes in time value of money was not material.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of June 30, 2018:

		Maturities by Period			
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 1,047.7	$ 88.0	$ 656.8	$ 148.3	$ 154.6

A summary of the fair value of available-for-sale securities in an unrealized gain or loss position and the amount of unrealized gains and losses (pretax) in accumulated other comprehensive loss follows:

	June 30, 2018	December 31, 2017
Unrealized gross gains	**$ 1.8**	$ 184.7
Unrealized gross losses	**25.2**	47.5
Fair value of securities in an unrealized gain position	**148.0**	1,434.2
Fair value of securities in an unrealized loss position	**898.0**	4,692.8

A summary of the unrealized gains and losses (pretax) recognized in our statements of operations for equity securities held as of June 30, 2018 is as follows:

	Three Months Ended June 30,	Six Months Ended June 30,
Unrealized gain (loss), net	**$ 20.8**	**$ 38.6**

We periodically assess our investment in available-for-sale securities for other-than-temporary impairment losses. There were no other-than-temporary impairment losses in the three or six months ended June 30, 2018 or the three or six months ended June 30, 2017.

We periodically assess our investments in equity securities other than public equity securities for impairment losses. Impairment losses recognized on these equity securities in the three and six months ended June 30, 2018 were immaterial.

For fixed-income securities, the amount of credit losses are determined by comparing the difference between the present value of future cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing credit losses include the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration.

For equity securities, factors considered in assessing impairment losses include the financial condition and near term prospects of the issuer and general market conditions and industry specific factors.

As of June 30, 2018, the available-for-sale securities in an unrealized loss position include primarily fixed-rate debt securities of varying maturities, which are sensitive to changes in the yield curve and other market conditions. Approximately 60 percent of the fixed-rate debt securities in a loss position are investment-grade debt securities. As of June 30, 2018, we do not intend to sell, and it is not more likely than not that we will be required to sell the

securities in a loss position before the market values recover or the underlying cash flows have been received, and there is no indication of default on interest or principal payments for any of our debt securities.

Activity related to our investment portfolio, substantially all of which related to equity and available-for-sale securities, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales	**$ 4,953.8**	$ 959.0	**$ 5,546.4**	$ 2,051.5
Realized gross gains on sales	**5.6**	22.2	**7.7**	73.9
Realized gross losses on sales	**47.4**	1.1	**49.0**	2.4

Realized gains and losses on sales of available-for-sale investments are computed based upon specific identification of the initial cost adjusted for any other-than-temporary declines in fair value that were recorded in earnings.

Adjustments recorded to our equity investments without readily determinable fair values are based upon changes in the equity instrument's value resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Downward adjustments resulting from an impairment are recorded based upon the impairment considerations mentioned above. Adjustments recorded during the six months ended June 30, 2018 were immaterial.

Accounts Receivable Factoring Arrangements

We have entered into accounts receivable factoring agreements with financial institutions to sell certain of our non-U.S. accounts receivable. These transactions are accounted for as sales and result in a reduction in accounts receivable because the agreements transfer effective control over and risk related to the receivables to the buyers. Our factoring agreements do not allow for recourse in the event of uncollectibility, and we do not retain any interest in the underlying accounts receivable once sold. We derecognized $673.9 million and $723.2 million of accounts receivable as of June 30, 2018 and December 31, 2017, respectively, under these factoring arrangements. The cost of factoring such accounts receivable on our consolidated condensed results of operations for the six months ended June 30, 2018 and 2017 was not material.

Note 7: Shareholders' Equity

During the six months ended June 30, 2018, we repurchased $2.05 billion, or 25.8 million shares, completing the $5.00 billion share repurchase program announced in October 2013. During the six months ended June 30, 2017, we repurchased $259.9 million of shares under the same repurchase program. A payment of $60.0 million was made in the fourth quarter of 2016 for shares repurchased in 2017.

An $8.00 billion share repurchase program was authorized in June 2018. There were no shares repurchased under the $8.00 billion program during the six months ended June 30, 2018.

Note 8: Income Taxes

During the three months ended June 30, 2018, we incurred $264.7 million of income tax expense, despite earning $4.8 million of income before income taxes as a result of the non-deductible acquired IPR&D charges totaling $1.56 billion related to the acquisitions of ARMO and AurKa. The effective tax rate for the six months ended June 30, 2018 was 33.8 percent as it also reflected these non-deductible charges. The effective tax rate for the six months ended June 30, 2017 was 32.1 percent as it reflected the non-deductible acquired IPR&D charge of $857.6 million related to the acquisition of CoLucid. In December 2017, the President of the U.S. signed into law the Tax Cuts and Jobs Act (2017 Tax Act), which includes significant changes to the U.S. corporate income tax system, including a reduction in the corporate income tax rate, transition to a territorial tax system, and modifications to the international tax provisions. The changes that became effective January 1, 2018 resulted in a reduction to our tax expense for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017, respectively.

At June 30, 2018, our accounting for the 2017 Tax Act is incomplete; however, we expect to complete our accounting by December 2018. As discussed in our 2017 Annual Report on Form 10-K, we recorded provisional adjustments for effects that we were able to reasonably estimate. Those effects included the one-time repatriation transition tax (also known as the 'Toll Tax'), re-measurement of deferred tax assets and liabilities, unremitted

earnings, executive compensation, and uncertain tax positions. At year-end, we were not able to make reasonable estimates for Global Intangible Low-Taxed Income (GILTI) deferred taxes or valuation allowances; therefore, we did not record provisional amounts. We are still evaluating the effects of the GILTI provisions and assessing our valuation allowances, and we have not yet determined our accounting policy election with respect to GILTI deferred taxes or the application of intra-entity transfers of inventory; therefore, the estimated annual effective tax rate reflects GILTI as a period expense. For the six months ended June 30, 2018, we have not made any additional measurement-period adjustments related to these provisional items as we are continuing to collect and analyze additional information as well as evaluate the interpretations and assumptions made. Updates to our calculations may result in material changes to the provisional adjustments recorded at year-end and the estimated annual effective tax rate.

The U.S. examination of tax years 2013-2015 began in 2016. While we believe it is reasonably possible that this audit could reach resolution within the next 12 months, the IRS examination of tax years 2013-2015 remains ongoing. Therefore, it is not possible to reasonably estimate the change to unrecognized tax benefits and the related future cash flows.

Note 9: Retirement Benefits

Net pension and retiree health benefit (income) cost included the following components:

	Defined Benefit Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Components of net periodic benefit cost:				
Service cost	**$ 77.7**	$ 86.7	**$ 158.1**	$ 165.6
Interest cost	**112.0**	103.2	**224.6**	205.6
Expected return on plan assets	**(211.2)**	(195.3)	**(423.7)**	(389.3)
Amortization of prior service cost	**1.3**	1.5	**2.5**	2.9
Recognized actuarial loss	**91.6**	70.4	**182.0**	143.1
Net periodic benefit cost	**$ 71.4**	$ 66.5	**$ 143.5**	$ 127.9

	Retiree Health Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Components of net periodic benefit income:				
Service cost	**$ 10.9**	$ 12.0	**$ 21.6**	$ 23.2
Interest cost	**13.5**	13.4	**27.4**	26.4
Expected return on plan assets	**(43.9)**	(40.1)	**(87.8)**	(80.4)
Amortization of prior service benefit	**(20.4)**	(22.5)	**(40.9)**	(45.0)
Recognized actuarial loss	**2.2**	5.1	**4.6**	9.2
Net periodic benefit income	**$ (37.7)**	$ (32.1)	**$ (75.1)**	$ (66.6)

We contributed approximately $25 million required to satisfy minimum funding requirements to our defined benefit pension and retiree health benefit plans during the six months ended June 30, 2018. Additional discretionary funding in the aggregate was not material during the six months ended June 30, 2018. During the remainder of 2018, we expect to make contributions to our defined benefit pension and retiree health benefit plans of approximately $30 million to satisfy minimum funding requirements. No additional discretionary funding for the remainder of 2018 has been approved at this time.

As discussed in Note 2, upon adoption of Accounting Standards Update 2017-07, *Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* pension and retiree health benefit cost components other than service costs are presented in other–net, (income) expense.

Note 10: Contingencies

We are a party to various legal actions and government investigations. The most significant of these are described below. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that, except as noted below with respect to the Alimta® patent litigation and administrative proceedings, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

Alimta Patent Litigation and Administrative Proceedings

A number of generic manufacturers are seeking approvals in the U.S., Japan, and a number of countries in Europe to market generic forms of Alimta prior to the expiration of our vitamin regimen patents, alleging that those patents are invalid, not infringed, or both. We believe our Alimta vitamin regimen patents are valid and enforceable against these generic manufacturers. However, it is not possible to determine the ultimate outcome of the proceedings, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect that a loss of exclusivity for Alimta would result in a rapid and severe decline in future revenue for the product in the relevant market.

U.S. Patent Litigation and Administrative Proceedings

In the U.S., more than 10 Abbreviated New Drug Applications (ANDAs) seeking approval to market generic versions of Alimta prior to the expiration of our vitamin regimen patent (expiring in 2021 plus pediatric exclusivity expiring in 2022) have been filed by a number of companies, including Teva Parenteral Medicines, Inc. (Teva) and APP Pharmaceuticals, LLC (APP) pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). We have received favorable decisions from the U.S. Court of Appeals for the Federal Circuit (affirming the U.S. District Court for the Southern District of Indiana's decisions finding our U.S. vitamin regimen patent valid and infringed) against Teva, APP, and two other defendants' proposed products, and similar favorable judgments have been entered by the U.S. District Court for the Southern District of Indiana against five other companies. The remaining ANDA applicants have agreed to a preliminary injunction or stay pending the appeal of the *inter partes* review (IPR) described in the following sentence. In October 2017, the U.S. Patent and Trademark Office issued written decisions in our favor following IPR of our vitamin regimen patent, finding that the generic company petitioners failed to show that the claims in our patent are unpatentable. A number of these challengers have filed an appeal.

We currently have pending lawsuits in the U.S. District Court for the Southern District of Indiana alleging infringement against Actavis LLC and Apotex Inc. in response to their applications to market alternative forms of pemetrexed products, and a similar lawsuit was filed in the U.S. District Court for Delaware against Eagle Pharmaceuticals, Inc. In June 2018, the U.S. District Court for the Southern District of Indiana ruled in our favor in two similar cases, finding Dr. Reddy's Laboratories' (Dr. Reddy) and Hospira, Inc.'s (Hospira) proposed products would infringe our patent. Dr. Reddy and Hospira have appealed those rulings.

European Patent Litigation and Administrative Proceedings

In July 2017, the United Kingdom (U.K.) Supreme Court ruled that commercialization of certain salt forms of pemetrexed (the active ingredient in Alimta) by Actavis Group ehf and other Actavis companies directly infringes our vitamin regimen patents in the U.K., Italy, France, and Spain. Litigation in the U.K. is now concluded.

Hexal AG (Hexal) and Stada Arzneimittel AG have each challenged the validity of our vitamin regimen patent before the German Federal Patent Court. At a hearing in July 2018, the German Federal Patent Court held that our vitamin regimen patent is invalid. We plan to appeal this decision. Under German law, the patent remains in force pending appeal. A number of generic competitors have received approval to market generic versions of pemetrexed in Germany. Injunctions are in place against four of these companies, including Hexal AG and ratiopharm GmbH (a subsidiary of Teva), as well as Informationsstelle für Arzneispezialitäten GmbH. Whether the infringement court grants further injunctions or maintains the injunctions pending the appeal, or whether a generic competitor chooses to launch at risk, makes the timing of possible generic entry and market erosion unpredictable.

Additional legal proceedings are ongoing in various national courts of other European countries. We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets and that generic competitors may choose to launch at risk (including one generic product currently on the market in France). We will continue to seek to remove any generic pemetrexed products launched at risk in European markets, seek damages in respect of such launches, and defend our patents against validity challenges.

Japanese Administrative Proceedings

Three separate sets of demands for invalidation of our two vitamin regimen patents, involving several companies, have been filed with the Japanese Patent Office (JPO). In February 2017, the Japan Intellectual Property High Court confirmed the decisions of the JPO upholding the validity of both our Japanese vitamin regime patents in the challenge initiated by Sawai Pharmaceutical Co., Ltd. and joined by three other companies. This decision is now final. In May 2017, the JPO resumed one of the two remaining sets of demands, brought by Nipro Corporation (Nipro) and in July 2018, the JPO issued written decisions dismissing Nipro's invalidation demands. The other set of demands, brought by Hospira Inc., remains suspended. If upheld through all challenges, these patents provide intellectual property protection for Alimta until June 2021. Notwithstanding our patents, generic versions of Alimta were approved in Japan starting in February 2016. We do not currently anticipate that generic versions of Alimta will proceed to pricing approval.

Cymbalta® Product Liability Litigation

We were named as a defendant in a purported class-action lawsuit in the U.S. District Court for the Central District of California (now called *Strafford et al. v. Eli Lilly and Company*) involving Cymbalta. The plaintiffs, purporting to represent a class of all persons within the U.S. who purchased and/or paid for Cymbalta, asserted claims under the consumer protection statutes of four states, California, Massachusetts, Missouri, and New York, and sought declaratory, injunctive, and monetary relief for various alleged economic injuries arising from discontinuing treatment with Cymbalta. In December 2014, the district court denied the plaintiffs' motion for class certification. Plaintiffs filed a petition with the U.S. Court of Appeals for the Ninth Circuit requesting permission to file an interlocutory appeal of the denial of class certification, which was denied. Plaintiffs filed a second motion for certification under the consumer protection acts of New York and Massachusetts. The district court denied that motion for class certification in July 2015. The district court dismissed the suits and plaintiffs appealed to the U.S. Court of Appeals for the Ninth Circuit. In June 2017, we moved to dismiss the appeal for lack of jurisdiction based on the U.S. Supreme Court's recent decision in *Microsoft v. Baker*. In November 2017, the U.S. Court of Appeals for the Ninth Circuit dismissed the suit. In July 2018, the U.S. District Court for the District of California denied Plaintiffs' motion to reopen the case.

We are named in approximately 140 lawsuits involving approximately 1,470 plaintiffs filed in various federal and state courts alleging injuries arising from discontinuation of treatment with Cymbalta. These include approximately 40 individual and multi-plaintiff cases filed in California state court, centralized in a California Judicial Counsel Coordination Proceeding pending in Los Angeles. The first individual product liability cases were tried in August 2015 and resulted in defense verdicts against four plaintiffs. We believe all these Cymbalta lawsuits and claims are without merit. We have reached a settlement framework that provides for a comprehensive resolution of nearly all of these personal injury claims, filed or unfiled, alleging injuries from discontinuing treatment with Cymbalta.

Brazil–Employee Litigation

Our subsidiary in Brazil, Eli Lilly do Brasil Limitada (Lilly Brasil), is named in a lawsuit brought by the Labor Attorney for the 15th Region in the Labor Court of Paulinia, State of Sao Paulo, Brazil, alleging possible harm to employees and former employees caused by exposure to heavy metals at a former Lilly Brasil manufacturing facility in Cosmopolis, Brazil, operated by the company between 1977 and 2003. The plaintiffs allege that some employees at the facility were exposed to benzene and heavy metals; however, Lilly Brasil maintains that these alleged contaminants were never used in the facility. In May 2014, the labor court judge ruled against Lilly Brasil. The judge's ruling orders Lilly Brasil to undertake several actions of unspecified financial impact, including paying lifetime medical insurance for the employees and contractors who worked at the Cosmopolis facility more than six months during the affected years and their children born during and after this period. While we cannot currently estimate the range of reasonably possible financial losses that could arise in the event we do not ultimately prevail in the litigation, the judge has estimated the total financial impact of the ruling to be approximately 1.0 billion Brazilian real (approximately $260 million as of June 30, 2018) plus interest. We filed an appeal in May 2014. In April 2018 the appeals court heard oral arguments in preparation for giving its written judgment on the appeal. We expect a written decision in the third quarter of 2018. While the written decision has not yet been issued, the appeals court issued a press release indicating that it would affirm the lower court's ruling, with the total financial

impact of the ruling estimated to be approximately 500 million Brazilian real (approximately $130 million as of June 30, 2018). We strongly disagree with the court's decision and plan to appeal.

We are also named in approximately 30 lawsuits filed in the same court by individual former employees making similar claims.

Lilly Brasil and Elanco Quimica Ltda. have been named in a lawsuit involving approximately 305 individuals alleging that the companies failed to provide warnings regarding exposure to heavy metals or proper equipment at the former Cosmopolis facility, and that this alleged failure could result in possible harm to employees, former employees, and their dependents. In June 2017, the court denied the plaintiffs' request for a preliminary injunction. In September 2017, the court dismissed the claims brought by all but the first named plaintiff. The plaintiffs are appealing that decision.

Lilly Brasil and Elanco Quimica Ltda. have also been named in a separate lawsuit involving approximately 105 individuals alleging that the companies failed to provide warnings regarding exposure to heavy metals or proper equipment at the former Cosmopolis facility, and that this alleged failure could result in possible harm to contractors and suppliers, and their dependents. In November 2017, the court dismissed the claims brought by all but the first named plaintiff.

We believe all of these lawsuits are without merit and are prepared to defend against them vigorously.

Agri Stats, Inc.

Agri Stats, Inc., a Lilly subsidiary, has been named as a co-defendant in approximately 15 antitrust suits, including several putative class-actions, filed in the U.S. District Court for the Northern District of Illinois, District of Kansas and the District of Minnesota. The matters allege that defendants engaged in a conspiracy to limit U.S. chicken and swine production and inflate prices. Plaintiffs consist of private direct and indirect purchasers of broiler chickens and pork products. We believe these claims are without merit and are prepared to defend against them vigorously.

Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability and related claims in the future. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products.

Note 11: Other Comprehensive Income (Loss)

The following tables summarize the activity related to each component of other comprehensive income (loss) during the three months ended June 30, 2018 and 2017:

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at April 1, 2018	**$ (850.6)**	**$ (51.0)**	**$ (4,304.4)**	**$ (231.5)**	**$ (5,437.5)**
Other comprehensive income (loss) before reclassifications	**(820.9)**	**65.9**	**54.5**	**0.1**	**(700.4)**
Net amount reclassified from accumulated other comprehensive loss	**—**	**(33.0)**	**59.3**	**2.9**	**29.2**
Net other comprehensive income (loss)	**(820.9)**	**32.9**	**113.8**	**3.0**	**(671.2)**
Balance at June 30, 2018	**$ (1,671.5)**	**$ (18.1)**	**$ (4,190.6)**	**$ (228.5)**	**$ (6,108.7)**

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at April 1, 2017	$ (1,648.7)	$ 179.4	$ (3,349.4)	$ (208.4)	$ (5,027.1)
Other comprehensive income (loss) before reclassifications	299.3	(12.5)	(37.7)	8.4	257.5
Net amount reclassified from accumulated other comprehensive loss	—	(13.7)	38.6	2.4	27.3
Net other comprehensive income (loss)	299.3	(26.2)	0.9	10.8	284.8
Balance at June 30, 2017 [(1)]	$ (1,349.4)	$ 153.2	$ (3,348.5)	$ (197.6)	$ (4,742.3)

The following tables summarize the activity related to each component of other comprehensive income (loss) during the six months ended June 30, 2018 and 2017:

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2018 [2]	**$ (1,233.4)**	**$ 113.5**	**$ (4,340.7)**	**$ (234.3)**	**$ (5,694.9)**
Reclassification due to adoption of new accounting standard [3]	**—**	**(128.9)**	**—**	**—**	**(128.9)**
Other comprehensive income (loss) before reclassifications	**(438.1)**	**29.9**	**32.4**	**—**	**(375.8)**
Net amount reclassified from accumulated other comprehensive loss	**—**	**(32.6)**	**117.7**	**5.8**	**90.9**
Net other comprehensive income (loss)	**(438.1)**	**(2.7)**	**150.1**	**5.8**	**(284.9)**
Balance at June 30, 2018	**$ (1,671.5)**	**$ (18.1)**	**$ (4,190.6)**	**$ (228.5)**	**$ (6,108.7)**

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2017 [2]	$ (1,867.3)	$ 224.0	$ (3,371.6)	$ (210.9)	$ (5,225.8)
Other comprehensive income (loss) before reclassifications	517.9	(24.3)	(54.6)	8.4	447.4
Net amount reclassified from accumulated other comprehensive loss	—	(46.5)	77.7	4.9	36.1
Net other comprehensive income (loss)	517.9	(70.8)	23.1	13.3	483.5
Balance at June 30, 2017 [1]	$ (1,349.4)	$ 153.2	$ (3,348.5)	$ (197.6)	$ (4,742.3)

[1] Accumulated other comprehensive loss as of June 30, 2017 consists of $4,774.9 million of accumulated other comprehensive loss attributable to controlling interest and $32.6 million of accumulated other comprehensive income attributable to non-controlling interest.

[2] Accumulated other comprehensive loss as of January 1, 2018 consists of $5,718.6 million of accumulated other comprehensive loss attributable to controlling interest and $23.7 million of accumulated other comprehensive income attributable to non-controlling interest. Accumulated other comprehensive loss as of January 1, 2017 consists of $5,274.0 million of accumulated other comprehensive loss attributable to controlling interest and $48.2 million of accumulated other comprehensive income attributable to non-controlling interest.

[3] This reclassification consists of $104.8 million of accumulated other comprehensive loss attributable to controlling interest and $24.1 million of accumulated other comprehensive loss attributable to non-controlling interest. Refer to Note 2 for further details regarding the reclassification due to the adoption of Accounting Standards Update 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.*

.

The tax effects on the net activity related to each component of other comprehensive income (loss) were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Tax benefit (expense)	**2018**	**2017**	**2018**	**2017**
Foreign currency translation gains/losses	**$ (58.3)**	$ 86.1	**$ (18.2)**	$ 115.8
Unrealized net gains/losses on securities	**(8.9)**	11.5	**1.3**	29.6
Defined benefit pension and retiree health benefit plans	**(23.6)**	(6.1)	**(37.9)**	(14.6)
Effective portion of cash flow hedges	**(0.7)**	(5.8)	**(1.5)**	(7.1)
Benefit/(provision) for income taxes allocated to other comprehensive income (loss) items	**$ (91.5)**	$ 85.7	**$ (56.3)**	$ 123.7

Except for the tax effects of foreign currency translation gains and losses related to our foreign currency-denominated notes, cross-currency interest rate swaps, and other foreign currency exchange contracts designated as net investment hedges (see Note 6), income taxes were not provided for foreign currency translation. Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in the consolidated condensed statements of operations.

Reclassifications out of accumulated other comprehensive loss were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		
Details about Accumulated Other Comprehensive Loss Components	**2018**	**2017**	**2018**	**2017**	**Affected Line Item in the Consolidated Condensed Statements of Operations**
Amortization of retirement benefit items:					
Prior service benefits, net	**$ (19.1)**	$ (21.0)	**$ (38.4)**	$ (42.1)	[1]
Actuarial losses, net	**93.8**	75.5	**186.6**	152.3	[1]
Total before tax	**74.7**	54.5	**148.2**	110.2	
Tax benefit	**(15.4)**	(15.9)	**(30.5)**	(32.5)	Income taxes
Net of tax	**59.3**	38.6	**117.7**	77.7	
Unrealized gains/losses on available-for-sale securities:					
Realized (gains), losses, net	**(41.8)**	(21.1)	**(41.3)**	(71.5)	Other–net, (income) expense
Tax (benefit) expense	**8.8**	7.4	**8.7**	25.0	Income taxes
Net of tax	**(33.0)**	(13.7)	**(32.6)**	(46.5)	
Other, net of tax	**2.9**	2.4	**5.8**	4.9	Other–net, (income) expense
Total reclassifications for the period (net of tax)	**$ 29.2**	$ 27.3	**$ 90.9**	$ 36.1	

[1] These accumulated other comprehensive loss components are included in the computation of net periodic benefit (income) cost (see Note 9).

Note 12: Other–Net, (Income) Expense

Other–net, (income) expense consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense	**$ 63.3**	$ 53.6	**$ 124.5**	$ 100.2
Interest income	**(41.2)**	(36.9)	**(86.7)**	(69.5)
Retirement benefit	**(54.9)**	(64.3)	**(111.3)**	(127.5)
Other income	**(5.2)**	(12.8)	**(32.0)**	(41.9)
Other–net, (income) expense	**$ (38.0)**	$ (60.4)	**$ (105.5)**	$ (138.7)

As discussed in Note 2, upon adoption of Accounting Standards Update 2017-07, *Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* pension and postretirement benefit cost components other than service costs are presented in other–net, (income) expense. Results for the three and six months ended June 30, 2017 have been reclassified to reflect the adoption of this standard.

Note 13: Segment Information

We have two operating segments—human pharmaceutical products and animal health products. Our operating segments are distinguished by the ultimate end user of the product—humans or animals. Performance is evaluated based on profit or loss from operations before income taxes.

	Three Months Ended June 30,					
	2018			2017		
	U.S. (1)	Outside U.S.	Total	U.S. (1)	Outside U.S.	Total
Segment revenue—to unaffiliated customers:						
Human pharmaceutical products:						
Endocrinology:						
Trulicity®	**$ 612.4**	**$ 167.4**	**$ 779.8**	$ 380.9	$ 99.3	$ 480.2
Humalog®	**464.5**	**305.2**	**769.8**	390.4	288.0	678.4
Forteo®	**224.5**	**210.0**	**434.5**	249.8	196.9	446.7
Humulin®	**238.8**	**107.2**	**346.0**	226.5	131.3	357.8
Basaglar	**156.5**	**45.3**	**201.8**	59.5	27.1	86.6
Jardiance	**85.6**	**61.6**	**147.2**	66.8	36.3	103.2
Trajenta	**56.8**	**84.9**	**141.7**	60.4	81.5	141.9
Other Endocrinology	**61.4**	**72.8**	**134.1**	117.8	78.8	196.5
Total Endocrinology	**1,900.5**	**1,054.4**	**2,954.9**	1,552.1	939.2	2,491.3
Oncology:						
Alimta	**281.3**	**274.6**	**555.9**	274.3	258.6	532.9
Cyramza®	**75.4**	**143.3**	**218.8**	68.7	117.6	186.3
Erbitux	**140.0**	**26.4**	**166.4**	133.0	26.1	159.1
Other Oncology	**110.0**	**59.1**	**169.0**	43.7	33.8	77.6
Total Oncology	**606.7**	**503.4**	**1,110.1**	519.7	436.1	955.9
Cardiovascular:						
Cialis®	**345.7**	**193.0**	**538.7**	381.0	246.3	627.3
Effient	**13.3**	**14.6**	**27.9**	131.0	11.9	142.9
Other Cardiovascular	**96.1**	**30.3**	**126.4**	6.7	35.6	42.2
Total Cardiovascular	**455.1**	**237.9**	**693.0**	518.7	293.8	812.4
Neuroscience:						
Cymbalta	**12.6**	**169.4**	**181.9**	47.1	159.6	206.6
Zyprexa®	**11.8**	**116.2**	**128.0**	13.0	127.8	140.8
Strattera®	**16.9**	**97.3**	**114.2**	101.5	85.1	186.6
Other Neuroscience	**22.5**	**24.3**	**46.9**	30.6	22.0	52.7
Total Neuroscience	**63.8**	**407.2**	**471.0**	192.2	394.5	586.7
Immunology:						
Taltz®	**173.6**	**46.5**	**220.1**	124.4	14.3	138.7
Other Immunology	**1.7**	**42.9**	**44.6**	—	4.8	4.8
Total Immunology	**175.3**	**89.4**	**264.7**	124.4	19.1	143.5
Other pharmaceuticals	**22.3**	**47.1**	**69.5**	10.3	39.3	49.6
Total human pharmaceutical products	**3,223.7**	**2,339.4**	**5,563.2**	2,917.4	2,122.0	5,039.4
Animal health products	**378.2**	**413.8**	**792.1**	406.5	378.3	784.8
Revenue	**$ 3,602.0**	**$ 2,753.3**	**$ 6,355.2**	$ 3,323.9	$ 2,500.3	$ 5,824.3

	Six Months Ended June 30,					
	2018			2017		
	U.S. [1]	Outside U.S.	Total	U.S. [1]	Outside U.S.	Total
Segment revenue—to unaffiliated customers:						
Human pharmaceutical products:						
Endocrinology:						
Humalog	**$ 968.7**	**$ 592.8**	**$ 1,561.5**	$ 839.4	$ 547.3	$ 1,386.8
Trulicity	**1,140.6**	**317.5**	**1,458.1**	677.2	176.0	853.1
Forteo	**346.6**	**401.1**	**747.8**	427.4	366.7	794.2
Humulin	**460.4**	**211.5**	**671.9**	431.9	240.4	672.3
Basaglar	**283.2**	**84.6**	**367.8**	81.5	51.1	132.6
Jardiance	**180.6**	**117.6**	**298.2**	114.6	62.6	177.1
Trajenta	**110.9**	**171.9**	**282.8**	105.8	149.1	254.9
Other Endocrinology	**125.4**	**140.2**	**265.6**	191.2	152.1	343.3
Total Endocrinology	**3,616.4**	**2,037.2**	**5,653.7**	2,869.0	1,745.3	4,614.3
Oncology:						
Alimta	**526.7**	**528.9**	**1,055.5**	501.6	521.2	1,022.8
Cyramza	**143.7**	**258.7**	**402.4**	134.9	222.7	357.6
Erbitux	**261.3**	**54.7**	**316.1**	262.2	51.3	313.5
Other Oncology	**185.3**	**107.4**	**292.7**	84.8	64.2	149.0
Total Oncology	**1,117.0**	**949.7**	**2,066.7**	983.5	859.4	1,842.9
Cardiovascular:						
Cialis	**659.1**	**375.0**	**1,034.1**	677.7	483.2	1,160.9
Effient	**29.2**	**30.3**	**59.5**	248.0	22.7	270.7
Other Cardiovascular	**103.8**	**64.5**	**168.3**	15.7	62.4	78.0
Total Cardiovascular	**792.1**	**469.8**	**1,261.9**	941.4	568.3	1,509.6
Neuroscience:						
Cymbalta	**24.8**	**326.7**	**351.5**	81.2	300.0	381.2
Zyprexa	**20.6**	**230.0**	**250.6**	36.7	251.6	288.3
Strattera	**63.9**	**181.0**	**244.9**	223.9	158.9	382.8
Other Neuroscience	**45.7**	**51.0**	**96.7**	65.2	48.5	113.7
Total Neuroscience	**155.0**	**788.7**	**943.7**	407.0	759.0	1,166.0
Immunology:						
Taltz	**284.7**	**81.8**	**366.5**	212.3	23.1	235.4
Other Immunology	**1.8**	**75.2**	**76.9**	—	6.6	6.6
Total Immunology	**286.5**	**157.0**	**443.4**	212.3	29.7	242.0
Other pharmaceuticals	**35.7**	**96.7**	**132.5**	23.9	99.6	123.6
Total human pharmaceutical products	**6,002.7**	**4,499.1**	**10,501.9**	5,437.1	4,061.3	9,498.4
Animal health products	**754.0**	**799.4**	**1,553.4**	820.3	733.8	1,554.2
Revenue	**$ 6,756.7**	**$ 5,298.6**	**$ 12,055.2**	$ 6,257.5	$ 4,795.1	$ 11,052.6

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Segment profits:				
Human pharmaceutical products	**$ 1,720.2**	$ 1,352.3	**$ 3,237.0**	$ 2,523.2
Animal health products	**144.5**	152.4	**299.4**	300.7
Total segment profits	**$ 1,864.6**	$ 1,504.7	**$ 3,536.3**	$ 2,823.9
Reconciliation of total segment profits to consolidated income before taxes:				
Segment profits	**$ 1,864.6**	$ 1,504.7	**$ 3,536.3**	$ 2,823.9
Other profits (losses):				
Acquired in-process research and development (Note 3)	**(1,624.5)**	—	**(1,624.5)**	(857.6)
Amortization of intangible assets	**(152.9)**	(178.1)	**(305.3)**	(354.2)
Asset impairment, restructuring, and other special charges (Note 5)	**(74.4)**	(50.0)	**(152.7)**	(263.9)
Other, net	**(8.0)**	(16.1)	**(8.0)**	(26.5)
Consolidated income before taxes	**$ 4.8**	$ 1,260.5	**$ 1,445.8**	$ 1,321.7

Numbers may not add due to rounding.

For internal management reporting presented to the chief operating decision maker, certain costs are fully allocated to our human pharmaceutical products segment and therefore are not reflected in the animal health segment's profit. Such items include costs associated with treasury-related financing, global administrative services, certain acquisition-related transaction costs, and certain manufacturing costs.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Geographic Information				
Revenue—to unaffiliated customers [(1)]:				
United States	**$ 3,602.0**	$ 3,323.9	**$ 6,756.7**	$ 6,257.5
Europe	**1,090.7**	963.6	**2,125.9**	1,860.6
Japan	**664.3**	627.5	**1,220.1**	1,150.3
Other foreign countries	**998.2**	909.3	**1,952.5**	1,784.2
Revenue	**$ 6,355.2**	$ 5,824.3	**$ 12,055.2**	$ 11,052.6

Numbers may not add due to rounding.

[(1)] Revenue is attributed to the countries based on the location of the customer.

Refer to Note 14 for information regarding the completion of the strategic review of the Elanco animal health business.

Note 14: Subsequent Event

We have completed our strategic review of the Elanco animal health business (Elanco) and anticipate publicly filing a registration statement in the coming weeks with the U.S. Securities and Exchange Commission for a potential initial public offering (IPO) of less than a 20 percent ownership stake in Elanco. We expect to complete the IPO process during the second half of 2018. The animal health business continues to be presented as a continuing operation in these consolidated condensed financial statements.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

(Tables present dollars in millions, except per-share data)

General

Management's discussion and analysis of results of operations and financial condition is intended to assist the reader in understanding and assessing significant changes and trends related to the results of operations and financial position of our consolidated company. This discussion and analysis should be read in conjunction with the consolidated condensed financial statements and accompanying footnotes in Item 1 of Part I of this Quarterly Report on Form 10-Q. Certain statements in this Item 2 of Part I of this Quarterly Report on Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2017, may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

Executive Overview

This section provides an overview of our financial results, recent product and late-stage pipeline developments, and other matters affecting our company and the pharmaceutical industry. Earnings (loss) per share (EPS) data are presented on a diluted basis.

Financial Results

The following table summarizes our key operating results:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Percent Change	2018	2017	Percent Change
Revenue	**$ 6,355.2**	$ 5,824.3	9	**$ 12,055.2**	$ 11,052.6	9
Gross margin	**4,652.5**	4,252.6	9	**8,781.2**	8,133.0	8
Gross margin as a percent of revenue	**73.2%**	73.0%		**72.8%**	73.6%	
Operating expense [(1)]	**$ 2,986.8**	$ 3,002.5	(1)	**$ 5,663.7**	$ 5,828.5	(3)
Acquired in-process research and development (IPR&D)	**1,624.5**	—	NM	**1,624.5**	857.6	89
Asset impairment, restructuring, and other special charges	**74.4**	50.0	49	**152.7**	263.9	(42)
Net income (loss)	**(259.9)**	1,008.0	NM	**957.5**	897.2	7
Earnings (loss) per share	**(0.25)**	0.95	NM	**0.92**	0.85	8

[(1)] Operating expense consists of research and development and marketing, selling, and administrative expenses.

NM - not meaningful

Revenue increased for the three and six months ended June 30, 2018 driven by increased volume and favorable impact of foreign exchange rates. For the six months ended June 30, 2018, the increase was also driven, to a lesser extent, by higher realized prices. Operating expense decreased for the three months ended June 30, 2018 driven by decreases in marketing, selling, and administrative expenses, partially offset by an increase in research and development expenses. Operating expense decreased for the six months ended June 30, 2018 driven by decreases in marketing, selling, and administrative expenses and research and development expenses. The following highlighted items also affect comparisons of our financial results for the three and six months ended June 30, 2018 and 2017:

2018

Acquired IPR&D (Note 3 to the consolidated condensed financial statements)

- We recognized acquired IPR&D charges of $1.62 billion, or $1.56 per share, for the three and six months ended June 30, 2018 associated with the acquisitions of ARMO Biosciences, Inc. (ARMO) and AurKa Pharma, Inc. (AurKa), and in connection with the collaborative arrangement with Sigilon Therapeutics (Siglion). The charges for ARMO and AurKa totaling $1.56 billion are not tax deductible.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated condensed financial statements)

- We recognized charges of $74.4 million (pretax), or $0.06 per share, and $152.7 million (pretax), or $0.13 per share, for the three and six months ended June 30, 2018, respectively. The charges for the three months ended June 30, 2018 resulted primarily from the decision to suspend commercialization of Imrestor®, an animal health product, and expenses associated with the review of strategic alternatives for the Elanco animal health business. The charges for the six months ended June 30, 2018 also included asset impairment, exit costs, and severance costs related to the decision to end Posilac® (rbST) production at the Augusta, Georgia manufacturing site.

2017

Acquired IPR&D (Note 3 to the consolidated condensed financial statements)

- We recognized an acquired IPR&D charge of $857.6 million, or $0.81 per share, for the six months ended June 30, 2017 associated with the acquisition of CoLucid Pharmaceuticals, Inc. (CoLucid). This charge was not tax-deductible.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated condensed financial statements)

- We recognized charges of $50.0 million (pretax), or $0.03 per share and $263.9 million (pretax), or $0.19 per share, for the three and six months ended June 30, 2017, respectively. The charges for the three and six months ended June 30, 2017 were primarily due to integration costs related to the acquisition of Novartis Animal Health (Novartis AH), as well as asset impairments due to site closures.

The decreases in net income (loss) and EPS for the three and six months ended June 30, 2018 were primarily driven by increased acquired IPR&D charges.

Late-Stage Pipeline

Our long-term success depends to a great extent on our ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on molecules currently in development by other biotechnology or pharmaceutical companies. We currently have approximately 45 potential new drugs in human testing or under regulatory review, and a larger number of projects in preclinical research.

The following new molecular entities (NMEs) have been approved by regulatory authorities in at least one of the major geographies for use in the diseases described. The first quarter in which each NME initially was approved in any major geography for any indication is shown in parentheses:

Abemaciclib (Verzenio®) (Q3 2017)—a small molecule cell-cycle inhibitor, selective for cyclin-dependent kinases 4 and 6 for the treatment of metastatic breast cancer.

Baricitinib (Olumiant®) (Q1 2017)—a Janus tyrosine kinase inhibitor for the treatment of moderate-to-severe active rheumatoid arthritis (in collaboration with Incyte Corporation).

Olaratumab* (Lartruvo®) (Q4 2016)—a human lgG1 monoclonal antibody for the treatment of advanced soft tissue sarcoma.

The following NMEs have been submitted for regulatory review in at least one of the major geographies for potential use in the disease described. The first quarter in which the NME initially was submitted in any major geography for any indication is shown in parentheses:

Galcanezumab* (Q3 2017)—a once-monthly subcutaneously injected calcitonin gene-related peptide (CGRP) antibody for the treatment of migraine prevention. Refer to Item 1, "Legal Proceedings - Other Patent Matters" for discussion of the lawsuit filed by Teva Pharmaceuticals International GMBH.

Nasal glucagon* (Q2 2018)—a glucagon nasal powder formulation for the treatment of severe hypoglycemia in patients with diabetes treated with insulin. In the U.S., nasal glucagon is protected by a delivery device patent (2034), with data protection (3.5 years) expected upon approval. In Europe, nasal glucagon is protected by a delivery device patent (2034), with data protection (6 years) expected upon approval.

The following NMEs and diagnostic agent are currently in Phase III clinical trial testing for potential use in the diseases described. The first quarter in which each NME and diagnostic agent initially entered Phase III for any indication is shown in parentheses:

Flortaucipir (Q3 2015)**—a positron emission tomography (PET) tracer intended to image tau (or neurofibrillary) tangles in the brain, which are an indicator of Alzheimer's disease.

Lasmiditan (Q2 2015)—an oral 5-HT_{1F} agonist for the acute treatment of migraine.

Mirikizumab (Q2 2018)—a human monoclonal antibody designed for the treatment of autoimmune diseases.

Pegilodecakin (Q1 2017)—a PEGylated IL-10, which has demonstrated clinical benefit as a single agent, and in combination with both chemotherapy and checkpoint inhibitor therapy, across several tumor types.

Solanezumab* (Q2 2009)—an anti-amyloid beta monoclonal antibody for the treatment of preclinical Alzheimer’s disease.

Tanezumab* (Q3 2008)—an anti-nerve growth factor monoclonal antibody for the treatment of osteoarthritis pain, chronic low back pain, and cancer pain (in collaboration with Pfizer Inc.).

Ultra-rapid Lispro* (Q3 2017)—an ultra-rapid insulin for the treatment of type 1 and type 2 diabetes.

* Biologic molecule subject to the United States (U.S.) Biologics Price Competition and Innovation Act

** Diagnostic agent

The following table reflects the status of each NME and diagnostic agent within our late-stage pipeline and recently approved products, including developments since January 1, 2018:

Compound	Indication	U.S.	Europe	Japan	Developments
Endocrinology					
Nasal glucagon	Severe hypoglycemia	Submitted		Phase III	Submitted to U.S. Food and Drug Administration (FDA) in second quarter of 2018. Submitted to European regulatory authorities in July 2018.
Ultra-rapid Lispro	Type 1 and 2 diabetes	Phase III			Phase III trials are ongoing.
Immunology					
Mirikizumab	Psoriasis	Phase III			Phase III trials were initiated during the second quarter of 2018.
	Ulcerative Colitis	Phase III			Phase III trial was initiated during the second quarter of 2018.
Olumiant	Rheumatoid arthritis	Launched			Granted approval of 2mg dose by FDA and launched in U.S. in second quarter of 2018.
	Atopic dermatitis	Phase III			Phase III trials are ongoing.
Neuroscience					
Flortaucipir	Alzheimer's disease	Phase III			Phase III trial is ongoing.
Galcanezumab	Cluster headache	Phase III			In May 2018, announced Phase III trial met primary endpoint for episodic cluster headache. In discussions with regulatory authorities to determine path of submission. A separate Phase III trial did not meet primary endpoint for chronic cluster headache.
	Migraine prevention	Submitted		Phase III	Phase III trials are ongoing.
Lanabecestat	Early and mild Alzheimer's disease	Discontinued			Phase III trials discontinued in second quarter of 2018.
Lasmiditan	Migraine	Phase III			In third quarter of 2017, announced Phase III trial met primary endpoint. Submission to FDA expected in second half of 2018. See Note 3 to the consolidated condensed financial statements for information on the CoLucid acquisition.
Solanezumab	Preclinical Alzheimer's disease	Phase III			Phase III trial is ongoing.
Tanezumab	Osteoarthritis pain	Phase III			In July 2018, announced Phase III trial met primary endpoints. Potential submission in 2019.
	Chronic low back pain	Phase III			Phase III trial is ongoing.
	Cancer pain	Phase III			Phase III trial is ongoing.

Compound	Indication	U.S.	Europe	Japan	Developments
Oncology					
Pegilodecakin	Pancreatic cancer	Phase III			Acquired with ARMO in the second quarter of 2018. Phase III trial is ongoing. See Note 3 for information on the acquisition.
Verzenio	Adjuvant breast cancer	Phase III			Phase III trial is ongoing.
	Metastatic breast cancer	Launched	Submitted		Submitted to regulatory authorities in Europe and Japan in third quarter of 2017.
Lartruvo	Soft tissue sarcoma	Launched		Phase III	Granted accelerated approval[(1)] by the FDA in fourth quarter of 2016 based on Phase II data. Launched in the U.S. in the fourth quarter of 2016. Granted conditional approval[(2)] and launched in Europe in fourth quarter of 2016. Phase III trial is ongoing.

[(1)] Continued approval for this indication may be contingent on verification and description of clinical benefit in a confirmatory Phase III trial.

[(2)] As part of a conditional marketing authorization, results from an ongoing Phase III study will need to be provided. This study is fully enrolled and ongoing. Until availability of the full data, the Committee for Medicinal Products for Human Use will review the benefits and risks of Lartruvo annually to determine whether the conditional marketing authorization can be maintained.

Other Matters

Elanco Animal Health

We have completed our strategic review of the Elanco animal health business (Elanco) and anticipate publicly filing a registration statement in the coming weeks with the U.S. Securities and Exchange Commission for a potential initial public offering (IPO) of less than a 20 percent ownership stake in Elanco. We expect to complete the IPO process during the second half of 2018.

Patent Matters

We depend on patents or other forms of intellectual-property protection for most of our revenue, cash flows, and earnings. We lost our patent exclusivity for Strattera® in the U.S. in May 2017, and generic versions of Strattera were approved in the same month. Following a settlement related to the compound patent challenge for Effient®, generic products launched in the U.S. in the third quarter of 2017. The entry of generic competition for these products has caused a rapid and severe decline in revenue, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows.

Our compound patent protection for Cialis® (tadalafil) and Adcirca® (tadalafil) expired in major European markets and the U.S. in November 2017; however, in the U.S., we were granted pediatric exclusivity through May 2018. Cialis is also protected by a unit dose patent in the U.S., where we expect exclusivity to end in late September 2018. We expect that the entry of generic competition into these markets following the loss of exclusivity will cause a rapid and severe decline in revenue for the affected products, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows.

Additionally, as described in Note 10 to the consolidated condensed financial statements, the Alimta® vitamin regimen patents, which provide us with patent protection for Alimta through June 2021 in Japan and major European countries, and through May 2022 in the U.S., have been challenged in each of these jurisdictions. Our vitamin regimen patents have also been challenged in other smaller European jurisdictions. Our compound patent for Alimta expired in the U.S. in January 2017, and expired in major European countries and Japan in December 2015. We expect that the entry of generic competition for Alimta following the loss of effective patent protection will cause a rapid and severe decline in revenue for the product, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows. While the U.S. Patent and Trademark Office ruled in our favor in October 2017 regarding the validity of the vitamin regimen patent, the generic companies which filed petitions seeking inter partes review of our vitamin regimen patent have appealed these rulings as further described in Note 10 to the consolidated condensed financial statements. In June 2018, the U.S. District Court for the Southern District of Indiana ruled in our favor in two cases, finding Dr. Reddy's Laboratories' (Dr. Reddy) and Hospira, Inc.'s proposed alternative forms of pemetrexed products would infringe our patent. Dr. Reddy and Hospira have appealed those rulings. In light of the United Kingdom (U.K.) Supreme Court's judgment finding infringement in the U.K., Italy, France, and Spain, Actavis has withdrawn its previously launched-at-risk generic products from these markets. The German Federal Patent Court held that our vitamin regimen patent is invalid at a hearing in

June 2018. We plan to appeal this decision. A number of generic competitors have received approval to market generic versions of pemetrexed in Germany. Injunctions are in place against four of these companies as well as the Informationsstelle für Arzneispezialitäten GmbH, which makes the timing of possible generic entry and market erosion unpredictable. Additional legal proceedings are ongoing in various national courts of European countries. We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets and that generic competitors may choose to launch at risk (including one generic product currently on the market in France). We will continue to seek to remove any generic pemetrexed products launched at risk in European markets, seek damages in respect of such launches, and defend our patents against validity challenges. Notwithstanding our patents, generic versions of Alimta were also approved in Japan starting in February 2016. As described in Note 10 to the consolidated condensed financial statements, we do not currently anticipate that generic versions of Alimta will proceed to pricing approval.

The compound patent for Humalog® (insulin lispro) has expired in major markets. Global regulators have different legal pathways to approve similar versions of insulin lispro. A similar version of insulin lispro launched in the U.S in the second quarter of 2018 and in certain European markets in 2017. While it is difficult to estimate the severity of the impact of similar insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue; however, we expect additional pricing pressure and some loss of market share initially that would continue over time.

Foreign Currency Exchange Rates

As a global company with substantial operations outside the U.S., we face foreign currency risk exposure from fluctuating currency exchange rates, primarily the U.S. dollar against the euro, Japanese yen, British pound, and Chinese Renminbi. While we manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a substantial impact, either positive or negative, on our revenue, cost of sales, and operating expenses. Over the past two years, we have seen significant foreign currency rate fluctuations between the U.S. dollar and several other foreign currencies, including the euro, British pound, and Japanese yen. While there is uncertainty in the future movements in foreign exchange rates, these fluctuations could negatively impact our future consolidated results of operations and cash flows.

Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

United States

In the U.S., public concern over access to and affordability of pharmaceuticals continues to drive the regulatory and legislative debate. These policy and political issues increase the risk that taxes, fees, rebates, or other federal and state measures may be enacted. Key health policy proposals affecting biopharmaceuticals include a reduction in biologic data exclusivity, modifications to Medicare Parts B and D, language that would allow the Department of Health and Human Services to negotiate prices for biologics and drugs in Medicare, proposals that would require biopharmaceutical manufacturers to disclose proprietary drug pricing information, and state-level proposals related to prescription drug prices and reducing the cost of pharmaceuticals purchased by government health care programs. Several states enacted legislation related to prescription drug pricing transparency. Savings projected under these proposals are targeted as a means to fund both health care expenditures and non-health care initiatives, or to manage federal and state budgets. The Bipartisan Budget Act, enacted on February 9, 2018, will require manufacturers of brand-name drugs, biologics, and biosimilars to pay a 70 percent discount in the Medicare Part D Coverage Gap, up from the current 50 percent discount. This increase in Coverage Gap discounts will be effective beginning in 2019. In May 2018, the White House released "American Patients First: The Trump Administration Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs" (Blueprint). The Administration’s corresponding request for information (RFI) includes more than 30 policy changes. We believe some proposals would be positive and other proposals would have negative consequences to our business. The effect of these proposals, and those that extend beyond the Blueprint, will depend on the details and timing of the final legislation, regulation, or guidance and could lead to a wide range of outcomes. Some of these outcomes could have a material adverse effect on our consolidated results of operations and cash flows.

In the private sector, consolidation and integration among healthcare providers is also a major factor in the competitive marketplace for human pharmaceuticals. Health plans, pharmaceutical benefit managers, wholesalers, and other supply chain stakeholders have been consolidating into fewer, larger entities, increasingly through vertical integration, thus enhancing their purchasing strength and importance. Payers typically maintain formularies which specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer). Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations that result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels and higher deductibles. Consequently, pharmaceutical companies compete for formulary placement not only on the basis of product attributes such as greater efficacy, fewer side effects, or greater patient ease of use, but also by providing rebates. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. These downward pricing pressures could negatively affect future consolidated results of operations and cash flows.

The main coverage expansion provisions of the Affordable Care Act (ACA) are currently in effect through both state-based exchanges and the expansion of Medicaid. A trend has been the prevalence of benefit designs containing high out-of-pocket costs for patients, particularly for pharmaceuticals. In addition to the coverage expansions, many employers in the commercial market, driven in part by ACA changes such as the 2022 implementation of the excise tax on employer-sponsored health care coverage for which there is an excess benefit (the so-called "Cadillac tax"), continue to evaluate strategies such as private exchanges and wider use of consumer-driven health plans to reduce their healthcare liabilities over time. Repealing and replacing the ACA remains a priority for President Trump and Congress. Provisions included in final legislation could have a material adverse effect on our consolidated results of operations and cash flows. At the same time, the broader paradigm shift towards performance-based reimbursement and the launch of several value-based purchasing initiatives have placed demands on the pharmaceutical industry to offer products with proven real-world outcomes data and a favorable economic profile.

International

International operations also are generally subject to extensive price and market regulations. Cost-containment measures exist in a number of countries, including additional price controls and mechanisms to limit reimbursement for our products. Such policies are expected to increase in impact and reach given the pressures on national and regional health care budgets that come from a growing aging population and ongoing economic challenges. As additional reforms are finalized, we will assess their impact on future revenues. In addition, governments in many emerging markets are becoming increasingly active in expanding health care system offerings. Given the budget challenges of increasing health care coverage for citizens, policies may be proposed that promote generics and biosimilars only and reduce current and future access to branded human pharmaceutical products.

Tax Matters

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Changes in the relevant tax laws, regulations, administrative practices, principles, and interpretations could adversely affect our future effective tax rates. The U.S. recently enacted tax reform legislation significantly revising U.S. tax law, and a number of other countries are actively considering or enacting tax changes. Other organizations, such as the Organisation for Economic Co-operation and Development and the European Commission, are active regarding tax-related matters, which could influence international tax policy in countries in which we operate. While outcomes of these initiatives continue to develop and remain uncertain, modifications to key elements of the U.S. or international tax framework could have a material adverse effect on our consolidated results of operations and cash flows.

Our accounting for the Tax Cuts and Jobs Act (2017 Tax Act), signed into law in December 2017, is incomplete; however, we expect to complete our accounting by December 2018. In the fourth quarter of 2017, we recorded provisional adjustments for effects that we were able to reasonably estimate. Refer to Note 8 to the consolidated condensed financial statements for further information related to the 2017 Tax Act.

Acquisitions

See Note 3 to the consolidated condensed financial statements for discussion regarding our recent acquisitions of businesses and assets, including:

- Our collaboration with Sigilon, completed in April 2018, for an upfront fee of $62.5 million and an equity investment in Sigilon.
- Our acquisition of AurKa, completed in June 2018, for a cash purchase price of $81.3 million, net of cash acquired, plus net accrued liabilities assumed of $0.5 million.

- Our acquisition of ARMO, completed in June 2018, for a cash purchase price of $1.40 billion, net of cash acquired, plus net accrued liabilities assumed of $75.8 million.
- Our acquisition of Boehringer Ingelheim Vetmedica, Inc.'s U.S. feline, canine, and rabies vaccine portfolio and other related assets, completed in January 2017, in an all-cash transaction for $882.1 million.
- Our acquisition of CoLucid, completed in March 2017, for a cash purchase price of $831.8 million, net of cash acquired.

Legal Matters

Information regarding contingencies relating to certain legal proceedings can be found in Note 10 to the consolidated condensed financial statements and is incorporated here by reference.

Revenue

The following tables summarize our revenue activity by region:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Percent Change	2018	2017	Percent Change
U.S. [1]	**$ 3,602.0**	$ 3,323.9	8	**$ 6,756.7**	$ 6,257.5	8
Outside U.S.	**2,753.3**	2,500.3	10	**5,298.6**	4,795.1	11
Revenue	**$ 6,355.2**	$ 5,824.3	9	**$ 12,055.2**	$ 11,052.6	9

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

The following are components of the change in revenue compared with the prior year:

	Three Months Ended June 30, 2018 vs. 2017			Six Months Ended June 30, 2018 vs. 2017		
	U.S.	Outside U.S.	Consolidated	U.S.	Outside U.S.	Consolidated
Volume	7%	7 %	7%	3%	6 %	5%
Price	1	(2)	—	5	(2)	2
Foreign exchange rates	—	5	2	—	6	3
Percent change	8%	10 %	9%	8%	10 %	9%

Numbers may not add due to rounding

In the U.S., for the three and six months ended June 30, 2018, the volume increase was primarily driven by increased volume for new pharmaceutical products, including Trulicity®, Basaglar®, Taltz®, and Verzenio®, as well as an increase in U.S. collaboration revenue. This increase was partially offset by decreased volume for products that have lost exclusivity, including Effient and Strattera. The U.S. increase in realized prices for the six months ended June 30, 2018 was driven primarily by Cialis, Humalog, Strattera, Basaglar, and companion animal products.

Outside the U.S., for the three and six months ended June 30, 2018, the volume increase was primarily driven by sales of several new pharmaceutical products, including Trulicity, Olumiant, and Taltz, partially offset by decreased volume for Cialis. The decrease in realized prices was due to several pharmaceutical products.

The following tables summarize our revenue activity by product:

	Three Months Ended June 30,				
	2018			2017	
Product	U.S. [1]	Outside U.S.	Total	Total	Percent Change
Trulicity	**$ 612.4**	**$ 167.4**	**$ 779.8**	$ 480.2	62
Humalog	**464.5**	**305.2**	**769.8**	678.4	13
Alimta	**281.3**	**274.6**	**555.9**	532.9	4
Cialis	**345.7**	**193.0**	**538.7**	627.3	(14)
Forteo®	**224.5**	**210.0**	**434.5**	446.7	(3)
Humulin®	**238.8**	**107.2**	**346.0**	357.8	(3)
Taltz	**173.6**	**46.5**	**220.1**	138.7	59
Cyramza®	**75.4**	**143.3**	**218.8**	186.3	17
Basaglar	**156.5**	**45.3**	**201.8**	86.6	NM
Cymbalta®	**12.6**	**169.4**	**181.9**	206.6	(12)
Erbitux®	**140.0**	**26.4**	**166.4**	159.1	5
Jardiance® [2]	**85.6**	**61.6**	**147.2**	103.2	43
Trajenta™ [3]	**56.8**	**84.9**	**141.7**	141.9	—
Zyprexa®	**11.8**	**116.2**	**128.0**	140.8	(9)
Strattera	**16.9**	**97.3**	**114.2**	186.6	(39)
Effient	**13.3**	**14.6**	**27.9**	142.9	(81)
Other human pharmaceutical products	**314.1**	**276.6**	**590.4**	423.5	39
Animal health products	**378.2**	**413.8**	**792.1**	784.8	1
Revenue	**$ 3,602.0**	**$ 2,753.3**	**$ 6,355.2**	$ 5,824.3	9

	Six Months Ended June 30,				
	2018			2017	
Product	U.S. [1]	Outside U.S.	Total	Total	Percent Change
Humalog	$ 968.7	$ 592.8	$ 1,561.5	$ 1,386.8	13
Trulicity	1,140.6	317.5	1,458.1	853.1	71
Alimta	526.7	528.9	1,055.5	1,022.8	3
Cialis	659.1	375.0	1,034.1	1,160.9	(11)
Forteo	346.6	401.1	747.8	794.2	(6)
Humulin	460.4	211.5	671.9	672.3	—
Cyramza	143.7	258.7	402.4	357.6	13
Basaglar	283.2	84.6	367.8	132.6	NM
Taltz	284.7	81.8	366.5	235.4	56
Cymbalta	24.8	326.7	351.5	381.2	(8)
Erbitux	261.3	54.7	316.1	313.5	1
Jardiance [2]	180.6	117.6	298.2	177.1	68
Trajenta [3]	110.9	171.9	282.8	254.9	11
Zyprexa	20.6	230.0	250.6	288.3	(13)
Strattera	63.9	181.0	244.9	382.8	(36)
Effient	29.2	30.3	59.5	270.7	(78)
Other human pharmaceutical products	497.7	535.1	1,032.6	814.2	27
Animal health products	754.0	799.4	1,553.4	1,554.2	—
Revenue	$ 6,756.7	$ 5,298.6	$ 12,055.2	$ 11,052.6	9

Numbers may not add due to rounding.

NM - not meaningful

[1] U.S. revenue includes revenue in Puerto Rico.

[2] Jardiance revenue includes Glyxambi® and Synjardy®.

[3] Trajenta revenue includes Jentadueto®.

Revenue of Humalog, our injectable human insulin analog for the treatment of diabetes, increased 19 percent and 15 percent in the U.S. during the three and six months ended June 30, 2018, respectively, driven by higher realized prices due to changes in estimates to rebates and discounts and changes in payer segment mix, and, to a lesser extent, increased volume. Revenue outside the U.S. increased 6 percent and 8 percent during the three and six months ended June 30, 2018, respectively, driven by the favorable impact of foreign exchange rates and increased volume, partially offset by lower realized prices. A similar version of insulin lispro has launched in the U.S in the second quarter of 2018 and in certain European markets in 2017. While it is difficult to estimate the severity of the impact of similar insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue; however, we expect additional pricing pressure and some loss of market share initially that would continue over time. See "Executive Overview - Other Matters - Patent Matters" for more information.

Revenue of Trulicity, a treatment for type 2 diabetes, increased 61 percent and 68 percent in the U.S. during the three and six months ended June 30, 2018, respectively, primarily driven by increased demand as a result of increased share of market for Trulicity and growth in the GLP-1 class. Revenue outside the U.S. increased 69 percent and 80 percent during the three and six months ended June 30, 2018, respectively, primarily driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Alimta, a treatment for various cancers, increased 3 percent and 5 percent in the U.S. during the three and six months ended June 30, 2018, respectively, driven by increased volume, including increased demand and customer buying patterns in the three months ended June 30, 2018. The increase in revenue for the six months ended June 30, 2018 was also, to a lesser extent, driven by higher realized prices. Revenue outside the U.S. increased 6 percent and 1 percent during the three and six months ended June 30, 2018, respectively. The increase in revenue during the three months ended June 30, 2018 was primarily driven by the favorable impact of foreign exchange rates and higher realized prices, partially offset by decreased volume driven by competitive pressure and loss of exclusivity in several countries. The increase in revenue during the six months ended June 30, 2018 was primarily driven by the favorable impact of foreign exchange rates, partially offset by decreased volume and, to a lesser extent, lower realized prices. We have faced and remain exposed to generic entry in multiple countries that has eroded revenue and is likely to continue to erode revenue from current levels.

Revenue of Cialis, a treatment for erectile dysfunction and benign prostatic hyperplasia, decreased 9 percent and 3 percent in the U.S. during the three and six months ended June 30, 2018, respectively, driven by decreased demand due to the entry of generic sildenafil, partially offset by higher realized prices. Revenue outside the U.S. decreased 22 percent in both the three and six months ended June 30, 2018, driven by the loss of exclusivity in Europe, and, to a lesser extent, lower realized prices, partially offset by the favorable impact of foreign exchange rates. We lost our compound patent protection for Cialis in major European markets in November 2017 and now expect U.S. exclusivity for Cialis to end in late September 2018. See "Executive Overview - Other Matters - Patent Matters" for more information regarding our U.S. exclusivity. In addition to potential competition from generic tadalafil, we also currently face competition from generic sildenafil, which has accelerated during 2018. We expect that the entry of generic competition following the loss of exclusivity will cause a rapid and severe decline in revenue.

Revenue of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women, decreased 10 percent and 19 percent in the U.S. during the three and six months ended June 30, 2018, respectively, primarily due to decreased demand and lower realized prices. Revenue outside the U.S. increased 7 percent and 9 percent during the three and six months June 30, 2018, respectively, driven by the favorable impact of foreign exchange rates and, to a lesser extent, increased volume, partially offset by lower realized prices.

Revenue of Humulin, an injectable human insulin for the treatment of diabetes, increased 5 percent in the U.S. during the three months ended June 30, 2018, driven by higher realized prices. For the first six months of 2018, revenue increased 7 percent in the U.S., primarily driven by increased volume and, to a lesser extent, higher realized prices. Revenue outside the U.S. decreased 18 percent and 12 percent during the three and six months ended June 30, 2018, respectively, driven by decreased volume, primarily in China, partially offset by the favorable impact of foreign exchange rates.

Revenue of Cyramza, a treatment for various cancers, increased 10 percent and 7 percent in the U.S. during the three and six months ended June 30, 2018, respectively, driven primarily by increased volume. Revenue outside the U.S. increased 22 percent and 16 percent during the three and six months ended June 30, 2018, respectively, driven by increased volume, and to a lesser extent, the favorable impact of foreign exchange rates.

Revenue of Basaglar, a long-acting human insulin analog for the treatment of diabetes, which launched in the U.S. in late 2016, increased $97.0 million and $201.6 million in the U.S. during the three and six months ended June 30, 2018, primarily driven by increased demand. Revenue outside the U.S. increased $18.2 million and $33.6 million during the three and six months ended June 30, 2018, primarily driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates. See Note 4 to the consolidated condensed financial statements for information regarding our collaboration with Boehringer Ingelheim involving Basaglar.

Revenue of Taltz, a product for the treatment of moderate-to-severe plaque psoriasis and active psoriatic arthritis, increased 39 percent and 34 percent in the U.S. during the three and six months ended June 30, 2018, respectively, driven by higher demand, partially offset by lower realized prices. Revenue outside the U.S. increased $32.2 million and $58.7 million during the three and six months ended June 30, 2018, respectively, driven by increased volume from new launches.

Revenue of Cymbalta, a product for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and for the treatment of chronic musculoskeletal pain and the management of fibromyalgia, was $12.6 million and $24.8 million in the U.S. during the three and six months ended June 30, 2018, respectively, compared to $47.1 million and $81.2 million during the three and six months ended June 30, 2017, respectively. Revenue increased 6 percent and 9 percent outside the U.S. during the three and six months ended June 30, 2018, primarily driven by increased volume in Japan, and to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Worldwide food animal revenue increased 4 percent during the second quarter of 2018, primarily driven by the favorable impact of foreign exchange rates, increased volume, and higher realized prices. Worldwide food animal revenue decreased 2 percent during the six months ended June 30, 2018, driven by lower volume, partially offset by the favorable impact of foreign exchange rates and higher realized prices. Worldwide companion animal revenue decreased 4 percent during the three months ended June 30, 2018, primarily driven by decreased volume, partially offset by higher realized prices, and, to a lesser extent, the favorable impact of foreign exchange rates. Worldwide companion animal revenue increased 3 percent during the six months ended June 30, 2018, primarily driven by higher realized prices and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower volume.

Gross Margin, Costs, and Expenses

Gross margin as a percent of revenue increased 0.2 percentage points to 73.2 percent and decreased 0.8 percentage points to 72.8 percent for the three and six months ended June 30, 2018, respectively. The increase in gross margin percent for the three months ended June 30, 2018 was primarily due to manufacturing efficiencies, largely offset by the effect of foreign exchange rates on international inventories sold and the timing of manufacturing production. The decrease in gross margin percent for the six months ended June 30, 2018 was primarily due to the effect of foreign exchange rates on international inventories sold and, to a lesser extent, timing of manufacturing production and product mix, partially offset by manufacturing efficiencies and higher realized prices.

Research and development expenses increased 5 percent to $1.33 billion and decreased 1 percent to $2.51 billion for the three and six months ended June 30, 2018, respectively. The increase for the three months ended June 30, 2018 was primarily due to additional late-stage development expenditures. The decrease for the six months ended June 30, 2018, was primarily driven by a $50.0 million charge in the first half of 2017 related to a collaboration with DEKA Research & Development Corp.

Marketing, selling, and administrative expenses decreased 4 percent to $1.65 billion and decreased 4 percent to $3.15 billion for the three and six months ended June 30, 2018, respectively, due to decreased expenses related to late life-cycle products, partially offset by increased expenses related to new pharmaceutical products.

We recognized $1.62 billion of acquired IPR&D charges for the three and six months ended June 30, 2018 related to the acquisitions of ARMO and AurKa, as well as the collaboration with Sigilon. We recognized $857.6 million of acquired IPR&D charges for the six months ended June 30, 2017 associated with the acquisition of CoLucid. See Note 3 to the consolidated condensed financial statements for additional information.

We recognized asset impairment, restructuring, and other special charges of $74.4 million and $152.7 million for the three and six months ended June 30, 2018, respectively, compared with charges of $50.0 million and $263.9 million for the three and six months ended June 30, 2017, respectively. The charges for the second quarter of 2018 were primarily associated with asset impairments and contractual commitments related to the suspension of commercial activities for Imrestor, as well as expenses associated with the review of strategic alternatives for the Elanco animal health business. In addition to these charges, the charges for the first six months of 2018 also included charges related to the decision to end Posilac (rBST) production at the Augusta, Georgia manufacturing site. The charges for the second quarter of 2017 were primarily associated with integration costs and asset impairments related to the acquisition and integration of Novartis AH. The charges for the first six months of 2017 were due to severance costs incurred as a result of actions taken to reduce our cost structure, integration costs related to the acquisition of Novartis AH, and asset impairments related to animal health assets, as well as exit fees due to site closures. See Note 5 to the consolidated condensed financial statements for additional information.

Other–net, (income) expense was income of $38.0 million and $105.5 million for the three and six months ended June 30, 2018, respectively, compared with income of $60.4 million and $138.7 million for the three and six months ended June 30, 2017. See Note 12 to the consolidated condensed financial statements for additional information.

During the three months ended June 30, 2018, we incurred $264.7 million of income tax expense, despite earning $4.8 million of income before income taxes as a result of the non-deductible acquired IPR&D charges totaling $1.56 billion from the acquisitions of ARMO and AurKa. The effective tax rate for the three months ended June 30, 2017 was 20.0 percent. The effective tax rate for the six months ended June 30, 2018 was 33.8 percent as it also reflected these non-deductible charges. The effective tax rate for the six months ended June 30, 2017 was 32.1 percent, as it reflected the non-deductible acquired IPR&D charge of $857.6 million related to the acquisition of CoLucid. See Note 8 to the consolidated condensed financial statements for additional information.

Financial Condition

Cash and cash equivalents increased to $6.82 billion as of June 30, 2018, compared with $6.54 billion as of December 31, 2017. Refer to the consolidated condensed statements of cash flows for additional details on the significant sources and uses of cash for the six months ended June 30, 2018 and 2017.

In addition to our cash and cash equivalents, we held total investments of $2.15 billion and $7.18 billion as of June 30, 2018 and December 31, 2017, respectively. See Note 6 to the consolidated condensed financial statements for additional details.

Total debt decreased to $12.22 billion as of June 30, 2018, compared with $13.65 billion as of December 31, 2017. The decrease was primarily due to the net decrease in the balance of commercial paper outstanding of $248.8 million and the repayment of $1.00 billion of long term debt. At June 30, 2018, we had a total of $5.57 billion of committed bank credit facilities, $5.00 billion of which is available to support our commercial paper program. We believe that amounts accessible through existing commercial paper markets should be adequate to fund short-term borrowing needs.

As discussed in "Executive Overview - Other Matters", we anticipate filing a registration statement for a potential initial IPO of less than a 20 percent ownership stake in Elanco during the second half of 2018. The number of shares to be offered and the price range for the offering have not yet been determined. As part of this process, we also expect that Elanco will conduct a debt financing prior to the IPO, subject to business and market conditions. We expect that proceeds Lilly receives from Elanco from the IPO and debt financing will be used by Lilly for repayment of debt, payment of dividends, and share repurchases.

During the six months ended June 30, 2018, we repurchased $2.05 billion of shares, completing the $5.00 billion share repurchase program announced in October 2013. An $8.00 billion share repurchase program was authorized in June 2018.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including dividends, share repurchases, and capital expenditures.

See "Executive Overview - Other Matters - Patent Matters" for information regarding recent and upcoming losses of patent protection.

Both domestically and abroad, we continue to monitor the potential impacts of the economic environment; the creditworthiness of our wholesalers and other customers, including foreign government-backed agencies and suppliers; the uncertain impact of health care legislation; various international government funding levels; and changes in foreign currency exchange rates (see "Executive Overview - Other Matters - Foreign Currency Exchange Rates").

Financial Expectations

Full-year 2018 EPS is now anticipated to be in the range of $3.19 to $3.29, due to higher acquired IPR&D charges associated with the acquisition of ARMO, partially offset by higher revenue. We now expect 2018 revenue of between $24.0 billion and $24.5 billion, with the increase from prior guidance due to strong performance across the pharmaceutical portfolio, particularly in diabetes, as well as higher collaboration revenue, partially offset by the impact of foreign exchange rates. We still expect revenue growth to be driven by new pharmaceutical products including Trulicity, Taltz, Basaglar, Jardiance, Verzenio, Cyramza, Olumiant, and Lartruvo.

Gross margin as a percent of revenue is now expected to be approximately 73.5 percent. Research and development expenses are still expected to be in the range of $5.2 billion to $5.4 billion. Marketing, selling, and administrative expenses are still expected to be in the range of $6.2 billion to $6.5 billion. Other—net, (income) expense is still expected to be income between $75 million and $200 million.

The 2018 tax rate is now expected to be approximately 22.5 percent. The higher rate is due to higher non-deductible acquired IPR&D charges associated with the acquisitions of ARMO and AurKa. The 2018 effective tax

rate benefits from a lower corporate income tax rate, partially offset by the changes to certain business exclusions, deductions, credits, and international tax provisions as a result of the 2017 Tax Act. The 2018 effective tax rate is subject to change based upon changes in our interpretations of the tax laws, along with subsequent regulations, interpretations, guidance, and accounting policy elections that we continue to evaluate.

Capital expenditures are still expected to be approximately $1.2 billion.

Available Information on our Website

We make available through our company website, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents.

The website link to our SEC filings is **http://investor.lilly.com/sec.cfm**.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*. Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of David A. Ricks, chairman, president, and chief executive officer, and Joshua L. Smiley, senior vice president and chief financial officer, evaluated our disclosure controls and procedures as of June 30, 2018, and concluded that they are effective.

(b) *Changes in Internal Controls*. During the second quarter of 2018, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

See "Notes to Consolidated Condensed Financial Statements - Note 10, Contingencies" for information on various legal proceedings, including but not limited to:

- The patent litigation and administrative proceedings involving Alimta.
- The product liability litigation involving Cymbalta.
- The employee litigation in Brazil.
- Antitrust litigation involving Agri Stats, Inc.

That information is incorporated into this Item by reference.

This Item should be read in conjunction with the Legal Proceedings disclosures in our Annual Report on Form 10-K for the year ended December 31, 2017 (Part I, Item 3) and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (Part II, Item 1).

Other Product Liability Litigation

We were named along with Takeda Chemical Industries, Ltd. and Takeda affiliates (collectively, Takeda) as a defendant in three purported product liability class actions in Canada related to Actos®, which we commercialized with Takeda in Canada until 2009, including one in Ontario (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al.*), one in Quebec (*Whyte et al. v. Eli Lilly et al.*), and one in Alberta (*Epp v. Takeda Canada et al.*). In general, plaintiffs in these actions alleged that Actos caused or contributed to their bladder cancer. We believe these lawsuits are without merit, and we and Takeda are prepared to defend against them vigorously.

We are named as a defendant in approximately 525 Byetta product liability lawsuits in the U.S. involving approximately 785 plaintiffs. Approximately 60 of these lawsuits, covering about 320 plaintiffs, are filed in California state court and coordinated in a Los Angeles Superior Court. Approximately 460 of the lawsuits, covering about 465 plaintiffs, are filed in federal court, the majority of which are coordinated in a multi-district litigation (MDL) in the U.S. District Court for the Southern District of California. Three lawsuits, representing approximately five plaintiffs, have also been filed in various state courts. Approximately 510 of the lawsuits, involving approximately 750 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer); most others allege Byetta caused or contributed to pancreatitis. The federal and state trial courts granted summary judgment in favor of us and our co-defendants on the claims alleging pancreatic cancer. The plaintiffs appealed those rulings. In November 2017, the U.S. Court of Appeals for the Ninth Circuit reversed the U.S. District Court’s grant of summary judgment based on that court's discovery rulings and remanded the cases for further proceedings. We are aware of approximately 20 additional claimants who have not yet filed suit. These additional claims allege damages for pancreatic cancer or thyroid cancer. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

We are named as a defendant in approximately 210 Cialis product liability lawsuits in the U.S. These cases, originally filed in various federal courts, contain allegations that Cialis caused or contributed to the plaintiffs' cancer (melanoma). In December 2016, the Judicial Panel on Multidistrict Litigation (JPML) granted the plaintiffs' petition to have the filed cases and an unspecified number of future cases coordinated into a federal MDL in the U.S. District Court for the Northern District of California, alongside an existing coordinated proceeding involving Viagra®. The JPML ordered the transfer of the existing cases to the now-renamed MDL *In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation*. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Other Patent Matters

In July 2018, Genentech, Inc. filed a lawsuit against us in the United States District Court in the Southern District of California seeking a ruling that Genentech’s patent would be infringed by our continued sales of Taltz. We believe the lawsuit is without merit and are prepared to defend against it vigorously.

Boehringer Ingelheim, our partner in marketing and development of Trajenta, is engaged in various U.S. patent litigation matters involving Trajenta/Jentadueto in accordance with the procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984. Eleven groups of companies submitted Abbreviated New Drug Applications seeking approval to market generic versions of Trajenta prior to the expiration of Trajenta/

Jentadueto patents, alleging certain patents, including in some allegations the compound patent, are invalid or would not be infringed. Trial was completed in July 2018. We expect a ruling during the first quarter of 2019.

In Canada, several generic companies previously challenged the validity of our Zyprexa compound patent. In September 2012, the Canadian Federal Court of Appeals affirmed the lower court's decision that the patent was invalid for lack of utility. In 2013, our petition for leave to appeal the decision to the Supreme Court of Canada was denied. Two of the generic companies, Apotex, Inc. (Apotex) and Teva Canada Limited (Teva Canada), pursued claims for damages arising from our enforcement of the patent under Canadian regulations. In April 2014, the Supreme Court of Canada dismissed Apotex's damages suit. Teva Canada's claim for damages remains, and in January 2017, the court issued a ruling that Teva Canada is entitled to damages. We appealed the ruling, and in February 2018 the Canadian Federal Court of Appeal affirmed the lower court ruling. In April 2018, we filed a petition for leave to appeal the decision to the Supreme Court of Canada and expect a decision on the petition in late third quarter or early fourth quarter 2018.

Other Matters

We, along with Sanofi and Novo Nordisk, were named as defendants in a consolidated purported class action lawsuit, *In re. Insulin Pricing Litigation*, in the U.S. District Court of New Jersey relating to insulin pricing, which was later amended to name only Sanofi and Novo Nordisk as defendants. We then were named as a defendant in a purported class action lawsuit, *Bentele et. al. v. Eli Lilly & Co.*, in the U.S. District Court of Rhode Island relating to insulin pricing. Plantiffs in that case sought damages under various state consumer protection laws and the federal Racketeer Influenced and Corrupt Organization Act (federal RICO Act). The U.S. District Court of Rhode Island has since transferred *Bentele et. al. v. Eli Lilly & Co.* back to the U.S. District Court of New Jersey. Separately, we, along with Sanofi and Novo Nordisk, were named as defendants in a purported class action lawsuit, *MSP Recovery Claims, Series, LLC et al. v. Sanofi Aventis U.S. LLC,* in the District of New Jersey seeking damages under various state consumer protection laws, common law fraud, unjust enrichment, and the federal RICO Act. We believe these claims are without merit and are prepared to defend against them vigorously.

We are also a defendant in other litigation and investigations, including product liability, patent, employment, and premises liability litigation, of a character we regard as normal to our business.

Item 1A. Risk Factors

Our material risk factors are disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes from the risk factors previously disclosed in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the activity related to repurchases of our equity securities during the three months ended June 30, 2018:

Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
April 2018	9,956.0	$ 81.22	9,956.0	$ 142.0
May 2018	1,779.4	79.79	1,779.4	—
June 2018	—	—	—	8,000.0
Total	11,735.4	81.00	11,735.4	

Numbers may not add due to rounding

During the three months ended June 30, 2018, we repurchased $950.7 million of shares, completing our $5.00 billion share repurchase program announced in October 2013. An $8.00 billion share repurchase program was authorized in June 2018. There were no shares repurchased under the $8.00 billion program during the six months ended June 30, 2018.

Item 6. Exhibits

The following documents are filed as exhibits to this Report:

EXHIBIT 3.1	Amended Articles of Incorporation
EXHIBIT 3.2	By-laws, as amended
EXHIBIT 10.1	2002 Lilly Stock Plan, as amended[(1)]
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 101.	Interactive Data Files

(1) Indicates management contract or compensatory plan

Index to Exhibits

The following documents are filed as a part of this Report:

Exhibit	
EXHIBIT 3.1	Amended Articles of Incorporation are incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-K for the year ended December 31, 2013.
EXHIBIT 3.2	By-laws, as amended, are incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K dated August 29, 2017.
EXHIBIT 10.1	2002 Lilly Stock Plan, as amended (1)
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 101.	Interactive Data Files

(1) Indicates management contract or compensatory plan

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ELI LILLY AND COMPANY
(Registrant)

Date: July 25, 2018

/s/Bronwen L. Mantlo
Bronwen L. Mantlo
Corporate Secretary

Date: July 25, 2018

/s/Donald A. Zakrowski
Donald A. Zakrowski
Vice President, Finance and Chief Accounting Officer

AMENDED AND RESTATED
2002 LILLY
STOCK PLAN
(Effective May 07, 2018)

ARTICLE 1. PURPOSES OF THE PLAN

The Company believes that this Amended and Restated 2002 Lilly Stock Plan, as amended from time to time (the "Plan"), will benefit the Company's shareholders by allowing the Company to attract, motivate and retain the best available Employees and Directors and by providing those Employees and Directors stock-based incentives to strengthen the alignment of interests between those persons and the Company's shareholders.

ARTICLE 2. DEFINITIONS

Wherever the following terms are used in the Plan, they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "Affiliate" shall have the meaning given to such term in Rule 12b-2 promulgated under the Exchange Act. The Board shall have the authority to determine the time or times at which "Affiliate" status is determined within the foregoing definition.

2.2 "Applicable Laws" means the requirements relating to the administration of equity-based and cash-based awards, as applicable, and the related issuance of Shares under U.S. state corporate laws, U.S. federal and state and non-U.S. securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where Awards are, or will be, granted under the Plan.

2.3 "Award" means an Option, Restricted Stock Units, Restricted Stock, a Stock Appreciation Right, Dividend Equivalent Rights, an Other Share-Based Award or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.4 "Award Agreement" means any written agreement, contract, or other instrument or document evidencing the terms and conditions of an Award, including through electronic medium.

2.5 "Board" means the board of directors of the Company.

2.6 "Change in Control" means and includes each of the following:

(a) the acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the Exchange Act (other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (iv) Lilly Endowment, Inc.) of "beneficial ownership," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of twenty percent (20%) or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board (or which would have such voting power but for the application of the Indiana Control Shares Statute) ("Voting Stock"); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control under this Section 2.6(a);

(b) the first day on which less than one-half of the total membership of the Board shall be Continuing Directors (as that term is defined in Section 13(f) of the Company's Articles of Incorporation);

(c) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting

securities of the surviving entity) more than sixty percent (60%) of the Voting Stock of the Company or such surviving entity immediately after such Transaction;

(d) a complete liquidation of the Company or a sale or disposition of all or substantially all the assets of the Company, other than a sale or disposition of assets to any subsidiary of the Company.

For purposes of this Section 2.6(a) only, the term "subsidiary" means a corporation or limited liability company of which the Company owns directly or indirectly fifty percent (50%) or more of the voting power.

2.7 "Code" means the U.S. Internal Revenue Code of 1986, as amended. All references herein to specific sections of the Code shall include any successor provisions of the Code or corresponding sections of any future U.S. federal tax code.

2.8 "Committee" means the committee of the Board appointed or described in Article 3 to administer the Plan.

2.9 "Common Stock" means the common stock of the Company, no par value, and such other securities of the Company that may be substituted for the Common Stock pursuant to Article 13.

2.10 "Company" means Eli Lilly and Company, an Indiana corporation, and any successor corporation thereto.

2.11 "Director" means a member of the Board.

2.12 "Disability" means, unless otherwise provided in an Award Agreement, that the Participant would qualify to receive benefit payments under the long-term disability plan or policy, as it may be amended from time to time, of the Company or the Affiliate to which the Participant provides Service regardless of whether the Participant is covered by such policy. If the Company or the Affiliate to which the Participant provides Service does not have a long-term disability policy, "Disability" means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determined physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant shall not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Committee in its discretion. Notwithstanding the foregoing, (a) for purposes of Incentive Stock Options granted under the Plan, "Disability" means that the Participant is disabled within the meaning of Section 22(e)(3) of the Code, and (b) with respect to an Award that is subject to Section 409A of the Code where the payment or settlement of the Award will accelerate as a result of the Participant's Disability, solely for purposes of determining the timing of payment, no such event will constitute a Disability for purposes of the Plan or any Award Agreement unless such event also constitutes a "disability" as defined under Section 409A of the Code.

2.13 "Dividend Equivalent Right" means a right to receive the equivalent value of dividends paid on the Shares with respect to Shares underlying Restricted Stock Units or an Other Share-Based Award that is a Full Value Award prior to vesting of the Award in accordance with the provision of Section 12.4.

2.14 "Effective Date" means the date that the shareholders approved the amendment and restatement of the Plan.

2.15 "Eligible Individual" means any natural person who is an Employee or a Director determined by the Committee as eligible to participate in the Plan.

2.16 "Employee" means an individual, including an officer or Director, who is treated as an employee in the personnel records of the Company or an Affiliate and providing Service to the Company or the Affiliate. Neither services as a Director nor payment of a director's fee by the Company or an Affiliate shall be sufficient to constitute "employment" by the Company or an Affiliate.

2.17 "Equity Restructuring" shall mean a nonreciprocal transaction between the Company and its shareholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the Shares (or other securities of the Company) or the price of Shares (or other securities) and causes a change in the per-share value of the Shares underlying outstanding Awards.

2.18 "Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

2.19 "Fair Market Value" means, as of any given date, (a) if Shares are traded on any established stock exchange, the closing price of a Share as quoted on the principal exchange on which the Shares are listed, as reported in *The Wall Street Journal* (or such other source as the Company may deem reliable for such purposes) for such date, or if no sale occurred on such date, the first trading date immediately prior to such date during which a sale occurred; or (b) if Shares are not traded on an exchange but are regularly quoted on a national market or other quotation system, the closing sales price on such date as quoted on such market or system, or if no sales occurred on such date, then on the date immediately prior to such date on which sales prices are reported; or (c) in the absence of an established market for the Shares of the type described in (a) or (b) of this Section 2.19, the fair market value established by the Committee acting in good faith, under a reasonable methodology and reasonable application in compliance with Section 409A of the Code to the extent such determination is necessary for Awards under the Plan to comply with, or be exempt from, Section 409A of the Code.

Notwithstanding the foregoing, for income tax reporting purposes under U.S. federal, state, local or non-US law and for such other purposes as the Committee deems appropriate, including, without limitation, where Fair Market Value is used in reference to exercise, vesting, settlement or payout of an Award, the Fair Market Value shall be determined by the Company in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

2.20 "Full Value Award" means any Award other than an (i) Option, (ii) Stock Appreciation Right or (iii) other Award for which the Participant pays (or the value or amount payable under the Award is reduced by) an amount equal to or exceeding the Fair Market Value of the Shares, determined as of the date of grant.

2.21 "Incentive Stock Option" means an Option that is intended to meet the requirements of Section 422 of the Code.

2.22 "Non-Employee Director" means a Director of the Company who is not an Employee.

2.23 "Non-Qualified Stock Option" means an Option that is not intended to be an Incentive Stock Option.

2.24 "Option" means a right granted to a Participant pursuant to Article 6 to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.25 "Other Share-Based Award" shall mean an Award granted pursuant to Article 10.

2.26 "Outstanding Qualified Performance-Based Awards" shall mean any Awards granted prior to November 3, 2017 and that are outstanding as of the Effective Date and that are intended to constitute "qualified performance-based compensation" as described in Section 162(m)(4)(C) of the Code. For the avoidance of any doubt, all provisions of the Plan governing Outstanding Qualified Performance Awards that were in effect prior to the Effective Date shall continue in effect with respect to Outstanding Qualified Performance-Based Awards, notwithstanding the elimination of such provisions from the Plan as of the Effective Date.

2.27 "Participant" means any Eligible Individual who, as an Employee or Director, has been granted an Award pursuant to the Plan.

2.28 "Performance-Based Award" means an Award that are subject, in whole or in part, to Performance Goals and are granted pursuant to Article 10.

2.29 "Performance Criteria" means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals include, but are not limited to, the following: cash flow (including, without limitation, operating cash flow and free cash flow), earnings per share, gross or net profit margin, net income (either before or after interest, taxes, amortization, and/or depreciation), operating income (either before or after restructuring and amortization charges), return on capital or return on invested capital, return on equity, return on operating assets or net assets, return on sales, sales or revenue, stock price goals, total shareholder return. The Committee shall define objectively the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.30 "Performance Goals" means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria that the Committee, in its sole discretion, selects. The Committee, in its sole discretion, may provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Goals.

2.31 "Performance Period" means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award, provided that the duration of any Performance Period shall not be less than twelve (12) months.

2.32 "Plan" means this Amended and Restated 2002 Lilly Stock Plan, as it may be amended from time to time.

2.33 "Prior Plans" means the 1989, 1994 and 1998 Lilly Stock Plans, as amended from time to time.

2.34 "Restricted Stock" means Shares awarded to a Participant pursuant to Article 8 that are subject to certain restrictions and may be subject to risk of forfeiture.

2.35 "Restricted Stock Unit" means an Award granted pursuant to Article 7 that shall be evidenced by a bookkeeping entry representing the equivalent of one Share.

2.36 "Securities Act" means the U.S. Securities Act of 1933, as amended.

2.37 "Service" means service as an Employee or Non-Employee Director. Except as otherwise determined by the Committee in its sole discretion, a Participant's Service terminates when the Participant ceases to actively provide services to the Company or an Affiliate and shall not be extended by any notice period mandated under applicable employment laws or the terms of the Participant's employment or service contract, if any. The Committee shall determine which leaves shall count toward Service and when Service terminates for all purposes under the Plan. Further, unless otherwise determined by the Committee, a Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant provides Service to the Company or an Affiliate, or a transfer between entities (*i.e.*, the Company or any Affiliates), *provided* that there is no interruption or other termination of Service in connection with the Participant's change in capacity or transfer between entities (except as may be required to effect the change in capacity or transfer between entities). For purposes of determining whether an Option is entitled to Incentive Stock Option status, an Employee's Service shall be treated as terminated ninety (90) days after such Employee goes on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract.

2.38 "Share" means a share of Common Stock.

2.39 "Stock Appreciation Right" or "SAR" means a right granted pursuant to Article 9 to receive a payment equal to the excess of the Fair Market Value of a specified number of Shares on the date the SAR is exercised over the exercise price of the SAR, as set forth in the applicable Award Agreement.

2.40 "Tax-Related Items" means any U.S. federal, state, and/or local taxes and any taxes imposed by a jurisdiction outside of the U.S. (including, without limitation, income tax, social insurance and similar contributions, payroll tax, fringe benefits tax, payment on account, employment tax, stamp tax and any other taxes related to participation in the Plan and legally applicable to a Participant, including any employer liability for which the Participant is liable pursuant to Applicable Laws or the applicable Award Agreement).

ARTICLE 3. ADMINISTRATION

3.1 Committee. The Board, at its discretion or as otherwise necessary to comply with the requirements of Section 162(m) of the Code (with respect to Outstanding Qualified Performance-Based Awards), Rule 16b-3 promulgated under the Exchange Act or to the extent required by any other Applicable Law or regulation, may delegate administration of the Plan to a Committee consisting of two or more members of the Board. Unless otherwise determined by the Board, the Committee shall consist solely of two or more Non-Employee Directors, each of whom is an "outside director," within the meaning of Section 162(m) of the Code (with respect to Outstanding Qualified Performance-Based Awards), a "non-employee director" within the meaning of Rule 16b-3(b)(3) under the Exchange Act, or any successor rule, and an "independent director" under the applicable New York Stock Exchange rules (or other principal securities

market on which Shares are traded). Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Non-Employee Directors and for purposes of such Awards the term “Committee” as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 3.5 hereof. Unless and until the Board delegates administration of the Plan to a Committee as set forth below, the Plan shall be administered by the full Board, and for such purposes the term “Committee” as used in this Plan shall be deemed to refer to the Board. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan, except with respect to matters which under Rule 16b-3 under the Exchange Act or Section 162(m) of the Code (with respect to Outstanding Qualified Performance-Based Awards), or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

3.2 Action by the Committee. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

3.3 Authority of Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

(a) designate Participants to receive Awards;

(b) determine the type or types of Awards to be granted to each Participant;

(c) determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(d) determine the terms and conditions of any Award granted pursuant to the Plan, including, without limitation, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to recoupment of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;

(e) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be cancelled, forfeited, or surrendered;

(f) prescribe the form of each Award Agreement, which need not be identical for each Participant and may vary for Participants within and outside of the U.S.;

(g) decide all other matters that must be determined in connection with an Award;

(h) establish, adopt or revise any rules and regulations, including adopting sub-plans to the Plan, for the purposes of facilitating compliance with foreign laws, easing the administration of the Plan and/or taking advantage of tax-favorable treatment for Awards granted to Participants outside the U.S., in each case as it may deem necessary or advisable;

(i) suspend or terminate the Plan at any time, subject to Article 15;

(j) amend or modify the terms of an Award, including, without limitation, accelerate the vesting and/or exercisability of any Award for any reason, including, without limitation, the Participant's retirement or other termination; *provided*, *however*, that no amendment or modification of an outstanding Award other than the following types of amendments or modifications shall affect adversely, in any material way, any Award previously granted pursuant to the Plan without the prior written consent of the Participant: (i) an amendment or modification that may cause an Incentive Stock Option to become a Non-Qualified Stock Option; (ii) an amendment made or other action taken pursuant to Section 16.14 of the Plan; (iii) any amendment or other action that may be required or desirable to facilitate compliance with Applicable Laws, as determined in the sole discretion of the Committee .

(k) interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and

(l) make all other decisions and determinations that may be required pursuant to the Plan or that the Committee deems necessary or advisable to administer the Plan.

3.4 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, and any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

3.5 Delegation of Authority. To the extent permitted by Applicable Laws, the Board, from time to time, may delegate to a Committee of one or more members of the Board (pursuant to delegation that does not meet the requirement of Section 3.1 hereof) or to one or more officers of the Company the authority to grant Awards to Participants other than (a) Employees who are subject to Section 16 of the Exchange Act, or (b) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder. Furthermore, if the authority to grant or amend Awards has been delegated to the Committee pursuant and subject to the preceding sentence, such authority may be further delegated by the Committee to one or more officers of the Company. For the avoidance of doubt, provided it meets the limitations of this Section 3.5, any delegation hereunder shall include the right to modify Awards as necessary to accommodate changes in Applicable Laws or regulations, including in jurisdictions outside the U.S. Furthermore, any delegation hereunder shall be subject to the restrictions and limitations that the Board (or, as applicable, the Committee) specifies at the time of such delegation, and the Board (or, as applicable, the Committee) may rescind at any time the authority so delegated and/or appoint a new delegatee. At all times, the delegatee appointed under this Section 3.5 shall serve in such capacity at the pleasure of the Board (or, as applicable, the Committee).

ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to Article 13 hereof, the aggregate number of Shares that may be issued or transferred pursuant to Awards under the Plan shall be the sum of (i) 75,657,296 Shares, plus (ii) the number of Shares available for issuance under the Prior Plans (including Shares subject to awards granted under the Prior Plans that otherwise subsequently became available for issuance under the Prior Plans upon forfeiture, cancellation, or termination of the awards or any other reason under the terms of the Prior Plans); provided, however, that only 53,000,000 Shares may be issued or transferred pursuant to new Awards granted on or following the Effective Date. Subject to Article 13, the aggregate number of Shares that may be issued or transferred pursuant to the exercise of Incentive Stock Options shall be 30,000,000.

(a) Shares Reissuable under Plan. The following Shares shall again be available for the grant of an Award pursuant to the Plan: (i) Shares that are not issued as a result of the termination, expiration or lapsing of any Award for any reason; (ii) Shares subject to a Full Value Award that are not issued because the Award is settled in cash; (iii) Shares covered by an Option which are surrendered in payment of the Option exercise or purchase price or in satisfaction of obligations for Tax-Related Items incident to the exercise of an Option; (iv) Shares covered by an Award which are surrendered in satisfaction of obligations for Tax-Related Items incident to the vesting or settlement of a Full Value Award. Notwithstanding the provisions of this Section 4.1, no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an Incentive Stock Option.

(b) Shares Not Reissuable under Plan. Notwithstanding the foregoing, Shares that are repurchased on the open market with the proceeds of the exercise of an Option shall be counted against the maximum number of Shares available for issuance pursuant to Section 4.1 hereof and shall not be returned to the Plan.

(c) Shares Not Counted Against Share Pool Reserve. To the extent permitted by Applicable Laws, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or an Affiliate shall not be counted against Shares available for grant pursuant to this Plan. Additionally, to the extent permitted by Applicable Laws, in the event that a company acquired by (or combined with) the Company or an Affiliate has shares available under a pre-existing plan approved by its shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the shareholders of the entities party to such acquisition or combination) may, at the discretion of the Committee, be used for Awards under the Plan in lieu of awards under the applicable pre-existing plan of the other company and

shall not reduce the Shares authorized for grant under the Plan; *provided* that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan absent the acquisition or combination, and shall only be made to individuals who were not employees or directors of the Company or any Affiliate in existence prior to such acquisition or combination by the Company or an Affiliate. The payment of Dividend Equivalent Rights in cash in conjunction with any outstanding Awards shall not be counted against the Shares available for issuance under the Plan.

4.2 Shares Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury Shares or Shares purchased on the open market, subject to Section 4.1(b)(ii) hereof.

4.3 Limitation on Number of Shares Subject to Awards. Notwithstanding any provision in the Plan to the contrary, and subject to Article 13, the maximum number of Shares subject to all Awards that may be granted to any one Participant during any calendar year shall be 1,500,000 Shares.

4.4 Non-Employee Director Award Limit. Notwithstanding any provision to the contrary in the Plan or in any policy of the Company regarding compensation payable to a Non-Employee Director, the sum of the grant date fair value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of all Awards payable in Common Stock to an individual as compensation for services as a Non-Employee Director, together with cash compensation earned by the Non-Employee Director during any calendar year, shall not exceed $800,000 in any calendar year.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

5.1 Eligibility. Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan. An Eligible Individual who is subject to taxation in the U.S. and who is providing Services to an Affiliate may be granted Options or SARs under this Plan only if the Affiliate qualifies as an "eligible issuer of service recipient stock" within the meaning of the U.S. Department of Treasury regulations promulgated under Section 409A of the Code.

5.2 Participation. Subject to the provisions of the Plan, the Committee, from time to time, may select from among all Eligible Individuals those to whom Awards shall be granted, and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan and the grant of an Award to an Eligible Individual shall not imply any entitlement to receive future Awards.

ARTICLE 6. STOCK OPTIONS

6.1 General. The Committee is authorized to grant Options to Eligible Individuals on the following terms and conditions, and the Committee may specify such additional terms and conditions as:

(a) Exercise Price. The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided* that, subject to Section 6.2(c) hereof, the per-Share exercise price for any Option shall not be less than 100% of the Fair Market Value of a Share on the date of grant.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided* that the term of any Option granted under the Plan shall not exceed ten (10) years. Subject to Section 12.3, the Committee also shall specify the vesting conditions, if any, as it deems appropriate that must be satisfied before all or part of an Option may be exercised. The vesting conditions, if any, may be based on, among other conditions, a Participant's continued Service, the attainment of performance conditions, or a combination of both.

(c) Payment. The Committee shall determine the methods by which the exercise price of an Option may be paid, including the following methods: (i) cash or check; (ii) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Committee may require (including withholding of Shares otherwise deliverable upon exercise of the Option) which have a Fair Market Value on the date or surrender of attestation equal to the aggregate exercise price of the Shares as to which the Option is to be exercised; (iii) promissory note from a Participant to the Company or a third-party loan guaranteed by the Company (in either case, with such loan bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code); (iv) through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient

portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price, *provided* that payment of such proceeds is then made to the Company upon settlement of such sale; (v) by a "net exercise" arrangement pursuant to which the number of Shares issuable upon exercise of the Option shall be reduced by the largest whole number of Shares having an aggregate fair market value that does not exceed the aggregate exercise price (plus withholding taxes, if applicable) and any remaining balance of the aggregate exercise price (and/or applicable withholding taxes) not satisfied by such reduction in the number of whole Shares to be issued shall be paid by Participant in cash or other form of payment approved by the Committee; (vi) other property acceptable to the Committee; or (vii) any combination of the foregoing methods of payment. The Award Agreement will specify the methods of paying the exercise price available to each Participant. The Committee also shall determine the methods by which Shares shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option, or continue any extension of credit with respect to the exercise price of an Option, with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Shareholder. An Option may not be exercised for a fraction of a Share. An Option shall be deemed exercised when the Company receives: (A) a notice of exercise (in such form as the Committee may specify from time to time) from the person entitled to exercise the Option, and (B) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Committee and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no dividends or Dividend Equivalent Right shall be paid, and no right to vote or receive dividends or Dividend Equivalent Rights or any other rights as a shareholder shall exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13.1 of the Plan.

(ii) Termination of Participant's Service. If a Participant ceases to provide Service, including as a result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). Unless otherwise provided by the Committee, if on the date of termination of Service the Participant is not vested as to his or her entire Option, the unvested portion of the Option shall be forfeited and the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination of Service, the Participant does not exercise his or her Option within the time specified by the Committee, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan. To the extent the Option is exercisable following a Participant's death, the Option may be exercised by such persons as may be specified in the Award Agreement, which may include any of the following: (i) the Participant's designated beneficiary, *provided* that such designation is permitted under Applicable Laws and that such beneficiary has been designated before the Participant's death in a form acceptable to the Company; (ii) the Participant's legal representative or representatives; (iii) the person or persons entitled to do so pursuant to the Participant's last will and testament; or (iv) if the Participant fails to make testamentary disposition of the Option or dies intestate, by the person or persons entitled to receive the Option pursuant to the applicable laws of descent and distribution.

6.2 Incentive Stock Options. Incentive Stock Options shall be granted only to Employees of the Company or any "subsidiary corporation," as defined in Section 424(f) of the Code and any applicable U.S. Department of Treasury regulations promulgated thereunder, of the Company, and the terms of any Incentive Stock Options granted pursuant to the Plan, in addition to the requirements of Section 6.1 hereof, must comply with the provisions of this Section 6.2.

(a) Expiration. Subject to Section 6.2(c) hereof, an Incentive Stock Option shall expire and may not be exercised to any extent by anyone after the first to occur of the following events:

(i) Ten (10) years from the date of grant, unless an earlier time is set in the Award Agreement;

(ii) Three (3) months after the date of the Participant's termination of Service on account of any reason other than death or Disability (within the meaning of Section 22(e)(3) of the Code); and

(iii) One (1) year after the date of the Participant's termination of Service on account of death or Disability (within the meaning of Section 22(e)(3) of the Code).

(b) Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed US$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(c) Ten Percent Owners. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of Shares of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five (5) years from the date of grant.

(d) Notice of Disposition. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Stock Option within (i) two (2) years from the date of grant of such Incentive Stock Option or (ii) one (1) year after the transfer of such Shares to the Participant.

(e) Right to Exercise. During a Participant's lifetime, only the Participant may exercise an Incentive Stock Option.

(f) Failure to Meet Requirements. Any Option (or portion thereof) purported to be an Incentive Stock Option, which, for any reason, fails to meet the requirements of Section 422 of the Code shall be considered a Non-Qualified Stock Option.

ARTICLE 7. RESTRICTED STOCK UNITS

7.1 Restricted Stock Units. The Committee is authorized to grant Restricted Stock Units to Eligible Individuals in such amounts and subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose.

7.2 Vesting Conditions. Subject to Section 12.3, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting, if any, as it deems appropriate. The vesting conditions, if any, may be based on among other conditions, a Participant's continued Service, the attainment of performance conditions, or a combination of both.

7.3 Form and Timing of Payment. The Committee shall specify the settlement date applicable to each grant of Restricted Stock Units, which date shall not be earlier than the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, or such settlement date may be deferred to any later date, subject to compliance with Section 409A of the Code, as applicable. On the settlement date, the Company shall, subject to Section 12.6(a) hereof and satisfaction of applicable Tax-Related Items (as further set forth in Section 16.3 hereof), transfer to the Participant one Share for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. Alternatively, settlement of a Restricted Stock Unit may be made in cash (in an amount reflecting the Fair Market Value of the Shares that otherwise would have been issued) or any combination of cash and Shares, as determined by the Committee, in its sole discretion, in either case, less applicable Tax-Related Items (as further set forth in Section 16.3 hereof). Until a Restricted Stock Unit is settled, the number of Restricted Stock Units shall be subject to adjustment pursuant to Article 13 hereof.

7.4 Forfeiture. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, any Restricted Stock Units that are not vested as of the date of the Participant's termination of Service shall be forfeited.

7.5 General Creditors. A Participant who has been granted Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement evidencing the grant of the Restricted Stock Units.

ARTICLE 8. RESTRICTED STOCK AWARDS

8.1 Grant of Restricted Stock. The Committee is authorized to grant Restricted Stock to Eligible Individuals selected by the Committee in such amounts and subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose.

8.2 Purchase Price. At the time of the grant of Restricted Stock, the Committee shall determine the price, if any, to be paid by the Participant for each Share subject to the Award. The purchase price of Shares acquired pursuant to the Award shall be paid either: (i) in cash at the time of purchase; (ii) at the sole discretion of the Committee, by Service rendered or to be rendered to the Company or an Affiliate; or (iii) in any other form of legal consideration that may be acceptable to the Committee in its sole discretion and in compliance with Applicable Laws.

8.3 Issuance and Restrictions. Subject to Section 12.3 hereof, Restricted Stock shall be subject to such restrictions, if any, on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). The restrictions, if any, may be based on, among other conditions, a Participant's continued Service, the attainment of performance conditions, or a combination of both. These restrictions, if any, may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

8.4 Dividends. Any dividends that are distributed with respect to Shares of Restricted Stock shall be paid in accordance with the applicable Award Agreement, subject to the provisions of Section 12.4(b).

8.5 Forfeiture. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of Service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited.

8.6 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE 9. STOCK APPRECIATION RIGHTS

9.1 Grant of Stock Appreciation Rights. The Committee is authorized to grant SARs to Eligible Individuals on the following terms and conditions, and the Committee may specify such additional terms and conditions as:

(a) Exercise Price. The exercise price per Share subject to a SAR shall be determined by the Committee and set forth in the Award Agreement; *provided* that the exercise price per Share for any SAR shall not be less than 100% of the Fair Market Value of a Share on the date of grant.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which a SAR may be exercised in whole or in part; *provided* that the term of any SAR granted under the Plan shall not exceed ten (10) years. Subject to Section 12.3, the Committee also shall specify the vesting conditions, if any, as it deems appropriate that must be satisfied before all or part of a SAR may be exercised. The vesting conditions, if any, may be based on, among other conditions, a Participant's continued Service, the attainment of performance conditions, or a combination of both.

(c) A SAR may not be exercised for a fraction of a Share. A SAR shall be deemed exercised when the Company receives a notice of exercise (in such form as the Committee may specify from time to time) from the person entitled to exercise the SAR.

9.2 Tandem Stock Appreciation Rights**.** A SAR may be granted in connection with an Option, either at the time of grant or at any time thereafter during the term of the Option. A SAR granted in connection with an Option will entitle the holder, upon exercise, to surrender the Option or any portion thereof to the extent unexercised, with respect to the number of Shares as to which such SAR is exercised, and to receive payment of an amount computed as described in Section 9.3. The Option shall, to the extent and when surrendered, cease to be exercisable. A SAR granted in connection with an Option hereunder will have an exercise price per share equal to the per share exercise price of the Option, will be exercisable at such time or times, and only to the extent, that the related Option is exercisable, and will expire no later than the related Option expires. If a related Option is exercised in whole or in part, then the SAR related to the Shares purchased terminates as of the date of such exercise.

9.3 Payment and Limitations on Exercise.

(a) A SAR shall entitle the Participant (or other person entitled to exercise the SAR pursuant to the Plan) to exercise all or a specified portion of the SAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount equal to the excess of the aggregate Fair Market Value of the Shares on the date the SAR is exercised over the aggregate exercise price of the SAR, less applicable Tax-Related Items (as further set forth in Section 16.3 hereof), subject to any limitations the Committee may impose.

(b) Payment of the amounts determined under Section 9.3(a) hereof shall be in cash, in Shares (based on the Fair Market Value of the Shares as of the date the SAR is exercised) or a combination of both, as determined by the Committee in the Award Agreement. To the extent Shares are issued upon exercise of a SAR, the Shares shall be issued in the name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no dividends or Dividend Equivalent Right shall be paid, and no right to vote or receive dividends or Dividend Equivalent Rights or any other rights as a shareholder shall exist with respect to the Shares subject to a SAR, notwithstanding the exercise of the SAR. The Company shall issue (or cause to be issued) such Shares promptly after the SAR is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13.1 of the Plan. The provisions of Section 6.1(d)(ii) regarding the treatment of a termination of the Participant's Service shall also apply to SARs.

ARTICLE 10. OTHER SHARE-BASED AWARDS

10.1 Grants of Other Share-Based Awards. Subject to limitation under Applicable Laws, the Committee is authorized under the Plan to grant Awards (other than Options, Restricted Stock Units, Restricted Stock and SARs) to Eligible Individuals subject to the terms and conditions set forth in this Article 10 and such other terms and conditions as may be specified by the Committee that are not inconsistent with the provisions of the Plan and that, by their terms, involve or might involve the issuance of, consist of, or are denominated in, payable in, valued in whole or in part by reference to, or otherwise relate to, Shares. The Committee may also grant Shares as a bonus, or may grant other Awards in lieu of obligations of the Company or an Affiliate to pay cash or other property under the Plan or other plans or compensatory arrangements. The terms and conditions applicable to such other Awards shall be determined from time to time by the Committee and set forth in an applicable Award Agreement. The Committee may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Participants on such terms and conditions as determined by the Committee from time to time.

10.2 Exercise Price. The Committee may establish the exercise price, if any, of any Other Share-Based Award granted pursuant to this Article 10; *provided* that such exercise price shall not be less than the Fair Market Value of a Share on the date of grant for an Award that is intended to be exempt from Section 409A of the Code.

10.3 Form of Payment. Payments with respect to any Awards granted under Section 10.1 shall be made in cash or cash equivalent, in Shares or any combination of the foregoing, as determined by the Committee.

10.4 Vesting Conditions. Subject to Section 12.3, the Committee shall specify the date or dates on which the Awards granted pursuant to this Article 10 shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. The vesting conditions may be based on, among other vesting conditions, a Participant's continued Service, the attainment of performance conditions, or a combination of both.

10.5 Term. Except as otherwise provided herein, the Committee shall set, in its discretion, the term of any Award granted pursuant to this Article 10; *provided* that the term of any Award granted pursuant to this Article 10 shall not exceed ten (10) years.

ARTICLE 11. PERFORMANCE-BASED AWARDS

11.1 Purpose. If the Committee, in its discretion, decides to grant a Performance-Based Award to an Eligible Individual, the provisions of this Article 11 shall control over any contrary provision contained in Articles 6 through 10; *provided* that the Committee may in its discretion grant Awards to Eligible Individuals that are based on Performance Criteria or other performance conditions but that do not satisfy the requirements of this Article 11.

11.2 Applicability. This Article 11 shall apply only to those Eligible Individuals selected by the Committee to receive Performance-Based Awards. The designation of an Eligible Individual as a Participant for a Performance Period shall not entitle the Participant, in any manner, to receive an Award for the period. Moreover, the designation of an Eligible Individual as a Participant for a particular Performance Period shall not require designation of such Eligible Individual as a Participant in any subsequent Performance Period and designation of one Eligible Individual as a Participant shall not require designation of any other Eligible Individuals as a Participant in such period or in any other Performance Period.

11.3 Procedures with Respect to Performance-Based Awards. With respect to any Performance-Based Awards, which may be granted to one or more Eligible Individuals, within the first twenty-five percent (25%) of the Performance Period in question or period of Service, the Committee, in writing (a) shall designate one or more Eligible Individuals as eligible for an Award, (b) shall designate the Performance Period over which the Performance Goals shall be measured; (c) shall select the Performance Criteria applicable to the Performance Period, (d) shall establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (e) shall specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Eligible Individuals for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by an Eligible Individual, the Committee shall have the right to adjust or eliminate the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

11.4 Payment of Performance-Based Awards. Unless otherwise provided in the applicable Award Agreement, a Participant must be providing Service on the day a Performance-Based Award for the appropriate Performance Period is paid to the Participant. Furthermore, unless otherwise provided in the applicable Award Agreement, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

ARTICLE 12. PROVISIONS APPLICABLE TO AWARDS

12.1 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

12.2 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award, not inconsistent with the Plan, which may include, without limitation, the term of an Award, the provisions applicable in the event the Participant's Service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

12.3 Minimum Vesting Requirements. Notwithstanding any other provision of the Plan, except in connection with Awards granted in connection with assumption or substitution of awards as part of a transaction as contemplated under Section 4.1(c) or Awards that may be settled only in cash, no portion of an Award granted on or after the Effective Date may vest before the first anniversary of the date of grant, subject to accelerated vesting as contemplated under Section 3.3(j) and ARTICLE 13; provided, however, that the Company may grant Awards with respect to up to five percent (5%) of the number of Shares reserved under Section 4.1 as of the Effective Date without regard to the minimum vesting period set forth in this Section 12.3.

12.4 Dividends and Dividend Equivalent Rights.

(a) Any Participant selected by the Committee may be granted Dividend Equivalent Rights based on the dividends declared on the Shares that are subject to any Restricted Stock Unit or an Other Share-

Based Award that is a Full Value Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award vests or is settled, as determined by the Committee and set forth in the applicable Award Agreement. Such Dividend Equivalent Rights shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) To the extent Shares subject to an Award (other than Restricted Stock) are subject to vesting conditions, any Dividend Equivalent Rights relating to such Shares shall either (i) not be paid or credited or (ii) be accumulated and subject to restrictions and risk of forfeiture to the same extent as the underlying Award with respect to which such cash, stock or other property has been distributed. For Shares of Restricted Stock that are subject to vesting, dividends shall be accumulated and subject to any restrictions and risk of forfeiture to which the underlying Restricted Stock is subject.

12.5 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or an Affiliate, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or an Affiliate. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution.

12.6 Stock Certificates; Book Entry Procedures.

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing Shares pursuant to the exercise or vesting, as applicable, of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All certificates evidencing Shares delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or local securities or other laws, including laws of jurisdictions outside of the U.S., rules and regulations and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any certificate evidencing Shares to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including, without limitation, a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any Applicable Laws, rule or regulation, the Company shall not deliver to any Participant certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

12.7 Paperless Administration. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website, intranet or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

ARTICLE 13. CHANGES IN CAPITAL STRUCTURE

13.1 Adjustments.

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other similar event or other change related to a corporate event affecting the Shares or the price of the Shares other than an Equity Restructuring, the Committee shall make such adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and kind of shares that may be issued under the Plan (including, without limitation, adjustments of the limitations in Sections 4.1 and 4.3 hereof); (b) the terms and conditions of any outstanding Awards (including, without limitation, the number and kind of shares that may be issued, or any applicable performance goals or criteria with respect thereto); and (c) the grant or exercise price per Share for any outstanding Awards under the Plan.

(b) In the event of any transaction or event described in Section 13.1(a) hereof or any unusual or infrequently occurring items or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in Applicable Laws, regulations or accounting principles, the Committee, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) to provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13.1 the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) to provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) to make adjustments in the number and type of Shares (or other securities or property) subject to outstanding Awards, and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards;

(iv) to provide that such Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) to provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 13.1(a) and 13.1(b) hereof:

(i) the number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, shall be equitably adjusted. The adjustments provided under this Section 13.1(c)(i) shall be final and binding on the affected Participant and the Company.

(ii) the Committee shall make such equitable adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, without limitation, adjustments of the limitations in Sections 4.1 and 4.3 hereof).

13.2 Change in Control.

(a) Notwithstanding Section 13.1 hereof, and provided that any applicable Award Agreement does not expressly preclude the following from applying, if a Change in Control occurs and Awards that vest solely on the Participant's continued Service are not converted, assumed, substituted or replaced by a successor or survivor corporation, or a parent or subsidiary thereof, then immediately prior to the Change in Control such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse and, immediately following the consummation of such Change in Control, all such Awards shall terminate and cease to be outstanding.

(b) Notwithstanding Section 13.1 hereof, Awards that vest based on the attainment of performance-based conditions shall be subject to the provisions of the Award Agreement governing the impact of a Change in Control, provided that any such provisions in the Award Agreement shall (i) not permit the vesting of

Awards at a rate that is greater than the actual level of attainment and/or (ii) provide for pro-rated vesting of the Award based on any reduction to the performance period resulting from the Change in Control.

(c) Where Awards are assumed or continued after a Change in Control, the Committee may provide that the vesting of one or more Awards will automatically accelerate upon an involuntary termination of the Participant's employment or service within a designated period following the effective date of such Change in Control. Any such Award shall accordingly, upon an involuntary termination of the Participant's employment or service in connection with a Change in Control, become fully exercisable and all forfeiture restrictions on such Award shall lapse.

(d) The portion of any Incentive Stock Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Stock Option only to the extent the applicable $100,000 limitation is not exceeded. To the extent such U.S. dollar limitation is exceeded, the accelerated portion of such Option shall be exercisable as a Non-Statutory Option under the U.S. federal tax laws.

13.3 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of Shares of any class, the payment of any dividend, any increase or decrease in the number of Shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of Shares of any class, or securities convertible into Shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to an Award or the grant or the exercise price of any Award.

ARTICLE 14. EFFECTIVE AND EXPIRATION DATE

14.1 Plan Effective Date. The Plan was approved by the Board on February 20, 2018 and shall become effective upon approval of the shareholders of the Company.

14.2 Expiration Date. The Plan will continue in effect until it is terminated by the Board pursuant to Section 15.1 hereof, except that no Incentive Stock Options may be granted under the Plan after February 20, 2028. Any Awards that are outstanding on the date the Plan terminates shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 15. AMENDMENT, MODIFICATION, AND TERMINATION

15.1 Amendment, Modification, and Termination. Subject to Section 16.14 hereof, with the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; *provided, however*, that to the extent necessary and desirable to comply with any Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required. Notwithstanding any provision in this Plan to the contrary, absent approval of the shareholders of the Company, and except as permitted by Article 13, no Option or SAR may be amended to reduce the per-Share exercise price of the Shares subject to such Option or SAR below the per-Share exercise price as of the date the Option or SAR is granted and (a) no Option or SAR may be granted in exchange for, or in connection with, the cancellation, surrender or substitution of an Option or SAR having a higher per-Share exercise price and (b) no Option or SAR may be cancelled in exchange for, or in connection with, the payment of a cash amount or another Award at a time when the Option or SAR has a per-Share exercise price that is higher than the Fair Market Value of a Share.

15.2 Awards Previously Granted. Except with respect to amendments made or other actions taken pursuant to Section 16.14 hereof or any amendment or other action with respect to an outstanding Award that may be required or desirable to facilitate compliance with Applicable Laws, as determined by the Committee in its sole discretion, no termination, amendment, or modification of the Plan shall affect adversely, in any material way, any Award previously granted pursuant to the Plan without the prior written consent of the Participant; *provided*, *however*, that an amendment or modification that may cause an Incentive Stock Option to become a Non-Qualified Stock Option shall not be treated as adversely affecting the rights of the Participant.

ARTICLE 16. GENERAL PROVISIONS

16.1 No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

16.2 No Shareholders Rights. Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award, including the right to vote or receive dividends, until the Participant becomes the record owner of such Shares, notwithstanding the exercise of an Option or SAR or vesting of another Award.

16.3 Tax-Related Items. The Company or any Affiliate, as applicable, shall have the authority to require a Participant to remit to the Company or an Affiliate, an amount sufficient to satisfy the withholding obligations for Tax-Related Items or to take such other action as may be necessary or appropriate in the opinion of the Company or an Affiliate, as applicable, to satisfy withholding obligations for Tax-Related Items, including one or a combination of the following: (a) withholding from the Participant's wages or other cash compensation payable to the Participant by the Company or an Affiliate; (b) withholding from the proceeds of the sale of Shares acquired pursuant to an Award, either through a voluntary sale or a mandatory sale arranged by the Company on the Participant's behalf, without need of further authorization; or (c) in the Committee's sole discretion, by withholding Shares otherwise issuable under an Award (or allowing the return of Shares) sufficient, as determined by the Committee in its sole discretion, to satisfy such Tax-Related Items. No Shares shall be delivered pursuant to an Award to any Participant or other person until the Participant or such other person has made arrangements acceptable to the Committee to satisfy the withholding obligations for Tax-Related Items.

16.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Affiliate to terminate any Participant's Service at any time, nor confer upon any Participant any right to continue in the Service of the Company or any Affiliate.

16.5 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Affiliate.

16.6 Indemnification. To the extent allowable pursuant to Applicable Laws, each member of the Committee and the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

16.7 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, termination programs and/or indemnities or severance payments, welfare or other benefit plan of the Company or any Affiliate, except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

16.8 Expenses. The expenses of administering the Plan shall be borne by the Company and/or its Affiliates.

16.9 Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

16.10 Fractional Shares. No fractional Shares shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

16.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Laws, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

16.12 Government and Other Regulations. The obligation of the Company to make payment of awards in Shares or otherwise shall be subject to all Applicable Laws, and to such approvals by government agencies, including government agencies in jurisdictions outside of the U.S., in each case as may be required or as the Company deems necessary or advisable. Without limiting the foregoing, the Company shall have no obligation to issue or deliver evidence of title for Shares subject to Awards granted hereunder prior to: (i) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable, and (ii) completion of any registration or other qualification with respect to the Shares under any Applicable Laws in the U.S. or in a jurisdiction outside of the U.S. or ruling of any governmental body that the Company determines to be necessary or advisable or at a time when any such registration or qualification is not current, has been suspended or otherwise has ceased to be effective. The inability or impracticability of the Company to obtain or maintain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained and shall constitute circumstances in which the Committee may determine to amend or cancel Awards pertaining to such Shares, with or without consideration to the affected Participant. The Company shall be under no obligation to register, pursuant to the Securities Act or otherwise, any offering of Shares issuable under the Plan. If, in certain circumstances, the Shares paid pursuant to the Plan may be exempt from registration pursuant to the Securities Act, the Company may restrict the transfer of such Shares in such manner as it deems advisable to ensure the availability of any such exemption.

16.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Indiana.

16.14 Section 409A. Except as provided in Section 16.15 hereof, to the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and U.S. Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the date an Award is granted the Committee determines that the Award may be subject to Section 409A of the Code and related U.S. Department of Treasury guidance (including such guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, including amendments or actions that would result in a reduction to the benefits payable under an Award, in each case, without the consent of the Participant, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related U.S. Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section or mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code if compliance is not practical.

16.15 No Representations or Covenants with respect to Tax Qualification. Although the Company may endeavor to (a) qualify an Award for favorable or specific tax treatment under the laws of the U.S. (*e.g.*, Incentive Stock Options under Section 422 of the Code) or jurisdictions outside of the U.S. or (b) avoid adverse tax treatment (*e.g.*, under Section 409A of the Code), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable or avoid unfavorable tax treatment, notwithstanding anything to the contrary in this Plan, including Section 16.14 hereof. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on Participants under the Plan. Nothing in this Plan or in an Award Agreement shall provide a basis for any person to take any action against the Company or any Affiliate based on matters covered by Section 409A of the Code, including the tax treatment of any Awards, and neither the Company nor any Affiliate will have any liability under any circumstances to the Participant or any other party if the Award that is intended to be exempt from, or compliant with, Section 409A of the Code, is not so exempt or compliant or for any action taken by the Committee with respect thereto.

16.16 Clawback/Recovery. All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy adopted by the Company providing for the recovery of Awards, shares, proceeds, or payments to Participants in the event of fraud or as required by Applicable Laws or governance considerations or in other similar circumstances.

16.17 Severability. If any provision of the Plan or the application of any provision hereof to any person or circumstance is held to be invalid or unenforceable, the remainder of the Plan and the application of such provision to any other person or circumstance shall not be affected, and the provisions so held to be unenforceable shall be reformed to the extent (and only to the extent) necessary to make it enforceable and valid.

*** * * ***

EXHIBIT 12. Statement Re: Computation of Ratio of Earnings to Fixed Charges

ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars in millions)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
	(Unaudited)					
Consolidated pretax income	**$ 1,445.8**	$ 2,197.4	$ 3,374.0	$ 2,790.0	$ 3,000.3	$ 5,889.3
Interest [(1)]	**149.5**	282.3	232.9	216.0	187.1	184.2
Less interest capitalized during the period	**(25.0)**	(57.3)	(47.7)	(54.8)	(38.3)	(24.1)
Earnings	**$ 1,570.3**	$ 2,422.4	$ 3,559.2	$ 2,951.2	$ 3,149.1	$ 6,049.4
Fixed charges	**$ 149.5**	$ 282.3	$ 232.9	$ 216.0	$ 187.1	$ 184.2
Ratio of earnings to fixed charges	**10.5**	8.6	15.3	13.7	16.8	32.8

(1) Interest is based upon interest expense reported as such in the consolidated condensed statements of operations and does not include any interest related to unrecognized tax benefits, which is included in income tax expense.

EXHIBIT 31.1 Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer

CERTIFICATIONS

I, David A. Ricks, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 25, 2018

By: /s/David A. Ricks

David A. Ricks

Chairman, President, and Chief Executive Officer

EXHIBIT 31.2 Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer

CERTIFICATIONS

I, Joshua L. Smiley, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 25, 2018

By: /s/Joshua L. Smiley

Joshua L. Smiley

Senior Vice President and Chief Financial Officer

EXHIBIT 32. Section 1350 Certification

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Eli Lilly and Company, an Indiana corporation (the “Company”), does hereby certify that, to the best of their knowledge:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2018

/s/David A. Ricks

David A. Ricks

Chairman, President, and Chief Executive Officer

Date: July 25, 2018

/s/Joshua L. Smiley

Joshua L. Smiley

Senior Vice President and Chief Financial Officer