



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 MARCH 31, 1998

COMMISSION FILE NUMBER 1-6351

ELI LILLY AND COMPANY  
(Exact name of Registrant as specified in its charter)

INDIANA  
(State or other jurisdiction of  
incorporation or organization)

35-0470950  
(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   
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The number of shares of common stock outstanding as of April 30, 1998:

Class -----	Number of Shares Outstanding -----
Common	1,107,425,186



PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended March 31,	
	1998	1997
----- (Dollars in millions except per-share data)		
Net sales .....	\$2,269.1	\$1,953.0
Cost of sales .....	602.1	541.3
Research and development .....	364.7	301.2
Marketing and administrative .....	566.0	471.7
Interest expense .....	48.6	60.6
Other (income) expense - net .....	(16.7)	1.4
	-----	-----
	1,564.7	1,376.2
	-----	-----
Income before income taxes and extraordinary item .....	704.4	576.8
Income taxes .....	176.1	144.2
	-----	-----
Income before extraordinary item ....	528.3	432.6
	-----	-----
Extraordinary item - Loss on early redemption of debt, net of tax .....	(7.2)	--
	-----	-----
Net income .....	\$ 521.1	\$ 432.6
	=====	=====
Earnings per share		
Income before extraordinary item .	\$ .48	\$ .39
Extraordinary item .....	(.01)	--
	-----	-----
Net income .....	\$ .47	\$ .39
	=====	=====
Earnings per share - diluted		
Income before extraordinary item .	\$ .47	\$ .38
Extraordinary item .....	(.01)	--
	-----	-----
Net income .....	\$ .46	\$ .38
	=====	=====
Dividends paid per share .....	\$ .20	\$ .18
	=====	=====

See Notes to Consolidated Condensed Financial Statements.



CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended March 31,	
	1998	1997
	-----	
	(Dollars in millions except per-share data)	
Net income .....	\$ 521.1	\$ 432.6
Other comprehensive income .....	(4.8)	(82.2)
	-----	-----
Comprehensive income .....	\$ 516.3	\$ 350.4
	=====	=====

See Notes to Consolidated Condensed Financial Statements.



CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)  
Eli Lilly and Company and Subsidiaries

	March 31, 1998	December 31, 1997
(Millions)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 1,264.7	\$ 1,947.5
Short-term investments .....	63.1	77.1
Accounts receivable, net of allowances for doubtful amounts of \$59.3 (1998) and \$53.3 (1997) .....	1,670.4	1,544.3
Other receivables .....	163.3	338.9
Inventories .....	977.8	900.7
Deferred income taxes .....	342.1	325.7
Prepaid expenses .....	297.6	186.5
	4,779.0	5,320.7
TOTAL CURRENT ASSETS .....		
OTHER ASSETS		
Prepaid retirement .....	585.2	579.1
Investments .....	429.9	465.6
Goodwill and other intangibles, net of allowances for amortization of \$131.1 (1998) and \$119.3 (1997) .....	1,520.9	1,550.5
Sundry .....	690.0	559.8
	3,226.0	3,155.0
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress .....	7,014.9	7,034.9
Less allowances for depreciation .....	2,973.1	2,933.2
	4,041.8	4,101.7
	\$12,046.8	\$12,577.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings .....	\$ 220.0	\$ 227.6
Accounts payable .....	841.4	985.5
Employee compensation .....	339.4	456.6
Dividends payable .....	--	221.7
Income taxes payable .....	1,229.0	1,188.0
Other liabilities .....	900.7	1,112.2
	3,530.5	4,191.6
TOTAL CURRENT LIABILITIES .....		
LONG-TERM DEBT .....	2,337.2	2,326.1
DEFERRED INCOME TAXES .....	333.6	215.5
RETIREE MEDICAL BENEFIT OBLIGATION .....	112.1	118.3
OTHER NONCURRENT LIABILITIES .....	780.0	920.3
	3,562.9	3,580.2
COMMITMENTS AND CONTINGENCIES .....		
	--	--
MINORITY INTEREST IN SUBSIDIARY .....	160.0	160.0
SHAREHOLDERS' EQUITY		
Common stock .....	692.0	694.7
Retained earnings .....	4,551.8	4,398.7
Deferred costs-ESOP .....	(154.0)	(155.7)
Accumulated comprehensive income .....	(187.4)	(182.6)
	4,902.4	4,755.1
Less cost of common stock in treasury .....	109.0	109.5
	4,793.4	4,645.6
	\$12,046.8	\$12,577.4
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See Notes to Consolidated Condensed Financial Statements.





CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended March 31,	
	1998	1997
	----- (Millions)	
OPERATING ACTIVITIES		
Net income .....	\$ 521.1	\$ 432.6
Adjustments to Reconcile Net Income to Cash		
Flows from Operating Activities:		
Changes in operating assets and liabilities .....	(677.9)	(121.8)
Change in deferred taxes .....	108.4	(153.4)
Depreciation and amortization .....	119.2	139.0
Other items, net .....	(13.5)	7.3
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES .....	57.3	303.7
INVESTING ACTIVITIES		
Net additions to property and equipment .....	(77.7)	(58.7)
Additions to sundry assets and intangibles .....	(7.4)	(16.1)
Reduction of investments .....	19.9	137.4
Additions to investments .....	(7.9)	(60.2)
Divestitures/(Acquisitions) .....	24.6	(0.2)
	-----	-----
NET CASH FROM (USED FOR) INVESTING ACTIVITIES .....	(48.5)	2.2
FINANCING ACTIVITIES		
Dividends paid .....	(220.7)	(197.9)
Purchase of common stock and other capital transactions .....	(461.9)	53.0
Net additions to short-term borrowings .....	5.5	114.9
Net additions (reductions) to long-term debt .....	(2.4)	7.6
	-----	-----
NET CASH USED FOR FINANCING ACTIVITIES .....	(679.5)	(22.4)
Effect of exchange rate changes on cash .....	(12.1)	(55.1)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	(682.8)	228.4
Cash and cash equivalents at January 1 .....	1,947.5	813.7
	-----	-----
CASH AND CASH EQUIVALENTS AT MARCH 31 .....	\$1,264.7	\$1,042.1
	-----	-----

See Notes to Consolidated Condensed Financial Statements.



## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) that are necessary for a fair statement of the results of operations for the periods shown. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

As presented herein, sales include sales of the Company's life-sciences products and service revenue from PCS Health Systems, Inc. (PCS).

### CONTINGENCIES

The Company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac<sup>®</sup>. The Company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the Company has accrued for certain future anticipated product liability claims to the extent the Company can formulate a reasonable estimate of their costs. The Company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The Company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The Company's estimate of insurance recoveries is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the Company has been designated as one of several potentially responsible parties with respect to certain sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The Company also continues remediation of certain of its own sites. The Company has accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to the payment of those costs. The Company has reached a settlement with its primary liability insurance carrier providing for coverage for certain environmental liabilities and has instituted litigation seeking coverage from certain excess carriers.

The Company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The Company and several other manufacturers have settled the federal class action case. The Company has also settled with a large number of the remaining retail pharmacies. Still pending are related suits brought in federal and some state courts by a large number of retail pharmacies involving claims of price discrimination or claims under other pricing laws. Additional cases have been brought on behalf of consumers in several states.

The environmental liabilities and litigation accruals have been reflected in the Company's consolidated balance sheet at the gross amount of approximately



\$342 million at March 31, 1998. Estimated insurance recoverables of approximately \$235 million have been reflected as assets in the consolidated balance sheet at March 31, 1998.

Barr Laboratories, Inc. (Barr) and Geneva Pharmaceuticals, Inc. (Geneva) have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market a generic form of Prozac several years before expiration of the Company's patents. The ANDAs assert that Lilly's U.S. patents covering Prozac are invalid and unenforceable. In April 1996, the Company filed suit against Barr in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In June 1997, the Company filed a similar suit against Geneva in the same court. While the Company believes that the claims of Barr and Geneva are without merit, there can be no assurance that the Company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

While it is not possible to predict or determine the outcome of the product liability, antitrust, patent, or other legal actions brought against the Company or the ultimate cost of environmental matters, the Company believes that, except as noted above, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

#### EARNINGS PER SHARE

To reflect the impact of the Company's September 1997 stock split, previously reported outstanding and weighted-average number of shares of common stock and per share data have been adjusted.

At December 31, 1997, the Company adopted SFAS No. 128, "Earnings per Share," which requires presentation of both basic earnings per share and diluted earnings per share in the income statement. Accordingly, earnings per share data for previous periods has been restated. 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 and the effect of all potentially dilutive common shares (primarily unexercised stock options).

#### ACCOUNTING CHANGES

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Under provisions of this statement, the Company has included a financial statement presentation of comprehensive income to conform to these new requirements. SFAS No. 130 requires unrealized gains or losses on the Company's available-for-sale securities, minimum pension liability adjustments and foreign currency translation adjustments, which prior to adoption were reported separately in shareholders' equity to be included in other comprehensive income. As a consequence of this change, certain balance sheet reclassifications will be necessary for previously reported amounts to achieve the required presentation of comprehensive income. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued. The statement must be adopted by the Company on December 31, 1998. Under provisions of this statement, the Company will be required to modify or expand the financial statement disclosures for operating segments, products and services, and geographic areas. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.



In December 1997, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued and is effective for the Company's 1998 fiscal year. The statement revises current disclosure requirements for employers' pensions and other retiree benefits. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.



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

OPERATING RESULTS OF CONTINUING OPERATIONS:

The Company's sales for the first quarter of 1998 increased 16 percent from the first quarter of 1997. Sales inside the United States increased 20 percent, while sales outside the United States increased 9 percent. Compared with the first quarter of 1997, worldwide sales reflected volume growth of 17 percent and a 2 percent increase in global selling prices which were offset, in part, by the unfavorable effect of exchange rates of 3 percent.

Worldwide pharmaceutical sales for the quarter were \$2,123 million, an increase of 17 percent compared with the same period of 1997. Sales growth was led by three of the Company's newer products, Gemzar'r', ReoPro'tm', and Zyprexa'r', and by Prozac. In addition, the quarter benefited from additional health-care-management revenues and the launch of Evista'r' in the United States in January for the prevention of osteoporosis in postmenopausal women. Evista sales totaled \$33 million, driven largely by initial stocking by wholesalers. Revenue growth for the period was partially offset by lower sales of anti-infective products, Axid'r' and Humulin'r'. Total U.S. pharmaceutical sales and services increased 20 percent to \$1,393 million primarily as a result of increased volume. International pharmaceutical sales increased 11 percent compared with the first quarter of 1997, as sales volume growth of 18 percent was mitigated by the effect of unfavorable exchange rates (7 percent), while selling prices remained level.

Worldwide sales of Prozac in the first quarter were \$618 million, an increase of 10 percent from the first quarter of 1997. Prozac sales in the U.S. increased 11 percent to \$485 million in the first quarter. Sales of Prozac outside the U.S. experienced an increase of 4 percent to \$133 million despite the effects of unfavorable exchange rates.

Zyprexa posted worldwide sales in the first quarter of \$287 million, an increase of \$182 million over the first quarter 1997. U.S. Zyprexa sales increased \$139 million, while sales outside of the U.S. increased \$43 million.

Worldwide ReoPro sales of \$70 million in the first quarter reflected an increase of \$18 million (35 percent) as compared with the first quarter of 1997.

Worldwide Gemzar sales grew to \$57 million in the first quarter of 1998. Sales both inside and outside the U.S. increased by \$12 million, representing growth of 72 percent and 87 percent, respectively.

Insulin sales, composed of Humulin, Humalog'r', and Iletin'r', decreased 1 percent compared with the first quarter of 1997. Insulin sales decreased 9 percent in the U.S., to \$130 million, but increased 11 percent outside the U.S. to \$107 million. Worldwide Humulin sales decreased 7 percent, to \$195 million, compared with the first quarter of 1997. Growth comparisons for Humulin in the quarter were negatively affected in the U.S. by wholesaler stocking which occurred at the end of the fourth quarter 1997. In addition, Humulin faced increased competitive pressures, including oral anti-diabetic products. As a result, U.S. Humulin sales declined 16 percent to \$106 million. International Humulin sales increased 6 percent despite unfavorable exchange rates. Worldwide Humalog sales for the first quarter were \$25 million, an increase of \$13 million.

Worldwide anti-infective sales decreased \$48 million (14 percent) in the first quarter. U.S. anti-infective sales declined 34 percent in the first quarter. International anti-infective sales decreased 5 percent. These declines were due in part to continued generic competition in certain markets and the impact of unfavorable exchange rates. Cefaclor accounted for the majority of the decline in anti-infective sales. Sales of cefaclor declined 17 percent in the first quarter.



Worldwide sales of animal health products increased 7 percent over the first quarter of 1998. This sales growth was led by Micotil'r'.

Health-care-management revenues increased 59 percent for the first quarter, largely due to increased mail order pharmacy sales.

Gross margin improved to 73.5 percent of sales for the first quarter, compared with 72.3 percent for the first quarter of 1997. The increase was primarily the result of favorable changes in product mix, continued productivity improvements and enhanced plant utilization. These improvements were offset, in part, by increased health-care-management service revenues, which have lower margins than pharmaceutical products.

Operating expenses for 1998 increased 20 percent for the first quarter. Research and development increased 21 percent in the first quarter, as the result of greater investments in both internal research efforts and external research collaborations. Marketing and administrative expenses increased 20 percent from the first quarter of 1997. This increase was driven by increased expenditures to support continued new product launches around the world, including the U.S. launch of Evista, enhancements of the Company's global information technology capabilities, including expenditures relating to the Company's development and implementation of the year 2000 computer initiatives, and direct-to-consumer advertising campaigns in the U.S.

Compared with the first quarter of 1997, interest expense decreased \$12 million (20 percent). The decrease was primarily due to a decline in the Company's short term borrowings.

Net other income of \$17 million for the first quarter was \$18 million higher than the first quarter of 1997. The quarter benefited from a decrease in goodwill amortization expense, gains on the sale of certain investments and increased interest income. Also, the quarterly comparison benefited from inclusion in the 1997 amount of the charges associated with the discontinuance of a collaboration with Somatogen, Inc. These increases were partially offset by the absence of DowElanco joint venture income in the first quarter of 1998 due to the June 1997 divestiture.

The Company's effective tax rate for the quarter was 25 percent, which was consistent with the first quarter of 1997.

The Company refinanced a portion of its long term debt, which resulted in a one-time extraordinary charge of \$7 million (\$.01 per share), net of a \$5 million tax benefit.

First quarter net income was \$521 million and \$ .46 per share (after extraordinary item), representing increases of 20 percent and 21 percent, respectively, as compared with the same periods of 1997. For the first quarter, net income was favorably impacted by increased sales, improved gross margin, and increased other income, offset somewhat by higher operating expenses as a percent of sales.

#### FINANCIAL CONDITION:

As of March 31, 1998, cash, cash equivalents and short-term investments totaled \$1,328 million as compared with \$2,025 million at December 31, 1997, a net decrease of \$697 million. The decrease in cash was due primarily to dividends paid and stock repurchased for employee stock plans. Total debt at March 31, 1998, was \$2,557 million, an increase of \$3 million from December 31, 1997.

The Company believes that cash generated from operations in 1998, along with available cash and cash equivalents, will be sufficient to fund essentially all of the 1998 operating needs, including debt service, repayment of short term borrowings, capital expenditures, and dividends.

Many of the Company's computer systems and laboratory and process automation devices will require modification or replacement over the next two years in order to render the systems ready for the year 2000. Modifications of some



systems have already occurred and others are in various stages of activity ranging from evaluation to testing. The company is also assessing how it could be affected by the failure of third parties (e.g., vendors and customers) to mitigate their own Year 2000 issues. Management currently believes that the incremental costs of addressing these issues will not materially affect the Company's consolidated financial position, liquidity or results of operations through December 31, 1999. The company believes it will be able to resolve all major Year 2000 issues by the end of 1999. However, if the company is not able to do so, the impact on business operations could be material to the company's consolidated results of operations.

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:**

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions investors that any forward-looking statements or projections made by the Company are subject to risks and uncertainties which may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors which may affect the Company's operations are discussed in Exhibit 99 to this Form 10-Q filing.

**RECENT DEVELOPMENT:**

The Company announced on May 6, 1998, that Randall L. Tobias, chairman and chief executive officer, plans to retire at the end of the year. The Board of Directors has elected Sidney Taurel president and chief executive officer effective July 1, 1998. Mr. Taurel is currently president and chief operating officer. Mr. Tobias will remain chairman until his retirement from the Company and Board on December 31, 1998. At that time, Mr. Taurel will become chairman, president and chief executive officer.



PART II OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the discussion of In re Brand Name Prescription Drugs Antitrust Litigation (MDL No. 997) and related cases contained in the Company's 1997 Form 10-K under Item 3, "Legal Proceedings -- Pricing Litigation." The Company and several other manufacturers have now reached settlements, subject in each case to court approval, in the state court cases brought on behalf of consumers in Arizona, District of Columbia, Florida, Kansas, Maine, Michigan, Minnesota, New York, North Carolina, Tennessee, and Wisconsin.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. The following documents are filed as exhibits to this Report:

3. Amended Articles of Incorporation (amended through April 20, 1998)
10. 1998 Lilly Stock Plan
11. Statement re: Computation of Basic Earnings Per Share and Diluted Earnings Per Share
12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
27. Financial Data Schedule
99. Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the first quarter of 1998.



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 May 12, 1998

S/Daniel P. Carmichael

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Daniel P. Carmichael  
Secretary and Deputy General Counsel

Date May 12, 1998

S/Arnold C. Hanish

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Arnold C. Hanish  
Director, Corporate Accounting and  
Chief Accounting Officer



INDEX TO EXHIBITS

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

Exhibit

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- 3. Amended Articles of Incorporation (amended through April 20, 1998)
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- 11. Statement re: Computation of Basic Earnings Per Share and Diluted Earnings Per Share
- 12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
- 27. Financial Data Schedule
- 99. Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

\*Incorporated by reference from Exhibit A to the Company's definitive Proxy Statement filed with the Commission on March 4, 1998.

STATEMENT OF DIFFERENCES

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The trademark symbol shall be expressed as..... 'tm'  
The registered trademark symbol shall be expressed as..... 'r'



(As Amended through April 20, 1998)

ELI LILLY AND COMPANY  
(AN INDIANA CORPORATION)

AMENDED ARTICLES OF INCORPORATION

1. The name of the Corporation shall be

ELI LILLY AND COMPANY.

2. The purposes for which the Corporation is formed are to engage in any lawful act or activity for which a corporation may be organized under the Indiana Business Corporation Law.

3. The period during which the Corporation is to continue as a corporation is perpetual.

4. The total number of shares which the Corporation shall have authority to issue is 3,205,000,000 shares, consisting of 3,200,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. The Corporation's shares do not have any par or stated value, except that, solely for the purpose of any statute or regulation imposing any tax or fee based upon the capitalization of the Corporation, each of the Corporation's shares shall be deemed to have a par value of \$0.01 per share.

5. The following provisions shall apply to the Corporation's shares:

(a) The Corporation shall have the power to acquire (by purchase, redemption, or otherwise), hold, own, pledge, sell, transfer, assign, reissue, cancel, or otherwise dispose of the shares of the Corporation in the manner and to the extent now or hereafter permitted by the laws of the State of Indiana (but such power shall not imply an obligation on the part of the owner or holder of any share to sell or otherwise transfer such share to the Corporation), including the power to purchase, redeem, or otherwise acquire the Corporation's own shares, directly or indirectly, and without pro rata treatment of the owners or holders of any class or series of shares, unless, after giving effect thereto, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (and without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the purchase, redemption, or other acquisition, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of the shares of the Corporation being purchased, redeemed, or otherwise acquired, unless otherwise expressly provided with respect to a series of Preferred Stock). Shares of the Corporation purchased, redeemed, or otherwise acquired by it shall constitute authorized but unissued shares, unless prior to any



such purchase, redemption, or other acquisition, or within thirty (30) days thereafter, the Board of Directors adopts a resolution providing that such shares constitute authorized and issued but not outstanding shares.

(b) Preferred Stock of any series that has been redeemed (whether through the operation of a retirement or sinking fund or otherwise) or purchased by the Corporation, or which, if convertible, have been converted into shares of the Corporation of any other class or series, may be reissued as a part of such series or of any other series of Preferred Stock, subject to such limitations (if any) as may be fixed by the Board of Directors with respect to such series of Preferred Stock in accordance with the provisions of Article 7 of these Amended Articles of Incorporation.

(c) The Board of Directors of the Corporation may dispose of, issue, and sell shares in accordance with, and in such amounts as may be permitted by, the laws of the State of Indiana and the provisions of these Amended Articles of Incorporation and for such consideration, at such price or prices, at such time or times and upon such terms and conditions (including the privilege of selectively repurchasing the same) as the Board of Directors of the Corporation shall determine, without the authorization or approval by any shareholders of the Corporation. Shares may be disposed of, issued, and sold to such persons, firms, or corporations as the Board of Directors may determine, without any preemptive or other right on the part of the owners or holders of other shares of the Corporation of any class or kind to acquire such shares by reason of their ownership of such other shares.

6. The following provisions shall apply to the Common Stock:

(a) Except as otherwise provided by the Indiana Business Corporation Law and subject to such shareholder disclosure and recognition procedures (which may include voting prohibition sanctions) as the Corporation may by action of its Board of Directors establish, shares of Common Stock shall have unlimited voting rights and each outstanding share of Common Stock shall, when validly issued by the Corporation, entitle the record holder thereof to one vote at all shareholders' meetings on all matters submitted to a vote of the shareholders of the Corporation.

(b) Shares of Common Stock shall be equal in every respect insofar as their relationship to the Corporation is concerned, but such equality of rights shall not imply equality of treatment as to redemption or other acquisition of shares by the Corporation. Subject to the rights of the holders of any outstanding series of Preferred Stock, the holders of Common Stock shall be entitled to share ratably in such dividends or other distributions (other than purchases, redemptions, or other acquisitions of shares by the Corporation), if any, as are declared and paid from time to time on the Common Stock at the discretion of the Board of Directors.

(c) In the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, after payment shall have been made to the holders of any outstanding series of Preferred Stock of the full amount to which they shall be entitled, the holders of Common Stock shall be entitled, to the



exclusion of the holders of the Preferred Stock of any and all series, to share, ratably according to the number of shares of Common Stock held by them, in all remaining assets of the Corporation available for distribution to its shareholders.

7. The Board of Directors is hereby expressly authorized to provide, out of the unissued shares of Preferred Stock, for one or more series of Preferred Stock. Before any shares of any such series are issued, the Board of Directors shall fix, and hereby is expressly empowered to fix, by the adoption and filing in accordance with the Indiana Business Corporation Law, of an amendment or amendments to these Amended Articles of Incorporation, the terms of such Preferred Stock or series of Preferred Stock, including the following:

(a) the designation of such series, the number of shares to constitute such series and the stated value thereof if different from the par value thereof;

(b) whether the shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited and may include the right, under specified circumstances, to elect additional directors;

(c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of Preferred Stock;

(d) whether the shares of such series shall be subject to redemption by the Corporation and, if so, the times, prices and other conditions of such redemption;

(e) the amount or amounts payable upon shares of such series upon, and the rights of the holders of such series in, the voluntary or involuntary liquidation, dissolution or winding up, or upon any distribution of the assets, of the Corporation;

(f) whether the shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;

(g) whether the shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or any other series of Preferred Stock or any other securities (whether or not issued by the Corporation) and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;

(h) the limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other



distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of Preferred Stock;

(i) the conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock, including additional shares of such series or of any other series of Preferred Stock or of any other class of stock; and

(j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof.

Except to the extent otherwise expressly provided in these Amended Articles of Incorporation or required by law (i) no share of Preferred Stock shall have any voting rights other than those which shall be fixed by the Board of Directors pursuant to this Article 7 and (ii) no share of Common Stock shall have any voting rights with respect to any amendment to the terms of any series of Preferred Stock; provided however, that in the case of this clause (ii) the terms of such series of Preferred Stock, as so amended, could have been established without any vote of any shares of Common Stock.

8. The Corporation shall have the power to declare and pay dividends or other distributions upon the issued and outstanding shares of the Corporation, subject to the limitation that a dividend or other distribution may not be made if, after giving it effect, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (and without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the dividend or other distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of shares receiving the dividend or other distribution, unless otherwise expressly provided with respect to any outstanding series of Preferred Stock). The Corporation shall have the power to issue shares of one class or series as a share dividend or other distribution in respect of that class or series or one or more other classes or series.

9. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(a) The number of directors of the Corporation, exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock pursuant to Article 7(b) (the "Preferred Stock Directors"), shall not be less than nine, the exact number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office.

(b) The Board of Directors (exclusive of Preferred Stock Directors) shall be divided into three classes, with the term of office of one class expiring each year. At the annual meeting of shareholders in 1985, five directors of the first class shall be elected to hold office for a term expiring at the 1986 annual meeting, five directors of



the second class shall be elected to hold office for a term expiring at the 1987 annual meeting, and six directors of the third class shall be elected to hold office for a term expiring at the 1988 annual meeting. Commencing with the annual meeting of shareholders in 1986, each class of directors whose term shall then expire shall be elected to hold office for a three-year term. In the case of any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, the vacancy shall be filled by election of the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, for the remainder of the term of the class to which the director has been assigned. All directors shall continue in office until the election and qualification of their respective successors in office. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Election of directors need not be by written ballot unless the By-laws so provide.

(c) Any director or directors (exclusive of Preferred Stock Directors) may be removed from office at any time, but only for cause and only by the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock (as defined in Article 13 hereof), voting together as a single class.

(d) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 9.

10. The Board of Directors of the Corporation is exclusively authorized (a) to adopt, repeal, alter or amend the By-laws of the Corporation by the vote of a majority of the entire Board of Directors and (b) to adopt any By-laws which the Board of Directors may deem necessary or desirable for the efficient conduct of the affairs of the Corporation, including, without limitation, provisions governing the conduct of, and the matters which may properly be brought before, meetings of the shareholders and provisions specifying the manner and extent to which prior notice shall be given of the submission of proposals to be submitted at any meeting of shareholders or of nominations of elections of directors to be held at any such meeting.

11. The Corporation shall, to the fullest extent permitted by applicable law now or hereafter in effect, indemnify any person who is or was a director, officer or employee of the Corporation (an "Eligible Person") and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without



limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, partner, member, manager, trustee, fiduciary or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise (including, without limitation, any employee benefit plan), against all expenses (including attorneys' fees), judgments, fines or penalties (including excise taxes assessed with respect to an employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such Eligible Person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Proceeding commenced by an Eligible Person except to the extent provided otherwise in the Corporation's By-laws or an agreement with an Eligible Person. The Corporation may establish provisions supplemental to or in furtherance of the provisions of this Article 11, including, but not limited to, provisions concerning the determination of any Eligible Person to indemnification, mandatory or permissive advancement of expenses to an Eligible Person incurred in connection with a Proceeding, the effect of any change in control of the Corporation on indemnification and advancement of expenses and the funding or other payment of amounts necessary to effect indemnification and advancement of expenses, in the By-laws of the Corporation or in agreements with any Eligible Person.

12. Except as otherwise expressly provided for in these Amended Articles of Incorporation, the Corporation reserves the right to amend, alter or repeal any provision contained in these Amended Articles of Incorporation, in the manner now or hereafter prescribed by law, and all rights conferred upon shareholders herein are subject to this reservation.

13. In addition to all other requirements imposed by law and these Amended Articles and except as otherwise expressly provided in paragraph (c) of this Article 13, none of the actions or transactions listed below shall be effected by the Corporation, or approved by the Corporation as a shareholder of any majority-owned subsidiary of the Corporation if, as of the record date for the determination of the shareholders entitled to vote thereon, any Related Person (as hereinafter defined) exists, unless the applicable requirements of paragraphs (b), (c), (d), (e), and (f) of this Article 13 are satisfied.

(a) The actions or transactions within the scope of this Article 13 are as follows:

(i) any merger or consolidation of the Corporation or any of its subsidiaries into or with such Related Person;

(ii) any sale, lease, exchange, or other disposition of all or any substantial part of the assets of the Corporation or any of its majority-owned subsidiaries to or with such Related Person;

(iii) the issuance or delivery of any Voting Stock (as hereinafter defined) or of voting securities of any of the Corporation's majority-owned subsidiaries to such Related Person in exchange for cash, other assets or securities, or a combination thereof;



(iv) any voluntary dissolution or liquidation of the Corporation;

(v) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries, or any other transaction (whether or not with or otherwise involving a Related Person) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of capital stock of the Corporation, or any securities convertible into capital stock of the Corporation or into equity securities of any subsidiary, that is beneficially owned by any Related Person; or

(vi) any agreement, contract, or other arrangement providing for any one or more of the actions specified in the foregoing clauses (i) through (v).

(b) The actions and transactions described in paragraph (a) of this Article 13 shall have been authorized by the affirmative vote of at least 80% of all of the votes entitled to be cast by holders of the outstanding shares of Voting Stock, voting together as a single class.

(c) Notwithstanding paragraph (b) of this Article 13, the 80% voting requirement shall not be applicable if any action or transaction specified in paragraph (a) is approved by the Corporation's Board of Directors and by a majority of the Continuing Directors (as hereinafter defined).

(d) Unless approved by a majority of the Continuing Directors, after becoming a Related Person and prior to consummation of such action or transaction.

(i) the Related Person shall not have acquired from the Corporation or any of its subsidiaries any newly issued or treasury shares of capital stock or any newly issued securities convertible into capital stock of the Corporation or any of its majority-owned subsidiaries, directly or indirectly (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata stock dividend or stock split or other distribution of stock to all shareholders pro rata);

(ii) such Related Person shall not have received the benefit directly or indirectly (except proportionately as a shareholder) of any loans, advances, guarantees, pledges, or other financial assistance or tax credits provided by the Corporation or any of its majority-owned subsidiaries, or made any major changes in the Corporation's or any of its majority-owned subsidiaries' businesses or capital structures or reduced the current rate of dividends payable on the Corporation's capital stock below the rate in effect immediately prior to the time such Related Person became a Related Person; and

(iii) such Related Person shall have taken all required actions within its power to ensure that the Corporation's Board of Directors included



representation by Continuing Directors at least proportionate to the voting power of the shareholdings of Voting Stock of the Corporation's Remaining Public Shareholders (as hereinafter defined), with a Continuing Director to occupy an additional Board position if a fractional right to a director results and, in any event, with at least one Continuing Director to serve on the Board so long as there are any Remaining Public Shareholders.

(e) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, as amended, whether or not the Corporation is then subject to such requirements, shall be mailed to the shareholders of the Corporation for the purpose of soliciting shareholder approval of such action or transaction and shall contain at the front thereof, in a prominent place, any recommendations as to the advisability or inadvisability of the action or transaction which the Continuing Directors may choose to state and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the action or transaction from a financial point of view to the Remaining Public Shareholders, such investment banking firm to be paid a reasonable fee for its services by the Corporation. The requirements of this paragraph (e) shall not apply to any such action or transaction which is approved by a majority of the Continuing Directors.

(f) For the purpose of this Article 13

(i) the term "Related Person" shall mean any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the outstanding shares of Voting Stock, and any Affiliate or Associate (as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934) of a Related Person; provided, however, that the term Related Person shall not include (a) the Corporation or any of its subsidiaries, (b) any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or (c) Lilly Endowment, Inc.; and further provided, that no corporation, person, or entity shall be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly Endowment, Inc.;

(ii) a Related Person shall be deemed to own or control, directly or indirectly, any outstanding shares of Voting Stock owned by it or any Affiliate or Associate of record or beneficially, including without limitation shares

a. which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants, or options, or otherwise or

b. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause a.



above), by any other corporation, person, or other entity with which it or its Affiliate or Associate has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Voting Stock, or which is its Affiliate (other than the Corporation) or Associate (other than the Corporation);

(iii) the term "Voting Stock" shall mean all shares of any class of capital stock of the Corporation which are entitled to vote generally in the election of directors;

(iv) the term "Continuing Director" shall mean a director who is not an Affiliate or Associate or representative of a Related Person and who was a member of the Board of Directors of the Corporation immediately prior to the time that any Related Person involved in the proposed action or transaction became a Related Person or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors; and

(v) the term "Remaining Public Shareholders" shall mean the holders of the Corporation's capital stock other than the Related Person.

(g) A majority of the Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article 13, on the basis of information then known to the Continuing Directors, whether (i) any Related Person exists or is an Affiliate or an Associate of another and (ii) any proposed sale, lease, exchange, or other disposition of part of the assets of the Corporation or any majority-owned subsidiary involves a substantial part of the assets of the Corporation or any of its subsidiaries. Any such determination by the Continuing Directors shall be conclusive and binding for all purposes.

(h) Nothing contained in this Article 13 shall be construed to relieve any Related Person or any Affiliate or Associate of any Related Person from any fiduciary obligation imposed by law.

(i) The fact that any action or transaction complies with the provisions of this Article 13 shall not be construed to waive or satisfy any other requirement of law or these Amended Articles of Incorporation or to impose any fiduciary duty, obligation, or responsibility on the Board of Directors or any member thereof, to approve such action or transaction or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit, or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such action or transaction. The Board of Directors of the Corporation, when evaluating any actions or transactions described in paragraph (a) of this Article 13, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including without limitation the social and economic effects on the employees, customers, suppliers, and other constituents of the Corporation and its



subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

(j) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of the holders of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 13.

14. A total of 1,400,000 shares of the 5,000,000 shares of authorized Preferred Stock are designated as "Series A Participating Preferred Stock" (the "Series A Preferred Stock"), which shall possess the rights, preferences, qualifications, limitations, and restrictions set forth below:

(a) The holders of shares of Series A Preferred Stock shall have the following rights to dividends and distributions:

(i) The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of April, July, October and January in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) \$0.05 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend or distribution payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$.621/2 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. If on any Quarterly Dividend Payment Date the Corporation's Articles of Incorporation shall limit the amount of dividends which may be paid on the Series A Preferred Stock to an amount less than that provided above, such dividends will accrue and be paid in the maximum permissible amount and the shortfall from the amount provided above shall be a cumulative dividend requirement and be carried forward to subsequent Quarterly Dividend Payment Dates.

(ii) In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a



dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock are entitled immediately prior to such event under the second preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(iii) When, as and if the Corporation shall declare a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock), the Corporation shall at the same time declare a dividend or distribution on the Series A Preferred Stock as provided in this paragraph (a) and no such dividend or distribution on the Common Stock shall be paid or set aside for payment on the Common Stock unless such dividend or distribution on the Series A Preferred Stock shall be simultaneously paid or set aside for payment; provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Series A Preferred Stock shall nevertheless be payable, when, as and if declared by the Board of Directors, on such subsequent Quarterly Dividend Payment Date.

(iv) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the date of issue of such shares of Series A Preferred Stock, unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in which event such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the relevant Quarterly Dividend Payment Date.

(b) The holders of shares of Series A Preferred Stock shall have the following voting rights:

(i) The holders of outstanding Series A Preferred Stock shall be entitled to vote as a class for the election of two (2) directors if the Corporation shall fail for six quarters to pay the dividend payable with respect to such shares pursuant to paragraph (a) hereof. Such limited voting



rights may be exercised at the next annual meeting of shareholders following the failure to pay a dividend for the sixth quarter and at each succeeding annual meeting of shareholders until payment of all such preferred dividends which are in arrears has been made or provided for (the "Dividend Date"), at which time the right to vote for election of two directors conferred upon the holders of the outstanding Series A Preferred Stock shall cease. Each of such two directors shall be elected to one of the three classes of directors so that the three classes shall be as equal in number as may be feasible and shall be elected to hold office for a term expiring at the earlier of (i) the expiration of the term of the class to which he is elected or (ii) the Dividend Date. In addition to the conditional right to vote for election of two directors, any proposal to amend the relative rights and privileges of shares of Series A Preferred Stock (including those conferred by this paragraph (b) (i)) upon which the holders of such Series A Preferred Stock are entitled by the provisions of the Indiana Business Corporation Law to vote upon as a class shall require, instead of a vote of the holders of a majority of such shares, the affirmative vote of the holders of two-thirds (2/3) of such shares.

(ii) Except as specified in paragraph (b) (i) above, the holders of Series A Preferred Stock shall not be entitled to any vote on any matter, including questions of merger, consolidation, and the sale of all or substantially all of the assets of the Corporation.

(c) The Corporation shall be subject to the following restrictions:

(i) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in paragraph (a) of this Article 14 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not

a. declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

b. declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

c. except as permitted by subparagraph d of this paragraph (c)(i), redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon



liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

d. purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes, provided that the Corporation may at any time purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock.

(ii) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under subparagraph (i) of this paragraph (c), purchase or otherwise acquire shares at such time and in such manner.

(iii) The Corporation shall not issue any shares of Series A Preferred Stock except upon exercise of Rights issued pursuant to that certain Rights Agreement dated as of July 18, 1988 between the Corporation and Bank One, Indianapolis, NA, a copy of which is on file with the Secretary of the Corporation at its principal executive office and shall be made available to shareholders of record without charge upon written request therefor addressed to said Secretary. Notwithstanding the foregoing sentence, nothing contained herein shall prohibit or restrict the Corporation from issuing for any purpose any series of preferred stock with rights and privileges similar to or different from those of the Series A Preferred Stock.

(d) Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation without designation as to series, become authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(e) Upon any voluntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made (i) to the holders of shares of stock



ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided, an aggregate amount equal to (a) \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment or (b) if greater, an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution, or winding up, disregarding for this purpose the amounts referred to in clause (i) (b) of this paragraph (e). In the event the Corporation shall at any time declare or pay any dividend or make any distribution on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the provision in clause (i) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(f) In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case proper provision shall be made so that the shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. The Corporation shall not consummate any such consolidation, merger, combination or other transaction unless prior thereto the Corporation and the other party or parties to such transaction shall have so provided in any agreement relating thereto. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in share of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding



immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(g) The shares of Series A Preferred Stock shall not be redeemable. Notwithstanding the foregoing sentence, the Corporation may acquire shares of Series A Preferred Stock in any other manner permitted by law, hereby and the Articles of Incorporation of the Corporation, as from time to time amended.

(h) The Articles of Incorporation of the Corporation shall not be amended in any manner which would increase or decrease the aggregate number of authorized shares of Series A Preferred Stock, increase or decrease the par value of the shares of Series A Preferred Stock, or alter or change the powers, preferences or special rights of the shares of Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Preferred Stock, voting together as a single class.



EXHIBIT 11. STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE  
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended March 31,	
	1998	1997
	-----	-----
<b>BASIC:</b>		
Net income .....	\$ 521.1	\$ 432.6
Preferred stock dividends .....	(.6)	(.6)
	-----	-----
Adjusted net income .....	520.5	432.0
Average number of common shares outstanding .....	1,101.1	1,098.9
Contingently issuable shares .....	1.2	1.7
	-----	-----
Adjusted average shares .....	1,102.3	1,100.6
	-----	-----
	-----	-----
Basic earnings per share .....	\$ .47	\$ .39
	-----	-----
	-----	-----
<b>DILUTED:</b>		
Net income .....	\$ 521.1	\$ 432.6
Preferred stock dividends .....	(.6)	(.6)
	-----	-----
Adjusted net income .....	520.5	432.0
Average number of common shares outstanding .....	1,101.1	1,098.9
Incremental shares - stock options and contingently issuable shares .....	29.5	26.6
	-----	-----
Adjusted average shares .....	1,130.6	1,125.5
	-----	-----
	-----	-----
Diluted earnings per share .....	\$ .46	\$ .38
	-----	-----
	-----	-----

Dollars in millions except per share data. Shares in millions.



EXHIBIT 12. STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS FROM CONTINUING OPERATIONS TO FIXED CHARGES  
(Unaudited)

Eli Lilly and Company and Subsidiaries  
(Dollars in millions)

	Three Months	Years Ended December 31,				
	Ended March 31,	1997	1996	1995	1994	1993
	1998					
	-----	-----	-----	-----	-----	-----
Consolidated Pretax Income from Continuing Operations before Accounting Changes & Extraordinary Item ..	\$704.4	\$510.2	\$2,031.3	\$1,765.6	\$1,698.6	\$662.8
Interest from Continuing Operations .....	53.3	260.0	324.9	324.6	129.2	96.1
Interest Capitalized during the Period from Continuing Operations ..	(4.7)	(23.8)	(36.1)	(38.3)	(25.4)	(25.5)
	-----	-----	-----	-----	-----	-----
Earnings .....	\$753.0	\$746.4	\$2,320.1	\$2,051.9	\$1,802.4	\$733.4
	-----	-----	-----	-----	-----	-----
Fixed Charges(1) .....	\$ 54.1	\$264.2	\$ 329.6	\$ 324.6	\$ 129.2	\$ 96.1
	-----	-----	-----	-----	-----	-----
Ratio of Earnings to Fixed Charges .....	13.9	2.8(2)	7.0	6.3	14.0	7.6
	-----	-----	-----	-----	-----	-----

(1)Fixed charges include interest from continuing operations for all years presented and beginning in 1996, preferred stock dividends.

(2)Included in the 1997 earnings is a noncash charge of \$2,443 million due to an asset impairment. See notes to consolidated condensed financial statements. If the asset impairment charge had not occurred, the ratio of earnings to fixed charges would have been 12.1.



5  
1,000

3-MOS  
DEC-31-1998  
MAR-31-1998  
1,327,825  
63,137  
1,729,728  
59,339  
977,769  
4,779,014  
7,014,914  
2,973,169  
12,046,750  
3,530,461  
2,337,204  
692,037  
0  
0  
4,101,326  
12,046,750  
2,172,077  
2,269,105  
541,079  
602,062  
930,728  
0  
48,606  
704,449  
176,111  
528,337  
0  
(7,249)  
0  
521,088  
.47  
.46

Amounts include research and development, marketing and administrative expenses.  
The information called for is not given as the balances are not individually significant.  
Not in thousands.

EXHIBIT 99 CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995 - "SAFE HARBOR" FOR  
FORWARD-LOOKING DISCLOSURES

Certain forward-looking statements are included in this Form 10-Q and may be made by Company spokespersons based on current expectations of management. All forward-looking statements made by the Company are subject to risks and uncertainties. Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

- - Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates.
- - Competitive factors including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and technological advances and patents obtained by competitors.
- - Governmental factors including laws and regulations and judicial decisions at the state and federal level related to Medicare, Medicaid and healthcare reform; and laws and regulations affecting international pricing and pharmaceutical reimbursement.
- - The difficulties and uncertainties inherent in new product development. New product candidates that appear promising in development may fail to reach the market or may not be as commercially successful as anticipated because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others.
- - Delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in lost market opportunity.
- - Unexpected safety or efficacy concerns arising with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.
- - Legal factors including unanticipated litigation of product liability claims; antitrust litigation; environmental matters; and patent disputes with competitors which could preclude commercialization of products or negatively affect the profitability of existing products.
- - Future difficulties obtaining or the inability to obtain existing levels of product liability insurance.
- - Changes in tax laws, including the amendment to the Section 936 income tax credit, and future changes in tax laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates.
- - Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, and the American Institute of Certified Public Accountants which are adverse to the Company.
- - Factors such as changes in business strategies and the impact of restructurings, impairments in asset carrying values and business combinations.
- - Difficulties in modification or replacement of existing computer systems and/or software in order to render the Company's various computer systems ready for the year 2000, including the difficulties encountered by third party vendors and/or suppliers in their failure to render their systems and/or software to be ready for the year 2000.

