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 SEPTEMBER 30, 2004

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 [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer as defined in Exchange Act Rule 12b-2.

Yes [X] No [ ]

The number of shares of common stock outstanding as of October 20, 2004:

Class	Number of Shares Outstanding
Common	1,131,639,100

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions except per-share data)			
Net sales	$3,280.4	$3,139.4	$10,213.6	$9,117.0
Cost of sales	810.1	679.3	2,358.2	1,943.6
Research and development	654.8	568.1	1,985.6	1,640.2
Marketing and administrative	951.9	963.4	3,186.0	2,921.2
Acquired in-process research and development	—	—	362.3	—
Asset impairments, restructuring, and other special charges	—	—	108.9	353.9
Interest expense	18.5	15.8	35.3	51.2
Other income–net	(123.1)	(3.1)	(244.6)	(90.8)
	2,312.2	2,223.5	7,791.7	6,819.3
Income before income taxes	968.2	915.9	2,421.9	2,297.7
Income taxes	213.0	201.5	609.4	484.1
Net income	$ 755.2	$ 714.4	$ 1,812.5	$1,813.6
Earnings per share – basic	$ .70	$ .66	$ 1.67	$ 1.68
Earnings per share – diluted	$ .69	$ .66	$ 1.66	$ 1.68
Dividends paid per share	$ .355	$ .335	$ 1.065	$ 1.005

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS

ELI LILLY AND COMPANY AND SUBSIDIARIES

	September 30, 2004 (Unaudited)	December 31, 2003
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,577.4	$ 2,756.3
Short-term investments	1,596.9	957.0
Accounts receivable, net of allowances of $62.8 (2004) and $69.3 (2003)	1,913.1	1,864.9
Other receivables	429.7	477.6
Inventories	2,092.0	1,963.0
Deferred income taxes	643.6	500.6
Prepaid expenses	333.0	249.5
TOTAL CURRENT ASSETS	9,585.7	8,768.9
OTHER ASSETS		
Prepaid pension	1,873.6	1,613.3
Investments	3,665.3	3,374.6
Sundry	1,578.4	1,392.5
	7,117.3	6,380.4
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	12,191.2	11,068.0
Less allowances for depreciation	(4,708.3)	(4,529.0)
	7,482.9	6,539.0
	$24,185.9	$21,688.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 1,668.6	$ 196.5
Accounts payable	680.4	875.9
Employee compensation	466.1	387.4
Dividends payable	—	398.3
Income taxes payable	1,874.4	1,749.8
Other liabilities	1,852.4	1,952.9
TOTAL CURRENT LIABILITIES	6,541.9	5,560.8
LONG-TERM DEBT	4,510.5	4,687.8
OTHER NONCURRENT LIABILITIES	1,823.5	1,674.9
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY		
Common stock	707.6	702.3
Additional paid-in capital	3,093.3	2,610.0
Retained earnings	10,526.9	9,470.4
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(114.7)	(118.6)
Accumulated other comprehensive loss	(164.9)	(160.1)
	11,413.2	9,869.0
Less cost of common stock in treasury	103.2	104.2
	11,310.0	9,764.8
	$24,185.9	$21,688.3

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Nine Months Ended September 30,	
	2004	2003
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,812.5	$ 1,813.6
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities, net of effect of acquisition of Applied Molecular Evolution	(648.4)	(199.1)
Depreciation and amortization	460.8	441.9
Change in deferred taxes	97.8	157.0
Acquired in-process research and development	362.3	—
Asset impairments, restructuring, and other special charges, net of tax	81.7	243.3
Other, net	154.4	23.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,321.1	2,480.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(1,428.1)	(1,048.8)
Net change in short-term investments	(629.4)	774.0
Purchase of noncurrent investments	(3,270.3)	(3,897.4)
Proceeds from sales and maturities of noncurrent investments	2,882.7	3,663.6
Cash paid for acquisition of Applied Molecular Evolution, net of cash acquired	(71.7)	—
Other, net	(203.1)	(77.7)
NET CASH USED IN INVESTING ACTIVITIES	(2,719.9)	(586.3)
CASH FLOWS FROM FINANCING ACTIVITIES Dividends paid	(1,154.3)	(1,082.1)
Purchase of common stock and other capital transactions	—	(281.1)
Issuances of common stock under stock plans	88.9	69.7
Net change in short-term borrowings	1,218.2	(237.4)
Net (repayments) issuances of long-term debt	73.2	562.6
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	226.0	(968.3)
Effect of exchange rate changes on cash and cash equivalents	(6.1)	44.7
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(178.9)	970.2
Cash and cash equivalents at January 1	2,756.3	1,945.9
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 2,577.4	$ 2,916.1

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions)			
Net income	$755.2	$714.4	$1,812.5	$1,813.6
Other comprehensive income (loss)[1]	11.9	35.1	(4.7)	264.6
Comprehensive income	$767.1	$749.5	$1,807.8	$2,078.2

[1] The significant components of other comprehensive income were gains of $205.5 million and $58.2 million from foreign currency translation adjustments and net unrealized gains on securities, respectively, for the nine months ended September 30, 2003.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment – pharmaceutical products. Operations of our animal health business segment are not material and share many of the same economic and operating characteristics as our pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting. Our business 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. Income before income taxes for the animal health business was $50.7 million and $38.8 million for the quarters ended September 30, 2004 and 2003, respectively, and $139.3 million and $148.9 million for the nine months ended September 30, 2004 and 2003, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the three months and nine months ended September 30, 2004 and 2003, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions)			
Net sales – to unaffiliated customers				
Neurosciences	$1,431.4	$1,454.2	$ 4,522.6	$4,041.0
Endocrinology	988.0	943.8	3,164.3	2,848.1
Oncology	354.6	253.8	961.9	751.8
Animal health	185.4	174.5	547.4	513.7
Cardiovascular	157.3	160.8	502.9	495.2
Anti-infectives	107.7	111.5	351.4	348.6
Other pharmaceuticals	56.0	40.8	163.1	118.6
Net sales	$3,280.4	$3,139.4	$10,213.6	$9,117.0

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

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 that are necessary for a fair presentation of the results of operations for the periods shown. All such adjustments are of a normal recurring nature. In preparing financial statements in conformity with GAAP, we must 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.

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, 2003. Certain reclassifications have been made to prior period amounts to conform with current-period presentation.

CONTINGENCIES

Three generic pharmaceutical manufacturers, Zenith Goldline Pharmaceuticals, Inc. (Zenith), Dr. Reddy's Laboratories, Ltd. (Reddy), and Teva Pharmaceuticals (Teva), have submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa® in various dosage forms several years prior to the expiration of our U.S. patents for the product, alleging that our patents are invalid, unenforceable, or not infringed. In April 2001, we filed suit against Zenith in the U.S. District Court for the Southern District of Indiana seeking a ruling that the challenges to our compound patent (expiring in 2011) are without merit. We filed similar suits in the same court against Reddy in June 2001 and Teva in September 2002. The cases have been consolidated. A trial before a district court judge in Indianapolis was held in January and February of 2004 and we are awaiting the court's decision. Regardless of the trial court's ruling, we anticipate that appeals will follow. If we are unsuccessful at the trial court level, we cannot predict whether any of the generic companies would launch generic versions of Zyprexa prior to a final resolution of any appeals. We believe that the generic manufacturers' claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr), had submitted an ANDA with the U.S. Food and Drug Administration (FDA) seeking permission to market a generic version of Evista® several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. In November 2002, we filed suit against Barr in the U.S. District Court for the Southern District of Indiana seeking a ruling that Barr's challenges to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. Recently, Barr has also asserted that the method of use patents are unenforceable. On September 28, 2004, the U.S. Patent and Trademark Office issued to us a new patent (expiring in 2017) directed to pharmaceutical compositions containing raloxifene. Barr has challenged this patent, alleging that the patent is invalid, unenforceable, or will not be infringed. This patent has been added to the lawsuit. The suit is in discovery and the trial is now scheduled to begin on February 13, 2006. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In July 2002, we received a grand jury subpoena for documents from the Office of Consumer Litigation, Department of Justice, related to our marketing and promotional practices and physician communications with respect to Evista. We received subpoenas seeking additional documents in July 2003, July 2004, and August 2004. We continue to cooperate with the government and have provided a broad range of information concerning our U.S. marketing and promotional practices, including documents relating to communications with physicians and the remuneration of physician consultants and advisers. In March 2004,

the office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it had commenced a civil investigation relating to our U.S. marketing and promotional practices. Based on the information provided by the U.S. Attorney's office, we believe that the products involved include Prozac® and Zyprexa. We are cooperating with the U.S. Attorney in this investigation. It is possible that other Lilly products could become subject to these investigations. We continue to review and enhance policies and procedures designed to ensure that our marketing and promotional practices, physician communications, and remuneration of health care professionals comply with promotional laws and regulations. It is possible that the outcome of the above matters could include criminal charges and fines and/or civil penalties. We cannot predict or determine the outcome of the above matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We have been named as a defendant in numerous product liability lawsuits involving primarily three products, diethylstilbestrol (DES), thimerosal, and Zyprexa. With respect to current claims, we have accrued for our estimated exposures to the extent they are both probable and estimable based on the information available to us. In addition, we have accrued for certain claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. We expect the cash amounts related to the accruals to be paid out over the next several years. A portion of the costs associated with defending and disposing of these suits is covered by insurance. We estimate insurance recoverables based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among the insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, we have been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. We also continue remediation of certain of our own sites. We have 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 payment of those costs. We have reached a settlement with our liability insurance carriers providing for coverage for certain environmental liabilities.

The litigation accruals and environmental liabilities have been reflected in our consolidated condensed balance sheet at the gross amount of approximately $209.9 million at September 30, 2004. Estimated insurance recoverables of approximately $73.6 million at September 30, 2004, have been reflected as assets in the consolidated condensed balance sheet.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above with respect to the U.S. Zyprexa and Evista patent litigation and the marketing and promotional practices investigations, 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 the consolidated results of operations in any one accounting period.

EARNINGS PER SHARE

Unless otherwise noted in the footnotes, all per-share amounts are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of all potentially dilutive common shares (primarily unexercised stock options).

STOCK-BASED COMPENSATION

We have elected to follow Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock options and performance awards. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. However, Statement of Financial Accounting Standards (SFAS) 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure, requires us to present pro forma information as if we had accounted for our employee stock options and performance awards under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the vesting period.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions, expect per-share data)			
Net income, as reported	$755.2	$714.4	$1,812.5	$1,813.6
Add: Compensation expense for stock-based performance awards included in reported net income, net of related tax effects	11.4	(13.2)	41.8	—
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(71.2)	(43.2)	(219.7)	(170.1)
Pro forma net income	$695.4	$658.0	$1,634.6	$1,643.5
Earnings per share:				
Basic, as reported	$ .70	$ .66	$ 1.67	$ 1.68
Basic, pro forma	$ .64	$ .61	$ 1.51	$ 1.53
Diluted, as reported	$ .69	$ .66	$ 1.66	$ 1.68
Diluted, pro forma	$ .64	$ .61	$ 1.50	$ 1.52

SHAREHOLDERS' EQUITY

As of September 30, 2004, we have purchased $2.08 billion of our previously announced $3.0 billion share repurchase program. During the nine months ended September 30, 2004, we did not repurchase any stock pursuant to this program and we do not expect any significant share repurchases during the remainder of 2004.

RETIREMENT BENEFITS

Net pension and retiree health benefit expense included the following components:

	Defined Benefit Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 60.3	$ 53.3	$ 181.0	$ 147.1
Interest cost	70.2	66.1	212.2	199.5
Expected return on plan assets	(98.4)	(96.5)	(293.2)	(286.5)
Amortization of prior service cost	1.0	1.9	5.4	5.7
Recognized actuarial loss	25.3	14.8	67.3	39.0
Net periodic benefit cost	$ 58.4	$ 39.6	$ 172.7	$ 104.8

	Retiree Health Benefit Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 13.6	$ 4.9	$ 35.7	$ 30.9
Interest cost	14.0	10.9	46.8	45.3
Expected return on plan assets	(14.9)	(12.4)	(44.3)	(40.2)
Amortization of prior service cost	(4.1)	(3.9)	(11.9)	(11.7)
Recognized actuarial loss	14.3	12.3	43.5	37.9
Net periodic benefit cost	$ 22.9	$ 11.8	$ 69.8	$ 62.2

The increase in our net periodic benefit cost of our defined benefit pension plans in 2004 was primarily due to a decrease in our discount rate assumption and amortization of the prior years' actuarial loss.

We previously disclosed in our consolidated financial statements for the year ended December 31, 2003, that we expected to contribute approximately $26.0 million to our defined benefit pension plans in 2004 to satisfy minimum funding requirements and an additional $300.0 million and $125.0 million of discretionary funding for our defined benefit pension plans and postretirement health benefit plans, respectively. During the first nine months of 2004, we have contributed $345.8 million to our defined benefit pension plans and $31.3 million to our postretirement health benefit plans. Our historical practice has been to make the maximum tax-deductible contributions to our defined benefit pension plans for each plan year. To the extent possible, we typically make these contributions in the same calendar year as the plan year. Consistent with this practice, and in anticipation of increased available cash in 2005 due to the American Jobs Creation Act of 2004 (see Subsequent Events footnote), we plan to contribute an additional $390 million to our defined benefit pension plans in the fourth quarter of 2004. Also, we anticipate making an additional $100 million of discretionary funding to our postretirement health benefit plans in the fourth quarter of 2004. Therefore, for the full year 2004, we anticipate contributing approximately $735 million and $130 million to our defined benefit pension plans and postretirement health benefit plans, respectively.

IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

In 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 46, Consolidation of Variable Interest Entities. FIN 46 defines a variable interest entity (VIE) as a corporation, partnership, trust, or any other legal structure that does not have equity investors with a controlling financial interest or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires consolidation of a VIE by the primary beneficiary of the assets, liabilities, and results of activities. FIN 46 also requires certain disclosures by all holders of a significant variable interest in a VIE that are not the primary beneficiary. We do not have any material investments in variable interest entities; therefore, the adoption of this interpretation in the first quarter of 2004 had no material impact on our consolidated financial position or results of operations.

On May 19, 2004, the FASB issued FASB Staff Position (FSP) 106-2, which provides guidance regarding the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA). The FSP specifies that, for plans with benefits that are determined to be actuarially equivalent to the Medicare Part D benefits, the plan sponsor will be entitled to a tax-free subsidy under the MMA. We have determined that our plan is actuarially equivalent and, therefore, we are entitled to the subsidy. Following our adoption of the provisions of FSP 106-2 in the second quarter of 2004, we remeasured the accumulated postretirement benefit obligation (APBO) to reflect the effects of the MMA as of the effective date of the MMA (December 8, 2003) and recognized the financial statement effect retroactively. This had no material impact on the APBO, our consolidated financial position, or results of operations.

APPLIED MOLECULAR EVOLUTION ACQUISITION

On February 12, 2004, we acquired all the outstanding common stock of Applied Molecular Evolution, Inc. (AME), in a tax-free merger. Under the terms of the merger agreement, each outstanding share of AME common stock was exchanged for our common stock or a combination of cash and our stock valued at $18. The aggregate purchase price of approximately $442.8 million consisted of issuance of 4.2 million shares of our common stock valued at $314.8 million, issuance of 0.7 million replacement options to purchase shares of our common stock in exchange for the remaining outstanding AME options valued at $37.6 million, cash of $85.4 million for AME common stock and options for certain AME employees, and transaction costs of $5.0 million. The fair value of our common stock was derived using a per-share value of $74.14, which was our average closing stock price for February 11 and 12, 2004. The fair value for the options granted was derived using a Black-Scholes valuation method using assumptions consistent with those we used in valuing employee options. Replacement options to purchase our common stock granted as part of this acquisition have terms equivalent to the AME options that were replaced.

In addition to acquiring the rights to two compounds currently under development, we expect the acquisition of AME's protein optimization technology to create synergies that will accelerate our ability to discover and optimize biotherapeutic drugs for cancer and critical care as well as diabetes and obesity, areas in which proteins are of great therapeutic benefit.

In accordance with SFAS 141, Business Combinations, the acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed from AME at the date of acquisition are recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The excess of the purchase price over the fair value of the acquired net assets has been recorded as goodwill in the amount of $9.6 million. Goodwill resulting from this acquisition has been fully allocated to the pharmaceutical products segment. No portion of this goodwill is expected to be deductible for tax purposes. AME's results of operations are included in our consolidated financial statements from the date of acquisition.

As of the date of acquisition, we determined the following estimated fair values for the assets purchased and liabilities assumed. The determination of estimated fair value requires management to make significant estimates and assumptions. We hired independent third parties to assist in the valuation of assets that were difficult to value. Although we do not anticipate any significant adjustments, to the extent that our estimates used in the purchase accounting need to be refined, we will do so upon making that determination but not later than one year from the date of acquisition.

	Estimated Fair Value at February 12, 2004
	(Dollars in millions)
Cash and short-term investments	$ 38.7
Acquired in-process research and development	362.3
Platform technology	17.9
Goodwill	9.6
Other assets and liabilities - net	14.3
Total estimated purchase price	$442.8

The acquired in-process research and development (IPR&D) represents compounds currently under development that have not yet achieved regulatory approval for marketing. The estimated fair value of these

intangible assets was derived using a valuation from an independent third party. AME's two lead compounds for the treatment of non-Hodgkin's lymphoma and rheumatoid arthritis represent approximately 80 percent of the estimated fair value of the IPR&D. In accordance with FIN 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, these IPR&D intangible assets have been written off by a charge to income immediately subsequent to the acquisition because the compounds do not have any alternative future use. This charge is not deductible for tax purposes. The ongoing activity with respect to each of these compounds under development is not material to our research and development expenses.

There are several methods that can be used to determine the estimated fair value of the acquired IPR&D. We utilized the "income method," which applies a probability weighting to the estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, and expected industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. This analysis is performed for each project independently.

ASSET IMPAIRMENTS, RESTRUCTURING, AND OTHER SPECIAL CHARGES

As part of our ongoing strategic review of our manufacturing and research and development strategies to maximize performance and efficiencies, including the streamlining of manufacturing operations and research and development activities, we made decisions during the second quarter of 2004 that resulted in the impairment of certain assets. This review did not result in any closure of facilities or layoffs, but certain assets located at various sites were affected. We have ceased using these assets, their carrying value was written down to zero, and all the assets are being disposed of or their destruction has commenced. The asset impairment charges incurred in the second quarter of 2004 aggregated $108.9 million and are included in asset impairments, restructuring, and other special charges in our consolidated condensed income statement.

Similarly, in the first quarter of 2003, management approved global manufacturing strategies across our product portfolio to improve plant performance and efficiency, including the outsourcing of production of certain anti-infective products. These decisions resulted in the impairment of certain assets, primarily manufacturing assets in the U.S. This review did not result in any closure of facilities, but certain assets located at various manufacturing sites were affected. We have ceased using these assets and all these assets have been disposed of or their destruction has commenced. The impairment charges were necessary to adjust the carrying value of these assets to zero. These asset impairment charges incurred in the first quarter of 2003 totaled $114.6 million and are included in asset impairments, restructuring, and other special charges in our consolidated condensed statement of income.

In December 2002, we initiated a plan of eliminating approximately 700 positions worldwide in order to streamline our infrastructure. While a substantial majority of affected employees were successfully placed in other positions in the company, severance expenses were incurred in the first quarter of 2003 for those employees who elected a severance package. The restructuring and other special charges incurred in the first quarter of 2003 were $52.5 million, consisting primarily of voluntary severance expenses, which have been included in asset impairments, restructuring, and other special charges in our consolidated condensed statement of income. All this charge has been expended.

In August 2001, we licensed from Isis Pharmaceuticals, Inc. (Isis), Affinitak™, a non-small-cell lung cancer drug candidate, and entered into an agreement regarding an ongoing research collaboration. In conjunction with this agreement, we purchased approximately 4.2 million shares of Isis common stock with a cost basis of approximately $68.0 million and we committed to loan Isis $100 million over the four-year term of the research agreement. The Isis loan is repayable at the end of the research agreement term in cash or Isis stock, at Isis's option, using a conversion price of $40 per share. In addition, we committed to loan Isis $21.2 million for the building of a manufacturing suite for Affinitak. On March 17, 2003, we announced, along with Isis, the results of the Phase III trial that evaluated Affinitak when combined with chemotherapy in patients with advanced non-small-cell lung cancer. No difference was observed in the overall survival of the two groups. Due to this announcement and the decline in Isis's stock price that occurred in the previous 12 months, we concluded in the first quarter of 2003 that our investment in Isis common stock was other-than-temporarily impaired as defined by generally accepted accounting principles. For the same reasons, it was probable that the value of the consideration that we will be eligible to receive from Isis pursuant to the terms of the loan agreements will be less than the carrying amount of the loans. Therefore, in the first quarter of 2003, we recognized an impairment in our investment in Isis common stock of $55.0 million and a reserve related to the loans of $92.9 million. In

addition, we recognized a charge of $38.9 million for contractual obligations related to Affinitak. The primary portion of this charge resulted from our supply agreement with Isis. The supply agreement obligated us to pay certain costs associated with work-in-process and raw materials and other costs that were triggered when we canceled our order of Affinitak. The remaining portion of the charge resulted from our contractual obligations related to the conduct of Affinitak clinical trials. Substantially all our contractual obligations have been fulfilled. The stock and loan impairments and other special charges incurred in the first quarter of 2003 related to this relationship totaled $186.8 million and have been included in the asset impairments, restructuring, and other special charges category in our consolidated condensed statement of income.

SUBSEQUENT EVENTS

Restructuring and Asset Impairment Announcement

In October 2004, the board of directors approved and we announced several actions designed to increase productivity, to address current challenges in the marketplace, and to leverage prior investments in our product portfolio. These actions affect primarily operations in research and development, manufacturing, and sales and marketing components and will have an impact on both infrastructure and personnel. We expect to substantially complete the restructuring activities by March 31, 2005, although certain activities may require additional time for completion throughout 2005.

The principal restructuring actions described below will result in the elimination of nearly 1,000 U.S. positions. The individuals affected by those eliminated positions will be given the opportunity to fill other open positions in the company. Each affected employee will also have the option to elect a voluntary severance package.

We will focus our research efforts on the therapeutic areas of neuroscience, endocrine, oncology, and cardiovascular and will discontinue our efforts in inflammation. We will close our RTP Laboratory site in Research Triangle Park, North Carolina. This site has historically been our center of excellence for high-throughput screening and combinatorial chemistry, but much of that technology has evolved such that these operations can be more efficiently performed in existing facilities in Indianapolis. These actions are expected to result in asset impairments and severance-related charges.

The mission of our Clinton, Indiana, manufacturing site will be narrowed to make products solely for the Elanco Animal Health business. The portion of that site that currently produces human pharmaceutical products will cease operation. Also, we will discontinue our plans to produce the bulk active ingredient for Xigris® at our Indianapolis operations. Although we remain committed to this important lifesaving product, we have determined that our manufacturing partner, Lonza Biologics plc, has enough capacity to supply anticipated Xigris demand for the foreseeable future. These actions are expected to result in asset impairments and severance-related charges.

We will close all district and regional sales offices throughout the United States, and these operations will now be managed from home-based offices. This change, which is consistent with standard industry practice, will provide cost savings. In addition, we will reorganize our U.S. sales force to create an organization that better meets customer needs as well as maximizes sales potential. We will also streamline some sales and marketing support activities as well as our field-based operations that support our medical function. These actions are expected to result in asset impairments, severance-related charges, and lease termination costs, which are not material individually or in the aggregate.

The costs associated with the restructuring actions in the aggregate will consist of asset impairments, severance expenses, and other charges estimated in a range of $320 million to $420 million (pretax), substantially all of which is expected to be reported in the fourth quarter of 2004. The estimated noncash charges total approximately $250 million to $320 million and consist of asset impairments, which primarily relate to Xigris manufacturing equipment in Indianapolis, human pharmaceutical manufacturing buildings and equipment at Clinton, Indiana, and the RTP Laboratory building and equipment. We will cease using these assets as described above and they will be disposed of or destroyed. The impairment charges will be necessary to adjust the carrying value of the assets to fair value. The estimated cash expenditures total approximately $70 million to $100 million and consist primarily of severance payments and, to a lesser extent, lease termination payments. These activities will generate an estimated net savings in the range of $150 million in 2005 with annual savings thereafter expected to be even larger. These cost savings will be accomplished by natural attrition, the results of a previously announced hiring freeze, employees who accept voluntary severance packages, and modest savings from asset impairments.

American Jobs Creation Act of 2004

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004. The act includes an incentive for companies to reinvest their foreign earnings in the United States by providing an 85 percent dividends-received deduction for certain dividends of overseas earnings received by a U.S. corporation from a controlled foreign corporation. As a result of the enactment of this incentive, we anticipate accruing tax in the fourth quarter of 2004 on eligible overseas earnings, which are expected to be repatriated in 2005. Under the legislation, we have approximately $8.0 billion of overseas earnings eligible for the 85 percent dividends-received deduction. As a result, up to $8.0 billion would be subject to tax under the incentive legislation and would result in a temporary increase in our effective tax rate. At this time, this incentive and its impact remain under consideration and evaluation.

Product Acquisition

In October 2004, we entered into an agreement with Merck KGaA (Merck) to acquire Merck's compound for a potential treatment for insomnia. This compound is currently in Phase I clinical trials. At the inception of this agreement, this compound was in the development stage and no alternative future uses were identified. As with many development phase compounds, launch of the product, if approved, is not expected in the near term. This transaction is expected to close in November upon approval by the U.S. Federal Trade Commission under the Hart-Scott-Rodino Act (HSR). Our charge for acquired in-process research and development expense related to this arrangement will be approximately $29 million in the fourth quarter of 2004, assuming HSR approval.

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

OPERATING RESULTS

Executive Overview

I. Financial Summary

Net income was $755.2 million, or $.69 per share, for the third quarter of 2004 compared with $714.4 million, or $.66 per share, for the third quarter of 2003, representing increases in net income and earnings per share of 6 percent and 5 percent, respectively. The increases in net income and earnings per share in the third quarter of 2004 were the result of sales growth, lower marketing and administrative expenses, and an increase in other income, partially offset by costs of goods sold and research and development expenses increasing at a rate greater than sales. Net income was $1.81 billion, or $1.66 per share, for the nine-month period of 2004 compared with $1.81 billion, or $1.68 per share, for the nine-month period of 2003, representing flat net income and a decrease in earnings per share of 1 percent. Net income and earnings per share for the first nine months of 2004 were driven by the same factors affecting the third quarter of 2004, as well as the acquired IPR&D charges and related tax effects attributable to the AME acquisition and the asset impairment charges discussed in the Asset Impairments, Restructuring, and Other Special Charges footnote.

Comparisons between the nine-month periods ended September 30, 2004 and 2003, are influenced by the following items that are reflected in our operating results (see Notes to Consolidated Condensed Financial Statements for additional information).

2004

- We incurred a charge for acquired IPR&D of $362.3 million (no tax benefit) related to the acquisition of AME, which decreased earnings per share by $.33 in the first quarter of 2004.
- We recognized asset impairment charges of $108.9 million (pretax), which decreased earnings per share by $.08 in the second quarter of 2004.

2003

- We streamlined our infrastructure in the first quarter of 2003, resulting in severance-related and other charges of $52.5 million (pretax), which decreased earnings per share by $.03.
- We recognized asset impairments, primarily relating to manufacturing assets in the U.S., totaling $114.6 million (pretax) in the first quarter of 2003, which decreased earnings per share by $.07.
- Separately, we recognized asset impairments and other charges of $186.8 million (pretax) in the first quarter of 2003 related primarily to our common stock ownership and loan agreements with Isis, which decreased earnings per share by $.13.

II. Recent Product Launches and Late-Stage Product Pipeline Developments

- We are in the process of rolling out the global launches of a number of important products, indications, or formulations – Alimta®, Cialis®, Cymbalta®, Forteo®, Gemzar®, Strattera®, Symbyax™, Yentreve®, Zyprexa IntraMuscular, and Zyprexa for bipolar maintenance.

- The U.S. Food and Drug Administration approved Cymbalta, a balanced and potent selective serotonin and norepinephrine reuptake inhibitor, for the treatment of major depressive disorder. This breakthrough antidepressant, which treats both the emotional and painful physical symptoms of depression, was launched in the U.S. in late August. In September, Cymbalta received its second U.S. approval and became the first FDA-approved treatment for pain caused by diabetic peripheral neuropathy. The Committee for Medicinal Products in Human Use of the European Medicines Agency issued a positive opinion recommending approval of Cymbalta for the treatment of major depressive episodes. We expect the European Commission to grant marketing authorization by early 2005.

- In August, the FDA granted accelerated approval for Alimta for the treatment of locally advanced or metastatic non-small-cell lung cancer. This represents the second approval for Alimta in 2004 after it was approved and launched for malignant pleural mesothelioma in the first quarter of 2004. In September, Alimta was granted marketing authorization by the European Commission for both the treatment of malignant pleural mesothelioma and as a second-line treatment for non-small-cell lung cancer. Alimta will be launched in several European countries later this year with additional European market launches in 2005.

- The European Commission granted marketing authorization throughout the European Union for Yentreve, the first pharmaceutical widely approved for the treatment of moderate-to-severe stress urinary incontinence in women. Yentreve was launched in Germany, Denmark, Finland, Sweden, and the United Kingdom in mid-September and is anticipated to launch in additional European countries in the near future. Lilly and Boehringer Ingelheim submitted a complete response to the FDA approvable letter and anticipate U.S. approval for duloxetine for stress urinary incontinence in the first half of 2005.

- The FDA granted full approval in May for Gemzar, in combination with paclitaxel, for the first-line treatment of patients with metastatic breast cancer.

- In late June, Lilly and Amylin Pharmaceuticals, Inc., submitted a New Drug Application to the FDA for regulatory approval of exenatide, the first in a new class of medicines known as incretin mimetics, for the treatment of type 2 diabetes.

III. Legal, Regulatory, and Other Matters

- In March 2004, we were notified by the U.S. Attorney's office for the Eastern District of Pennsylvania that it has commenced a civil investigation relating to our U.S. marketing and promotional practices. We believe that the products involved include Prozac and Zyprexa.

- In May, the filing of posttrial briefs in the U.S. Zyprexa patent trial was completed and we are awaiting the court's decision.

- In August, we announced that, upon product approval, we would disclose the results of all clinical trials for which Lilly is a sponsor via a publicly available registry by the end of the fourth quarter of this year. The registry will include results of all Phase I through Phase IV clinical trials of Lilly's marketed products conducted anywhere in the world. Additionally, we will begin posting the initiation of all Phase III and Phase IV clinical trials via the registry.

Additional information regarding certain of these significant events is included in the Notes to Consolidated Condensed Financial Statements and elsewhere in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Sales

Third-quarter 2004 sales grew 4 percent and sales for the first nine months of 2004 increased 12 percent compared with 2003 periods. Sales in the U.S. increased by $26.0 million, or 1 percent, and $439.8 million, or 8 percent, for the third quarter and nine-month period of 2004, respectively, compared with 2003. Sales outside the U.S. increased $115.1 million, or 9 percent, and $656.8 million, or 17 percent, for the third quarter and nine-month period of 2004, respectively. Worldwide sales volume in the third quarter of 2004 increased 1 percent, while exchange rates and selling prices increased sales by 2 and 1 percent, respectively.

Worldwide sales volume, exchange rates, and selling prices for the nine-month period of 2004 increased 7 percent, 4 percent, and 2 percent, respectively (numbers do not add due to rounding).

The following tables summarize our net sales activity for the three- and nine-month periods ended September 30, 2004 and 2003:

Product	Three Months Ended September 30, 2004			Three Months Ended September 30, 2003	Percent Change from 2003
	U.S.[1]	Outside U.S.	Total	Total	
	(Dollars in millions)				
Zyprexa	$ 557.3	$ 466.4	$1,023.7	$1,127.6	(9)
Gemzar	152.3	160.4	312.7	250.6	25
Humalog	169.2	95.4	264.6	240.2	10
Evista	169.2	76.9	246.1	240.0	3
Humulin®	104.5	139.2	243.7	264.5	(8)
Animal health products	78.6	106.8	185.4	174.5	6
Strattera	160.5	3.1	163.6	108.0	51
Fluoxetine products	89.0	52.0	141.0	154.2	(9)
Anti-infectives	25.2	82.5	107.7	111.5	(3)
ReoPro®	46.8	43.0	89.8	88.2	2
Actos®	30.8	27.5	58.3	67.1	(13)
Forteo	47.6	10.5	58.1	21.6	NM
Xigris	29.9	19.4	49.3	37.8	30
Alimta	34.3	5.7	40.0	—	NM
Cialis[2]	0.3	30.8	31.1	21.8	43
Symbyax	13.5	—	13.5	—	NM
Other pharmaceutical products	121.3	130.5	251.8	231.8	9
Total net sales	$1,830.3	$1,450.1	$3,280.4	$3,139.4	4

Product	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003	Percent Change from 2003
	U.S.[1]	Outside U.S.	Total	Total	
	(Dollars in millions)				
Zyprexa	$1,874.3	$1,460.0	$ 3,334.3	$3,131.4	6
Gemzar	410.0	475.0	885.0	739.1	20
Humalog	517.0	300.1	817.1	743.1	10
Evista	500.3	255.1	755.4	677.4	12
Humulin	326.7	425.8	752.5	761.0	(1)
Animal health products	223.2	324.2	547.4	513.7	7
Strattera	478.2	5.1	483.3	237.7	103
Fluoxetine products	261.7	174.2	435.9	479.2	(9)
Anti-infectives	82.4	269.0	351.4	348.6	1
Actos	244.7	79.3	324.0	316.6	2
ReoPro	145.6	139.7	285.3	275.8	3
Forteo	141.1	23.1	164.2	39.4	NM
Xigris	91.7	54.8	146.5	109.7	34
Cialis[2]	0.9	95.6	96.5	42.2	129
Alimta	62.5	6.9	69.4	—	NM
Symbyax	55.0	—	55.0	—	NM
Other pharmaceutical products	288.1	422.3	710.4	702.1	1
Total net sales	$5,703.4	$4,510.2	$10,213.6	$9,117.0	12

NM – Not meaningful

[1] U.S. sales include sales in Puerto Rico.

[2] Cialis had worldwide third-quarter and second-quarter 2004 sales of $154.1 million and $137.2 million, respectively, a sequential increase of 12 percent. The sales shown in the tables above represent results in the territories in which we market Cialis exclusively. The remaining sales relate to the joint-venture territories of Lilly ICOS LLC (North America, excluding Puerto Rico, and Europe). Our share of the joint-venture-territory sales, net of expenses, is reported in net other income in our consolidated condensed income statement.

Product Highlights

Zyprexa sales in the U.S. decreased 22 percent in the third quarter of 2004 compared with the third quarter of 2003 due to a decline in the underlying demand from continued competitive pressures as well as the combined effect of wholesaler destocking in the third quarter of 2004 and wholesaler stocking during the third quarter of last year, both caused by the timing of our price increases. Zyprexa sales in the U.S. decreased 5 percent in the nine-month period of 2004 compared with the nine-month period of 2003 due to competitive pressures. Zyprexa sales outside the U.S. increased 12 percent and 25 percent, respectively, for the third quarter and nine-month period of 2004, driven by volume growth in a number of major markets outside the U.S. International Zyprexa sales growth also benefited from the impact of foreign exchange rates. Excluding the impact of exchange rates, sales of Zyprexa outside the U.S. increased by 6 percent and 15 percent in the third quarter and nine-month period of 2004, respectively. We expect Zyprexa sales in the U.S. to decline in the fourth quarter of 2004 compared with the fourth quarter of 2003. We expect the international growth rate for Zyprexa to be stronger in the fourth quarter of 2004 compared with the third quarter of 2004. For the full year 2004, we expect some growth in worldwide sales of Zyprexa.

Diabetes care products, composed primarily of Humalog®, Humulin®, and Actos®, had worldwide net sales of $580.2 million and $1.94 billion in the third quarter and nine-month period of 2004, respectively, a decrease of 1 percent and an increase of 4 percent, respectively, compared with the same periods last year. Diabetes care revenues in the U.S. in the third quarter of 2004 decreased 8 percent, to $314.9 million, due primarily to continued competitive pressures in the insulin market, while revenues outside the U.S. increased 7 percent, to $265.3 million. For the nine-month period of 2004, diabetes care revenues in the U.S. decreased 3 percent, to $1.12 billion, while revenues outside the U.S. increased 15 percent, to $816.5 million. Despite a decline in prescription volume, Humalog sales in the U.S. increased 11 percent and 7 percent for the quarter and nine-month periods ended September 30, 2004, due primarily to price increases. Sales of Humalog outside the U.S. for the third quarter and nine-month period of 2004 increased 8 percent and 16 percent, respectively, compared with the same periods of 2003. Humulin sales in the U.S. decreased 18 percent and 12 percent for the quarter and nine-month period ended September 30, 2004, respectively, due to continuing competitive pressures, while sales outside the U.S. for the same periods increased 1 percent and 9 percent, respectively. Actos revenues, the majority of which represent service revenues from a copromotion agreement in the U.S. with Takeda Pharmaceuticals North America (Takeda), decreased 13 percent for the third quarter but increased 2 percent for the nine-month period ended September 30, 2004. Actos is manufactured by Takeda Chemical Industries, Ltd., and sold in the U.S. by Takeda. As previously disclosed, since our share of revenue from the agreement with Takeda will vary from quarter to quarter based on contract terms, Actos revenue will not necessarily track with product sales. As a result, it is difficult to make quarterly comparisons for Actos revenue.

The growth in Gemzar sales in the third quarter of 2004 consisted of a 25 percent increase both in the U.S. and outside the U.S. Gemzar sales in the U.S. increased due primarily to wholesaler destocking in the third quarter of last year caused by the timing of a price increase, as well as the approval of the metastatic breast cancer indication in the second quarter of 2004. For the nine-month period of 2004, Gemzar sales in the U.S. increased 8 percent while sales outside the U.S. increased 32 percent.

Evista sales in the U.S. decreased 3 percent in the third quarter, driven by a decline in underlying demand due to continued competitive pressures and increased 3 percent in the nine-month period of 2004. Evista sales outside the U.S. increased 16 percent and 34 percent in the third quarter and nine-month period of 2004, respectively.

Strattera, the only nonstimulant medicine approved for the treatment of ADHD in children, adolescents, and adults, generated $163.6 million of sales during the third quarter of 2004, a 51 percent increase over sales in the third quarter of 2003 but down sequentially compared with sales of $178.6 million in the second quarter of 2004. Underlying prescription volume for Strattera has sequentially increased; however, Strattera sales have sequentially declined due to U.S. wholesaler destocking in the third quarter of 2004, caused by the timing of a price increase. Strattera was launched in the U.S. in January 2003 and in the United Kingdom in July 2004.

Third-quarter 2004 sales of Forteo, a treatment for severe osteoporosis, were $58.1 million, a sequential decrease compared with second-quarter 2004 sales of $65.3 million. Underlying prescription volume for Forteo has sequentially increased; however, Forteo sales have sequentially declined due to U.S. wholesaler destocking in the third quarter of 2004 caused by the timing of a price increase.

Xigris® had third-quarter 2004 sales growth of 21 percent in the U.S. compared with 2003, while sales outside the U.S. increased 48 percent during the same period. Xigris sales for the nine-month period of 2004 increased 20 percent and 66 percent in the U.S. and outside the U.S., respectively.

Cialis was launched in the U.S. in December 2003. The $154.1 million of worldwide Cialis sales in the third quarter of 2004, a sequential increase compared with second quarter sales of $137.2 million, comprises $31.1 million of sales in our territories, which are reported in our net sales, and $123.0 million of sales in the joint-venture territories. The $399.6 million of worldwide Cialis sales in the nine-month period of 2004 comprises $96.5 million of sales in our territories and $303.1 million of sales in the joint-venture territories. Within the joint-venture territories, the U.S. sales of Cialis were $70.2 million and $153.8 million for the quarter and nine months ended September 30, 2004, respectively.

Alimta was launched in the U.S. in February 2004 for the treatment of malignant pleural mesothelioma and in August for second-line non-small-cell lung cancer (NSCLC). In addition, in September 2004, Alimta was granted marketing authorization by the European Commission for both the treatment of malignant pleural mesothelioma and as a second-line treatment for non-small-cell lung cancer. Alimta will be launched in several European countries later this year, with additional European market launches in 2005. Third-quarter 2004 sales of $40.0 million increased sequentially compared with second-quarter 2004 sales of $17.8 million. We are very pleased with the early sales results for Alimta.

Cymbalta was launched in the U.S. in late August 2004 for treatment of depression and in September 2004 for the treatment of diabetic peripheral neuropathic pain. Cymbalta generated $32.5 million in sales in the third quarter of 2004, due predominately to initial wholesaler stocking. We are very encouraged by early prescription trends for Cymbalta, which are above our expectations. We are also pleased with the trial rates among both primary care physicians and psychiatrists and by the amount of use of Cymbalta as a first-line therapy in a competitive antidepressant market.

Symbyax was launched in the U.S. in January 2004. Symbyax combines olanzapine (the active ingredient in Zyprexa) and fluoxetine (the active ingredient in Prozac) to treat bipolar depression. Symbyax is the first FDA-approved medication for this difficult-to-treat condition. Third-quarter and nine-month-period sales in 2004 were $13.5 million and $55.0 million, respectively. Sales in the nine-month period included approximately $30 million of wholesaler stocking in the first quarter of 2004.

Gross Margin, Costs, and Expenses

For the third quarter of 2004, gross margins declined 3.1 percentage points, to 75.3 percent of net sales, compared with the third quarter of 2003. For the nine-month period of 2004, gross margins declined 1.8 percentage points, to 76.9 percent of net sales, compared with the nine-month period of 2003. The decreases were due to investment in our manufacturing technical capabilities and capacity and the impact of foreign exchange rates. A decline in third quarter sales of Zyprexa, a higher margin product, contributed to the decreased gross margin. For the nine-month period, these factors were partially offset by a favorable product mix.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 5 percent and 13 percent for the third quarter and nine-month period of 2004, respectively, compared with the same periods of 2003. Investment in research and development increased 15 percent, to $654.8 million, and 21 percent, to $1.99 billion, for the third quarter and nine-month period of 2004, respectively, due to increased clinical trial and development expenses, increased incentive compensation and benefits expense, and reduced third-party reimbursements for research activities. Marketing and administrative expenses decreased 1 percent, to $951.9 million, for the third quarter primarily attributable to ongoing marketing cost-containment measures, offset partially by increased selling expenses in support of the new and anticipated product launches, the impact of foreign exchange rates, and increased incentive compensation and benefits expense. For the nine-month period of 2004, marketing and administrative expenses increased 9 percent, to $3.19 billion, primarily attributable to sales and marketing expenses in support of the new and anticipated product launches, the impact of foreign exchange rates, and increased incentive compensation and benefits expense. In addition, our marketing and administrative expenses would have been higher for the third-quarter and nine-month period of 2004 if not for reimbursement from our collaboration partners for marketing expenses related to new product launches. A majority of the reimbursements are ongoing.

Interest expense for the nine-month period of 2004 declined despite an increase in our outstanding debt. This decline was caused by increased capitalization of our interest costs as more of our debt supported capital asset construction.

Net other income for the quarter and nine-month period ended September 30, 2004, increased $120.0 million, to $123.1 million, and $153.8 million, to $244.6 million, respectively. The increase for the third quarter of 2004 was primarily due to income related to the outlicensing of legacy products outside the United States, milestones from collaborations on the duloxetine molecule, and other miscellaneous income. In addition to the factors causing the third-quarter increase, the increase in the nine-month period of 2004 was also due to income related to a previously assigned patent arrangement of $30.0 million that was recognized in the first quarter of 2004, offset partially by an increase in the net loss of the Lilly ICOS LLC joint venture, due primarily to increased marketing costs.

For the third quarter and nine-month period of 2004, the effective tax rates were 22.0 percent and 25.2 percent, respectively, compared with 22.0 percent and 21.1 percent for the respective periods of 2003. The effective tax rate for the nine-month period of 2004 was affected by the charge for acquired IPR&D related to the AME acquisition, which is not deductible for tax purposes.

FINANCIAL CONDITION

As of September 30, 2004, cash, cash equivalents, and short-term investments totaled $4.17 billion compared with $3.71 billion at December 31, 2003. Cash flow from operations for the nine-month period of 2004 of $2.32 billion and an increase in short-term borrowings of $1.22 billion was more than offset by dividends paid of $1.15 billion, net capital expenditures of $1.43 billion, and net purchases of short-term and noncurrent investments of $1.02 billion. Total debt at September 30, 2004, was $6.18 billion, an increase of $1.29 billion from December 31, 2003. The increase in debt was primarily due to the issuance of commercial paper to fund U.S. operating activities. In addition, in August 2004, we issued $1.00 billion of floating rate notes due in 2007. The floating rate notes pay interest at the three-month LIBOR rate plus 0.05 percent. We may redeem these notes in August 2005 for a defined redemption price. The majority of the proceeds of this debt offering were used to redeem other outstanding debt.

We believe that cash to be generated from operations in 2004, along with available cash and cash equivalents, will be sufficient to fund most of our remaining 2004 operating needs, including debt service, capital expenditures, and dividends. We will likely issue additional commercial paper in the remainder of 2004 to fund remaining cash requirements and to refinance some of our short-term borrowings. We believe that, if necessary, amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. We are considering the repayment of our outstanding commercial paper and a portion of our additional debt during 2005 utilizing some of the proceeds from the potential repatriation of foreign earnings into the U.S. pursuant to certain provisions of the American Jobs Creation Act of 2004 (see Subsequent Events footnote to the Consolidated Condensed Financial Statements). Various

risks and uncertainties, including those discussed in the Other Matters and Financial Expectations for 2004 sections, may affect our operating results and cash generated from operations.

OTHER MATTERS

Three generic pharmaceutical manufacturers, Zenith Goldline Pharmaceuticals, Inc. (Zenith), Dr. Reddy's Laboratories, Ltd. (Reddy), and Teva Pharmaceuticals (Teva), have submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product, alleging that our patents are invalid, unenforceable, or not infringed. In April 2001, we filed suit against Zenith in the U.S. District Court for the Southern District of Indiana seeking a ruling that the challenges to our compound patent (expiring in 2011) are without merit. We filed similar suits in the same court against Reddy in June 2001 and Teva in September 2002. The cases have been consolidated. A trial before a district court judge in Indianapolis was held in January and February of 2004 and we are awaiting the court's decision. Regardless of the trial court's ruling, we anticipate that appeals will follow. If we are unsuccessful at the trial court level, we cannot predict whether any of the generic companies would launch generic versions of Zyprexa prior to a final resolution of any appeals. We believe that the generic manufacturers' claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In July 2002, we received a grand jury subpoena for documents from the Office of Consumer Litigation, Department of Justice, related to our marketing and promotional practices and physician communications with respect to Evista. We received subpoenas seeking additional documents in July 2003, July 2004, and August 2004. We continue to cooperate with the government and have provided a broad range of information concerning our U.S. marketing and promotional practices, including documents relating to communications with physicians and the remuneration of physician consultants and advisers. In March 2004, the office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it has commenced a civil investigation relating to our U.S. marketing and promotional practices. Based on the information provided by the U.S. Attorney's office, we believe that the products involved include Prozac and Zyprexa. We are cooperating with the U.S. Attorney in this investigation. It is possible that other Lilly products could become subject to these investigations. We continue to review and enhance policies and procedures designed to ensure that our marketing and promotional practices, physician communications, and remuneration of health care professionals comply with promotional laws and regulations. It is possible that the outcome of the above matters could include criminal charges and fines and/or civil penalties. We cannot predict or determine the outcome of the above matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operation, liquidity, and financial position.

We have been named in approximately 125 product liability cases in the United States involving approximately 340 claimants alleging a variety of injuries from the administration of Zyprexa. Most of the cases allege that the product caused or contributed to diabetes or high blood-glucose levels. The suits seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa, and many of the suits also allege that we improperly promoted the drug. We are vigorously defending these suits. All the federal cases, involving approximately 235 claimants, have been or will be transferred to Judge Jack Weinstein in the Federal District Court for the Eastern District of New York for consolidated and coordinated pretrial proceedings. Two cases requesting certification of nationwide class actions on behalf of those who allegedly suffered injuries from the administration of Zyprexa were filed in the Federal District Court for the Eastern District of New York on April 16, 2004, and May 19, 2004, respectively. The cases seek damages for alleged personal injuries and also seek compensation for medical monitoring of individuals who have taken Zyprexa. A class action was also filed on behalf of Iowa residents who took Zyprexa, and that case is being transferred to the federal court in New York. In addition, we have entered into agreements with various plaintiffs' counsel halting the running of the statutes of limitation (tolling agreements) with respect to over 1,800 individuals who do not have lawsuits on file and may or may not eventually file suits. This provides counsel additional time to evaluate the potential claims. In exchange, the individuals have agreed not to file suits in state courts and the Plaintiffs Steering Committee agreed to dismiss the personal injury claims in the two pending nationwide class actions. The class action claims seeking medical monitoring for Zyprexa patients are not affected by this agreement. While we cannot predict or determine the outcome of this litigation, we believe that the resolution of the matters will not have a material adverse effect on our

consolidated financial position or liquidity, but could possibly be material to the consolidated results of operations in any one accounting period.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our most critical accounting policies have been disclosed in our 2003 Annual Report on Form 10-K. The following discussion represents an expanded discussion of, but not a change in, one of our critical accounting policies.

Revenue Recognition and Sales Rebate and Discount Accruals

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. This is generally at the time products are shipped to the customer, generally a wholesale distributor. Provisions for discounts and rebates to customers are established in the same period the related sales are recorded and are included in other current liabilities.

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 inventory levels at our wholesalers on average of approximately one month on a consistent basis across our product portfolio. We are generally able to determine when significant wholesaler stocking or destocking has occurred during a particular period, but we cannot accurately quantify the amount of stocking or destocking. An unusual buying pattern compared with underlying demand of our products is often the result of speculative buying by wholesalers in anticipation of price increases. Other causes include product supply issues and changes in wholesaler business operations. When wholesaler purchasing patterns are believed to have caused an unusual increase or decrease in the sales of our products compared to underlying demand, we disclose this in the discussion of our product sales if the amount is believed to be material to the product sales trend. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.

Sales rebate and discount accruals are established in the same period as the related sales. The rebate/discount amounts are recorded as a deduction to arrive at our net sales and are included in other current liabilities. Sales rebates/discounts that require the use of judgment in the establishment of the accrual include Medicaid, managed care, long-term-care, hospital, discount card programs, and various other government programs. We base these accruals primarily upon our historical rebate/discount payments made to our customer segment groups and the provisions of current rebate/discount contracts. We calculate these rebates/discounts based upon a percent of our sales for each of our products as defined by the statutory rates and the contracts with our various customer groups.

The largest of our sales rebate/discount amounts are rebates associated with sales covered by Medicaid. Although we generally accrue a liability for Medicaid rebates at the time we record the sale (when the product is shipped), the Medicaid rebate related to that sale is typically billed up to six months later. Due to the time lag, in any particular period, our rebate adjustments may incorporate revisions of accruals for several periods. In determining the appropriate accrual amount, we consider our historical Medicaid rebate payments by product as a percent of our historical sales as well as any significant changes in sales trends, an evaluation of the current Medicaid rebate laws and interpretations, the percent of our products that are sold to Medicaid recipients, and our product pricing and current rebate/discount contracts.

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, the government rebates are based on the anticipated pharmaceutical budget deficit in the country. A best estimate of these rebates, updated as budgeted deficits are revised by governmental authorities, is recognized in the same period as the related sale. If our estimates are not reflective of the actual pharmaceutical budget deficit, our rebate reserves are adjusted.

We believe that the accruals we have established for sales rebates and discounts are reasonable and appropriate based on current facts and circumstances. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different accrual amount for sales rebates and discounts. A 5 percent change in the Medicaid rebate expense we recognized in the first nine months of 2004 would lead to an approximate $23 million effect on our income before income taxes. As of September 30, 2004, our Medicaid rebate liability was $282.8 million.

FINANCIAL EXPECTATIONS FOR 2004

For the fourth quarter and full year of 2004, we expect earnings per share to be in the range of $.47 to $.54 and $2.13 to $2.20, respectively. This earnings guidance includes the fourth-quarter restructuring, asset impairment, and acquired IPR&D charges discussed in the Subsequent Events footnote to the consolidated condensed financial statements estimated to be in the range of $.21 to $.26 per share, $.33 for the acquired IPR&D charge related to the acquisition of AME in the first quarter of 2004, and asset impairments of $.08 in the second quarter of 2004. We expect sales growth in the low single digits for the fourth quarter of 2004, resulting in 9 to 10 percent sales growth for the full year 2004. While the weaker revenue trend may persist into the first half of 2005, we anticipate accelerating overall revenue growth during the second half of 2005 based on the strength of the newer products. For the fourth quarter and full year of 2004, we expect gross margins as a percent of sales to be in line with gross margins as a percent of sales for the first nine months of 2004. We anticipate marketing and administrative expenses to decline in the fourth quarter, resulting in annual market and administrative expense growth in the low single digits. Research and development expenses are expected to grow in the single digits in the fourth quarter of 2004 and in the mid-teens for the full year 2004. We expect a modest contribution of other income (net other income less interest expense) in the fourth quarter of 2004 and approximately $220 million to $250 million for the full year 2004. We expect the tax rate for 2004 to increase slightly from 2003, due to the nondeductibility of the acquired IPR&D charge related to the AME acquisition in the first quarter of 2004. As a result of President Bush signing the American Jobs Creation Act of 2004 on October 22, 2004, we anticipate accruing in the fourth quarter of 2004 tax on the eligible overseas earnings expected to be repatriated to the U.S. in 2005. This additional tax expense, the amount of which is still being determined, is not included in the above guidance.

Actual results could differ materially and will depend on, among other things, the continuing growth of our currently marketed products; developments with competitive products; the timing and scope of regulatory approvals and the success of our new product launches; foreign exchange rates; other regulatory developments, litigation, and government investigations; and the impact of governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals. In particular, as described below under Legal Proceedings, certain generic pharmaceutical manufacturers have challenged our U.S. compound patent for Zyprexa. We are awaiting the trial court decision on the challenge. If the decision is unfavorable and the generic companies launch generic olanzapine prior to resolution of appeals, our financial results would be very negatively affected.

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution investors that any forward-looking statements or projections made by us, including those made in this document, are based on management’s expectations at the time they are made, but they are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological, and other factors that may affect our operations and prospects are discussed above and in Exhibit 99 to this Form 10-Q filing. We have no obligation to update forward-looking statements.

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/edgar.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 commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of Sidney Taurel, chairman, president, and chief executive officer, and Charles E. Golden, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of September 30, 2004, and concluded that they are effective.

(b) Changes in Internal Controls. During the third quarter of 2004, 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

Certain generic manufacturers have challenged our U.S. compound patent for Zyprexa and are seeking permission to market generic versions of Zyprexa prior to the patent expiration in 2011. The trial regarding the defense of these patents was held in January and February 2004 and we are awaiting the court's decision. Regardless of the outcome of the court's ruling, we anticipate that appeals will follow. If we are unsuccessful at the trial court level, it is possible that some of the generic manufacturers would launch generic versions of Zyprexa prior to a final resolution of the appeals. While we cannot predict or determine the outcome of this litigation, an unfavorable outcome would have a material adverse effect on our consolidated financial position, liquidity, and results of operations.

In 2002, the Office of Consumer Litigation, Department of Justice, instituted a grand jury investigation related to our U.S. marketing and promotional practices and physician communications with respect to Evista. That investigation is ongoing. In addition, in March 2004, we were notified that the office of the U.S. Attorney for the Eastern District of Pennsylvania has commenced a civil investigation relating to our U.S. marketing and promotional practices. Based on the information provided by the U.S. Attorney's office, we believe that the products involved include Prozac and Zyprexa. We are cooperating with the government in these investigations. It is possible that the outcome of these investigations could include criminal charges and fines and/or civil penalties. While we cannot predict or determine the outcome of these matters, it is possible that an adverse outcome could have a material adverse effect on our consolidated financial position, liquidity, and results of operations.

We have been named in approximately 125 product liability cases in the United States involving approximately 340 claimants alleging a variety of injuries from the administration of Zyprexa. Most of the cases allege that the product caused or contributed to diabetes or high blood-glucose levels. The suits seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa, and many of the suits also allege that we improperly promoted the drug. We are vigorously defending these suits.

See Part I, Item 2, Other Matters, for more information on the above matters.

In October 2002, we were notified that Barr Laboratories, Inc., had submitted an ANDA with the U.S. Food and Drug Administration seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. In November 2002, we filed suit against Barr in the U.S. District Court for the Southern District of Indiana seeking a ruling that Barr's challenges to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. Recently, Barr has also asserted that the method of use patents are unenforceable. On September 28, 2004, the U.S. Patent and Trademark Office issued to us a new patent (expiring in 2017) directed to pharmaceutical compositions containing raloxifene. Barr has challenged this patent, alleging that the patent is invalid, unenforceable, or will not be infringed. This patent

has been added to the lawsuit. The suit is in discovery and the trial is now scheduled to begin on February 13, 2006. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In Germany, Egis-Gyogyszergyar, a generic pharmaceutical manufacturer, has challenged the validity of our Zyprexa compound and method of use patents (expiring in 2011) in that country. We anticipate a decision from the German Patent Court as soon as mid-2005. In addition to our patents, we have data package exclusivity in Germany through September 2006. We are vigorously contesting the legal challenge to this patent. We cannot predict or determine the outcome of this litigation.

We refer to Part I, Item 3, of our Form 10-K annual report for 2003 for the discussion of product liability litigation involving diethylstilbestrol (DES) and vaccines containing the preservative thimerosal. In the DES litigation, we have been named as a defendant in approximately 115 suits involving approximately 180 claimants. In the thimerosal litigation, we have been named as a defendant in approximately 350 suits with approximately 930 claimants.

In 2003, three counties in New York (Suffolk, Rockland, and Westchester) sued us and many other pharmaceutical manufacturers, claiming in general that, as a result of alleged improprieties by the manufacturers in the calculation and reporting of average wholesale prices for purposes of Medicaid reimbursement, the counties overpaid their portion of the cost of pharmaceuticals reimbursed by Medicaid. In 2004, the City of New York filed a similar suit. The four New York suits have been transferred to the U.S. District Court for the District of Massachusetts as part of a Multi-District Litigation consolidation for pretrial proceedings (along with numerous other suits to which we are not a party). The suits seek monetary relief, including civil penalties and treble damages. Litigation activity in the New York cases has been stayed pending a decision on a motion to dismiss. A motion to dismiss that was filed by all of the defendants has been granted in part and denied in part. Our individual motion to dismiss has been granted in part, with the court reserving its ruling on the remaining issues pending further clarification of the pleadings from Suffolk County. While we are vigorously defending these cases, given their early procedural stage, we cannot predict or determine the outcome of this litigation, and therefore we can provide no assurance that we will prevail.

In July 2004, Central Alabama Comprehensive Healthcare, Inc. filed a similar suit in Alabama relating to Public Health Service pricing**.** The suit seeks injunctive and monetary relief. The allegations in the lawsuit are based on a report issued by the Office of the Inspector General for Health and Human Services (OIG). On October 22, 2004, the OIG advised the court that its report was based on flawed data and that it was withdrawing the report. We and the other defendants have filed motions to dismiss, which are pending.

We, along with several other pharmaceutical companies, have been named in six cases in Minnesota and one case in California alleging that the conduct of pharmaceutical companies in preventing commercial importation of prescription drugs from outside the United States violated antitrust laws. While we intend to vigorously defend these suits, given their early procedural stage, we cannot predict or determine the outcome of this litigation.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above with respect to the U.S. Zyprexa and Evista patent litigation and the marketing and promotional practices investigations, 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 the consolidated results of operations in any one accounting period.

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 nine-month period ended September 30, 2004:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (d)
	(in thousands)			(Dollars in millions)
January 2004	11	$69.25	—	$920.0
February 2004	73	71.90	—	920.0
March 2004	44	65.62	—	920.0
April 2004	20	67.08	—	920.0
May 2004	17	69.71	—	920.0
June 2004	9	72.62	—	920.0
July 2004	8	66.94	—	920.0
August 2004	6	62.09	—	920.0
September 2004	24	59.77	—	920.0
Total	212		—	

The amounts presented in columns (a) and (b) above represent purchases of common stock related to employee stock option exercises. The amounts presented in columns (c) and (d) in the above table represent activity related to our $3.0 billion share repurchase program announced in March 2000. As of September 30, 2004, we have purchased $2.08 billion related to this program. During the nine-month period of 2004, no shares were repurchased pursuant to this program and we do not expect to purchase any shares under this program during the remainder of 2004.

Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 10.	2002 Lilly Stock Plan, as amended effective October 18, 2004, including forms of nonqualified stock option, incentive stock option, performance award, and restricted stock grant
EXHIBIT 11.	Statement re: Computation of Earnings per Share
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings From Continuing Operations to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board, President, and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Charles E. Golden, Executive Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 – “Safe Harbor” for Forward-Looking Disclosures

(b) Reports on Form 8-K.

We filed a Form 8-K on July 22, 2004, which furnished a copy of our press release announcing our second-quarter financial results and informed readers of our webcast to discuss our second-quarter financial results on the same date.

We filed a Form 8-K on August 24, 2004, which filed the underwriting agreement and form of note in connection with the issuance and sale of $1.00 billion aggregate principal amount of floating rate notes due in 2007.

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 November 5, 2004

s/ Alecia A. DeCoudreaux

Alecia A. DeCoudreaux
Secretary and Deputy General Counsel

Date November 5, 2004

s/ Arnold C. Hanish

Arnold C. Hanish
Executive Director, Finance, and
Chief Accounting Officer

INDEX TO EXHIBITS

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

Exhibit	
10.	2002 Lilly Stock Plan, as amended effective October 18, 2004, including forms of nonqualified stock option, incentive stock option, performance award, and restricted stock grant
11.	Statement re: Computation of Earnings per Share
12.	Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
31.1	Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board, President, and Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Charles E. Golden, Executive Vice President and Chief Financial Officer
32.	Section 1350 Certification
99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 – “Safe Harbor” for Forward-Looking Disclosures

2002
LILLY STOCK PLAN
As amended through October 18, 2004

The 2002 Lilly Stock Plan ("2002 Plan") authorizes the Board of Directors of Eli Lilly and Company ("Board") and the Compensation Committee of the Board, as applicable, to provide officers and other employees of Eli Lilly and Company and its subsidiaries and nonemployee directors of Eli Lilly and Company ("Nonemployee Directors") with certain rights to acquire shares of Eli Lilly and Company common stock ("Lilly Stock"). The Company believes that this incentive program will benefit the Company's shareholders by allowing the Company to attract, motivate, and retain employees and directors and by providing those employees and directors stock-based incentives to strengthen the alignment of interests between those persons and the shareholders. For purposes of the 2002 Plan, the term "Company" shall mean Eli Lilly and Company and its subsidiaries, unless the context requires otherwise.

1. Administration.

(a) *Grants to Eligible Employees.* With respect to Grants to Eligible Employees (as those terms are defined in Sections 2 and 3(a), respectively), the 2002 Plan shall be administered and interpreted by the Compensation Committee of the Board consisting of not less than two independent directors appointed by the Board from among its members. A person may serve on the Compensation Committee for purposes of administration and interpretation of the 2002 Plan only if he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Compensation Committee may, subject to the provisions of the 2002 Plan, from time to time establish such rules and regulations and delegate such authority to administer the 2002 Plan as it deems appropriate for the proper administration of the Plan, except that no such delegation shall be made in the case of awards intended to be qualified under Rule 16b-3 of the 1934 Act or Section 162(m) of the Code. The decisions of the Compensation Committee or its authorized designees (the "Committee") shall be made in its sole discretion and shall be final, conclusive, and binding with respect to the interpretation and administration of the 2002 Plan and any Grant made under it.

(b) *Grants to Nonemployee Directors.* With respect to Stock Option Grants made to Nonemployee Directors pursuant to Section 8, the Board shall serve to administer and interpret the 2002 Plan and any such Grants, and all duties, powers and authority given to the Committee in subsection (a) above or elsewhere in the 2002 Plan in connection with Grants to Eligible Employees shall be deemed to be given to the Board in its sole discretion in connection with Stock Option Grants to Nonemployee Directors.

2. Grants.

Incentives under the 2002 Plan shall consist of incentive stock options or other forms of tax-qualified stock options under the Code, nonqualified stock options, performance awards, stock appreciation rights, stock unit awards, and restricted stock grants (collectively, "Grants").

The Committee shall approve the form and provisions of each Grant to Eligible Employees and the Board shall approve the form and provisions of each Stock Option Grant to Nonemployee Directors. All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with the 2002 Plan as the Committee or Board, as applicable, deems appropriate. Grants under a particular section of the 2002 Plan need not be uniform and Grants under two or more sections may be combined in one instrument. The Committee shall determine the fair market value of Lilly Stock for purposes of the 2002 Plan.

3. Eligibility for Grants.

(a) *Grants to Eligible Employees.* Grants may be made to any employee of the Company, including a person who is also a member of the Board of Directors ("Eligible Employee"). The Committee shall select the persons to receive Grants ("Grantees") from among the Eligible Employees and determine the number of shares subject to any particular Grant.

(b) *Grants to Nonemployee Directors.* Grants of Stock Options may be made to any member of the Board who is not an employee of the Company (a "Nonemployee Director"). The Board shall select the persons who will receive Stock Options ("Grantees") from among the Nonemployee Directors and determine the number of shares subject to any particular Stock Option.

4. Shares Available for Grant.

(a) *Shares Subject to Issuance or Transfer.* Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 2002 Plan shall be the sum of the following amounts:

(i) 80,000,000 shares;

(ii) Any shares of Lilly Stock subject to an award hereunder or under the 1989, 1994 or 1998 Lilly Stock Plans (the "Prior Shareholder-Approved Plans") which, after the effective date of the 2002 Plan, are not purchased or awarded under a Stock Option or Performance Award due to termination, lapse, or forfeiture, or which are forfeited under a Restricted Stock Grant;

(iii) Upon the termination or expiration of the 1998 Lilly Stock Plan, any shares of Lilly Stock that remained available for grant under that plan at the time of termination or expiration; and

(iv) The number of shares of Lilly Stock exchanged by a Grantee as full or partial payment to the Company of the exercise price of a Stock Option that was granted hereunder or under a Prior Shareholder-Approved Plan.

The shares may be authorized but unissued shares or treasury shares.

(b) *Adjustment Provisions.* If any subdivision or combination of shares of Lilly Stock or any stock dividend, reorganization, recapitalization, or consolidation or merger with Eli Lilly and

Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off or other extraordinary distribution, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Sections 4(a), 5(f) and (g), 6(f), 7(e), 9(d), and 10(c). The Committee shall also adjust as it determines appropriate the number of shares and Option Price or base price as applicable in outstanding Grants made before the event.

5. Stock Option Grants to Eligible Employees.

The Committee may grant to Eligible Employees options qualifying as incentive stock options under the Code ("Incentive Stock Options"), other forms of tax-favored stock options under the Code, and nonqualified stock options (collectively, "Stock Options"). The Committee shall determine the terms and conditions applicable to Stock Options granted to Eligible Employees consistent with the following:

(a) *Option Price.* The Committee shall determine the price or prices at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") which shall be not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Committee's discretion, the Grant Date of a Stock Option may be established as the date on which Committee action approving the Stock Option is taken or any later date specified by the Committee. Once established, the Option Price may not be reduced except in the case of adjustments under Section 4(b).

(b) *Option Exercise Period.* The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date in the case of an Incentive Stock Option, and eleven years in the case of any other Stock Option.

(c) *Exercise of Option.* A Stock Option will be deemed exercised by a Grantee upon delivery of (i) a notice of exercise to the Company or its representative as designated by the Committee, and (ii) accompanying payment of the Option Price if the Stock Option requires such payment at the time of exercise. The notice of exercise, once delivered, shall be irrevocable.

(d) *Satisfaction of Option Price.* A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within which payment must be made ("Payment Period"). The Grantee shall pay or cause to be paid the Option Price in cash, or with the Committee's permission, by delivering (or providing adequate evidence of ownership of) shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and such shares. If the Grantee fails to pay the Option Price within the Payment Period, the Committee shall have the right to take whatever action it deems appropriate, including voiding the option exercise or voiding that part of the Stock Option for which payment was not timely received. The Company shall not deliver shares of Lilly Stock upon exercise of a Stock Option until the Option Price and any required withholding tax are fully paid.

(e) *Share Withholding.* With respect to any Stock Option, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to

satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the exercise of the nonqualified option by having the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

(f) *Limits on Individual Grants.* No individual Grantee may be granted Stock Options or Stock Appreciation Rights, considered together, under the 2002 Plan for more than 2,500,000 shares of Lilly Stock in any period of three consecutive calendar years.

(g) *Limits on Incentive Stock Options.* The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 2002 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed $100,000 (or such other limit as may be established by the Code). The aggregate fair market value for this purpose will be determined at the Grant Date. An Incentive Stock Option shall not be granted to any Eligible Employee who, on the Grant Date, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company. Not more than 60,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Incentive Stock Options.

6. Performance Awards to Eligible Employees.

The Committee may grant to Eligible Employees Performance Awards, which shall be denominated at the time of grant either in shares of Lilly Stock ("Stock Performance Awards") or in dollar amounts ("Dollar Performance Awards"). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Committee, in shares of Lilly Stock ("Performance Shares"), or in cash or in any combination thereof, if the financial performance of the Company or any subsidiary, division, or other unit of the Company ("Business Unit") selected by the Committee meets certain financial goals established by the Committee for the Award Period. The following provisions are applicable to Performance Awards:

(a) *Award Period.* The Committee shall determine and include in the Grant the period of time (which shall be four or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. Award Periods for different Grants may overlap. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed, or in the case of an Award intended to be qualified under Section 162(m) of the Code, after 90 days or more of such period has elapsed.

(b) *Performance Goals and Payment.* Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, are limited to earnings per share; divisional income; net income; return on equity; sales; divisional sales; economic value added (EVA); market value added (MVA); any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to

criteria established by the Committee at or within 90 days after the time of grant); total shareholder return; or stock price goals. The Committee shall also set forth in the Grant the number of Performance Shares or the amount of payment to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)).

(c) *Computation of Payment.* After an Award Period, the financial performance of the Business Unit during the period shall be measured against the Performance Goals. If the minimum Performance Goals are not met, no payment shall be made under a Performance Award. If the minimum Performance Goals are met or exceeded, prior to payment the Committee shall certify that fact in writing and certify the number of Performance Shares or the amount of payment to be made under a Performance Award in accordance with the grant for each Grantee. The Committee, in its sole discretion, may elect to pay part or all of the Performance Award in cash in lieu of issuing or transferring Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment (subject to Section 6(f)). The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash, if any, he or she is to receive.

(d) *Revisions for Significant Events.* At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unusual events occur during an Award Period which have a substantial effect on the Performance Goals and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made; *provided, however*, that no such revision shall be permissible with respect to a Performance Award intended to qualify for exemption under Section 162(m) of the Code, except that the Committee (i) may provide in the terms of any such Performance Award that revisions to the Performance Goals shall be made on a non-discretionary basis upon the occurrence of one or more specific objective events, the occurrence of which are substantially uncertain at the time of grant, and (ii) may in its discretion make a revision with respect to such Performance Award that results in a lesser payment than would have occurred without the revision or in no payment at all.

(e) *Requirement of Employment.* To be entitled to receive payment under a Performance Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable in its sole discretion, consistent with maintaining the exemption under Section 162(m) of the Code. The Committee may impose additional conditions on the Grantee's entitlement to receive payment under a Performance Award.

(f) *Maximum Payments.* (i) No individual may receive Performance Award payments in respect of Stock Performance Awards in excess of 100,000 shares of Lilly Stock in any calendar year or payments in respect of Dollar Performance Awards in excess of $8,000,000 in any calendar year. For purposes of determining the maximum payment under this subsection, payment in cash of all or part of a Stock Performance Award will be deemed an issuance of the number of shares with respect to which such cash payment is made. No individual may receive both a Stock Performance Award and a Dollar Performance Award for the same Award Period.

(ii) Not more than 18,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Performance Awards.

7. Restricted Stock Grants to Eligible Employees.

The Committee may issue or transfer shares of Lilly Stock to an Eligible Employee under a Restricted Stock Grant. Upon the issuance or transfer, the Grantee shall be entitled to vote the shares and to receive any dividends paid. The following provisions are applicable to Restricted Stock Grants:

(a) *Requirement of Employment.* If the Grantee's employment terminates during the period designated in the Grant as the "Restriction Period," the Restricted Stock Grant terminates and the shares immediately revert to the Company. However, the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(b) *Restrictions on Transfer.* During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 13(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall be held in escrow by the Company until the expiration of the Restriction Period.

(c) *Withholding Tax.* Before delivering the certificate for shares of Lilly Stock to the Grantee, Lilly may require the Grantee to pay to the Company any required withholding tax. The Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to satisfy, in whole or in part, any withholding tax requirement by having the Company withhold shares of Lilly Stock from the Grant having a fair market value equal to the amount of the withholding tax. In the event the Grantee fails to pay the withholding tax within the time period specified in the Grant, the Committee may take whatever action it deems appropriate, including withholding or selling sufficient shares from the Grant to pay the tax and assessing interest or late fees to the Grantee.

(d) *Lapse of Restrictions.* All restrictions imposed under the Restricted Stock Grant shall lapse (i) upon the expiration of the Restriction Period if all conditions stated in Sections 7(a), (b) and (c) have been met or (ii) as provided under Section 12(a)(ii). The Grantee shall then be entitled to delivery of the certificate.

(e) *Total Number of Shares Granted.* Not more than 3,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Restricted Stock Grants and Stock Unit Awards, considered together.

8. Stock Option Grants to Nonemployee Directors

The Board may grant Stock Options to Nonemployee Directors and may determine the terms and conditions applicable to such Stock Options consistent with the following provisions:

(a) *Option Price.* The Board shall determine the price or prices at which Lilly Stock may be purchased by the Nonemployee Director under a Stock Option ("Option Price") which shall be

not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Board's discretion, the Grant Date of a Stock Option may be established as the date on which Board action approving the Stock Option is taken or any later date specified by the Board. Once established, the Option Price may not be reduced except in the case of adjustments under Section 4(b).

(b) *Option Exercise Period.* The Board shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date. Unless the Board shall otherwise expressly provide in a Stock Option agreement, in the event a Grantee's service on the Board is terminated, any Stock Option held by such Grantee shall remain exercisable for five years after such termination (or until the end of the option exercise period, if earlier). In the event a Nonemployee Director is removed from the Board for "cause" (as determined in accordance with applicable state law and the Articles of Incorporation of Lilly), any Stock Option held by that Nonemployee Director shall terminate immediately.

(c) *Exercise of Option.* A Stock Option will be deemed exercised by a Nonemployee Director upon delivery of (i) a notice of exercise to Lilly or its representative as designated by the Board, and (ii) accompanying payment of the Option Price if the Stock Option requires such payment at the time of exercise. The notice of exercise, once delivered, shall be irrevocable.

(d) *Satisfaction of Option Price.* A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within which payment must be made ("Payment Period"). The Grantee shall pay or cause to be paid the Option Price in cash, or with the Board's permission, by delivering (or providing adequate evidence of ownership of) shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and such shares. If the Grantee fails to pay the Option Price within the Payment Period, the Board shall have the right to take whatever action it deems appropriate, including voiding the option exercise or voiding that part of the Stock Option for which payment was not timely received. Lilly shall not deliver shares of Lilly Stock upon exercise of a Stock Option until the Option Price and any required withholding tax are fully paid.

9. Stock Appreciation Rights to Eligible Employees.

The Committee may grant Stock Appreciation Rights to Eligible Employees. A Stock Appreciation Right is an award in the form of a right to receive, upon exercise or settlement of the right but without other payment, an amount based on appreciation in the fair market value of shares of Lilly Stock over a base price established for the Award. Stock Appreciation Rights shall be settled or exercisable at such time or times and upon conditions as may be approved by the Committee, provided that the Committee may accelerate the settlement or exercisability of a Stock Appreciation Right at any time. The following provisions are applicable to Stock Appreciation Rights:

(a) *Freestanding Stock Appreciation Rights*. A Stock Appreciation Right may be granted without any related Stock Option, and in such case, will be settled or exercisable at such time or times as determined by the Committee, but in no event after eleven years from the Grant Date. The Committee shall determine the base price of a Stock Appreciation Right granted without any

related Option, provided, however, that such base price per share shall not be less than the fair market value of Lilly Stock on the Grant Date.

(b) *Tandem Stock Appreciation Rights*. A Stock Appreciation Right may be granted in connection with a Stock Option, either at the time of grant or at any time thereafter during the term of the Stock Option. A Stock Appreciation Right granted in connection with a Stock Option will entitle the holder, upon exercise, to surrender the Stock Option or any portion thereof to the extent unexercised, with respect to the number of shares as to which such Stock Appreciation Right is exercised, and to receive payment of an amount computed as described in Section 9(c). The Stock Option will, to the extent and when surrendered, cease to be exercisable. A Stock Appreciation Right granted in connection with a Stock Option hereunder will have a base price per share equal to the per share exercise price of the Stock Option, will be exercisable at such time or times, and only to the extent, that the related Stock Option is exercisable, and will expire no later than the related Stock Option expires. If a related Stock Option is exercised in whole or in part, then the SAR related to the shares purchased terminates as of the date of such exercise.

(c) *Payment of Stock Appreciation Rights*. A Stock Appreciation Right will entitle the holder, upon settlement or exercise, as applicable, to receive payment of an amount determined by multiplying: (i) the excess of the fair market value of a share of Lilly Stock on the date of settlement or exercise of the Stock Appreciation Right over the base price of the Stock Appreciation Right, by (ii) the number of shares as to which the Stock Appreciation Right is settled or exercised. Payment of the amount determined under the foregoing will be made in shares of Lilly Stock valued at their fair market value on the date of settlement or exercise, as applicable, subject to applicable tax withholding requirements.

(d) *Limits on Individual Grants.* No individual Grantee may be granted Stock Options or Stock Appreciation Rights, considered together, under the 2002 Plan for more than 2,500,000 shares of Lilly Stock in any period of three consecutive calendar years.

(e) *Share Withholding.* With respect to any Stock Appreciation Right, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the exercise or settlement of the right by having the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

10. Stock Unit Awards to Eligible Employees.

The Committee may grant Stock Unit Awards to Eligible Employees. A Stock Unit Award is an award of a number of hypothetical share units with respect to shares of Lilly Stock that are granted subject to such vesting and transfer restrictions and conditions of payment as the Committee shall determine and set forth in an award agreement. The value of each unit under a Stock Unit Award is equal to the fair market value of the Lilly Stock on any applicable date of determination. A Stock Unit Award shall be subject to such restrictions and conditions as the Committee shall determine. A Stock Unit Award may be granted, at the discretion of the Committee, together with a dividend equivalent right with respect to the same number of shares of Lilly Stock. The following provisions are applicable to Stock Unit Awards:

(a) *Vesting of Stock Unit Awards*. On the Grant Date, the Committee shall determine any vesting requirements with respect to a Stock Unit Award, which shall be set forth in the award agreement, provided that the Committee may accelerate the vesting of a Stock Unit Award at any time. Vesting requirements may be based on the continued employment of the Grantee with the Company for a specified time period or periods. Vesting requirements may also be based on the attainment of specified performance goals or measures established by the Committee. A Stock Unit Award may also be granted on a fully vested basis, with a deferred payment date.

(b) *Payment of Stock Unit Awards*. A Stock Unit Award shall become payable to a Grantee at the time or times determined by the Committee and set forth in the award agreement, which may be upon or following the vesting of the award. The payment with respect to each share unit under a Stock Unit Award shall be determined by reference to the fair market value of Lilly Stock on each applicable payment date. Payment will be made in shares of Lilly Stock, subject to applicable tax withholding requirements.

(c) *Total Number of Shares Granted.* Not more than 3,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Restricted Stock Grants and Stock Unit Awards, considered together.

(d) *Share Withholding.* With respect to any Stock Unit Award, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the payment of the award by having the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

11. Amendment and Termination of the 2002 Plan.

(a) *Amendment.* The Board may amend or terminate the 2002 Plan, but no amendment shall (i) allow the repricing of Stock Options or Stock Appreciation Rights at a price below the original Option Price or base price as applicable; (ii) allow the grant of Stock Options or Stock Appreciation Rights at an Option Price (or base price as applicable) below the fair market value of Lilly Stock on the Grant Date; (iii) increase the number of shares authorized for issuance or transfer pursuant to Sections 4(a), 6(f)(ii), 7(e), or 10(c); or (iv) increase the maximum limitations on the number of shares subject to Grants imposed under Sections 5(f), 5(g), 6(f)(i), or 9(d), unless in any case such amendment receives approval of the shareholders of the Company.

(b) *Termination of 2002 Plan; Resubmission to Shareholders.* The 2002 Plan shall remain in effect until April 14, 2012 or until earlier terminated the Board. To the extent required under Section 162(m) of the Code, the material terms of the 2002 Plan will be submitted to the shareholders of the Company for reapproval not later than the annual meeting of shareholders that occurs in 2007 if the Plan has not been terminated at that time.

(c) *Termination and Amendment of Outstanding Grants.* A termination or amendment of the 2002 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 13(e). The termination of the 2002 Plan shall not impair the power and authority of the Committee with

respect to outstanding Grants. Whether or not the 2002 Plan has terminated, an outstanding Grant may be terminated or amended under Section 13(e) or may be amended (i) by agreement of the Company and the Grantee consistent with the 2002 Plan or (ii) by action of the Committee provided that the amendment is consistent with the 2002 Plan and is found by the Committee not to impair the rights of the Grantee under the Grant.

12. Change in Control.

(a) *Effect on Grants.* The Committee may provide in the agreement relating to a Grant or at any later date, that upon the occurrence of a Change in Control (as defined below) the following shall occur:

(i) In the case of Stock Options, each outstanding Stock Option that is not then fully exercisable shall automatically become fully exercisable and shall remain so for the period permitted in the agreement relating to the Grant;

(ii) The Restriction Period on all outstanding Restricted Stock Grants shall automatically expire and all restrictions imposed under such Restricted Stock Grants shall immediately lapse;

(iii) Each Grantee of a Performance Award for an Award Period that has not been completed at the time of the Change in Control shall be deemed to have earned a minimum Performance Award equal to the product of (y) such Grantee's maximum award opportunity for such Performance Award, and (z) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of such Award Period to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Award Period; *provided, however,* that nothing in this subsection shall prejudice the right of the Grantee to receive a larger payment under such Performance Award pursuant to the terms of the Award or under any other plan of the Company;

(iv) Each outstanding Stock Appreciation Right that is not then fully exercisable shall automatically become fully exercisable and shall remain so for the period permitted in the agreement relating to the Grant; and

(v) Each outstanding Stock Unit Award shall fully and immediately vest and become payable.

(b) *Change in Control.* For purposes of the 2002 Plan, a Change in Control shall mean the happening of any of the following events:

(i) The acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the 1934 Act (other than (w) the Company, (x) any subsidiary of the Company, (y) 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 (z) Lilly Endowment, Inc.,) of "beneficial ownership," as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15 percent 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 of Directors of the Company (or which would have such voting power but

for the application of the Indiana Control Share Statute) ("Voting Stock"); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control;

(ii) The first day on which less than two-thirds of the total membership of the Board of Directors of the Company shall be Continuing Directors (as that term is defined in Article 13(f) of the Company's Articles of Incorporation);

(iii) 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 50 percent of the Voting Stock of the Company or such surviving entity immediately after such Transaction; or

(iv) 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.

13. General Provisions.

(a) *Prohibitions Against Transfer*. (i) Except as provided in part (ii) of this subparagraph, during a Grantee's lifetime, only the Grantee or his or her authorized legal representative may exercise rights under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether voluntary, involuntary, or by operation of law, and any such attempted disposition shall be void; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the 2002 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion and subject to such limitations and conditions as the Committee deems appropriate, grant non-qualified stock options (or amend previously-granted options) on terms which permit the Grantee to transfer all or part of the stock option, for estate or tax planning purposes or for donative purposes, and without consideration, to a member of the Grantee's immediate family (as defined by the Committee), a trust for the exclusive benefit of such immediate family members, or a partnership, corporation, limited liability company or similar entity the equity interests of which are owned exclusively by the Grantee and/or one or more members of his or her immediate family. No such stock option or any other Grant shall be transferable incident to divorce. Subsequent transfers of a stock option transferred under this part (ii) shall be prohibited except for transfers to a Successor Grantee upon the death of the transferee.

(b) *Substitute Grants.* In the event of a business combination in which another corporation is combined with the Company by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation in which the Company is the

surviving entity, the Committee may make Grants to individuals who are or were employees, directors, or consultants to such other corporation in substitution for stock options, performance awards, restricted stock grant, stock appreciation rights, or stock unit awards granted to such individuals by such other corporation that are outstanding at the time of the business combination ("Substituted Stock Incentives"). The terms and conditions of the substitute Grants may vary from the terms and conditions that would otherwise be required by the 2002 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where practical the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) *Subsidiaries.* The term "subsidiary" means a corporation, limited liability company or similar form of entity of which Eli Lilly and Company owns directly or indirectly 50 percent or more of the voting power.

(d) *Fractional Shares.* Fractional shares shall not be issued or transferred under a Grant, but the Committee may pay cash in lieu of a fraction or round the fraction.

(e) *Compliance with Law.* The 2002 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and regulations and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory law or government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

(f) *Ownership of Stock.* A Grantee or Successor Grantee shall have no rights as a shareholder of the Company with respect to any shares of Lilly Stock covered by a Grant until the shares are issued or transferred to the Grantee or Successor Grantee on the Company's books.

(g) *No Right to Employment or to Future Grants.* The 2002 Plan and the Grants under it shall not confer upon any Eligible Employee or Grantee the right to continue in the employment of the Company or as a member of the Board or affect in any way (i) the right of the Company to terminate the employment of an Eligible Employee or Grantee at any time, with or without notice or cause, or (ii) any right of the Company or its shareholders to terminate the Grantee's service on the Board. Neither the status of an individual as an Eligible Employee nor the receipt of one or more Grants by a Grantee shall confer upon the Eligible Employee or Grantee any rights to future Grants.

(h) *Foreign Jurisdictions.* The Committee may adopt, amend, and terminate such arrangements and make such Grants, not inconsistent with the intent of the 2002 Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign jurisdictions to Grantees who are subject to such laws. The terms and conditions of such foreign Grants may vary from the terms and conditions that would otherwise be required by the 2002 Plan.

(i) *Governing Law.* The 2002 Plan and all Grants made under it shall be governed by and interpreted in accordance with the laws of the State of Indiana, regardless of the laws that might otherwise govern under applicable Indiana conflict-of-laws principles.

(j) *Effective Date of the 2002 Plan.* The 2002 Plan is effective upon its approval by the Company's shareholders at the annual meeting to be held on April 15, 2002, or any adjournment of the meeting.

* * *

Sample Non-qualified Stock Option Form

Eli Lilly and Company
Nonqualified Stock Option

This Nonqualified Stock Option has been granted on **[GRANT DATE]**, by Eli Lilly and Company, an Indiana corporation with its principal offices in Indianapolis, Indiana (Lilly), to

Grantee: _____

Grantee Global ID: _____

Number of Shares: _____

Option Price: **$_____ per share**

Vesting Date: **[VESTING DATE]**

Termination Date: **[TERMINATION DATE]**
(or earlier in certain circumstances)

Table of Contents

A. Recitals

Under the 2002 Lilly Stock Plan (2002 plan), the compensation committee (committee) has determined the form of this stock option and selected the grantee, an eligible employee of the company, to receive a stock option under the plan. The applicable terms of the 2002 plan are incorporated in this stock option by reference, including the definitions of terms contained in the 2002 plan. In this stock option, the term company means Lilly and its subsidiaries, unless the context requires otherwise.

B. Option

Lilly grants to the grantee the right to purchase Lilly stock from Lilly by one or more exercises of this stock option under the terms and conditions noted below.

Section 1. Number of Shares

Subject to adjustment as provided in Section 3, the grantee may purchase the number of shares of Lilly stock set forth on the first page of this stock option.

Section 2. Option Price

Subject to adjustment as provided in Section 3, the option price shall be the price per share in U.S. dollars set forth on the first page of this stock option. That price has been determined by the committee to be the fair market value of Lilly stock at the grant date.

Section 3. Adjustments to Number of Shares and Option Price

If any subdivision or combination of shares of Lilly stock, or any stock dividend, capital reorganization, recapitalization, or consolidation or merger with Lilly as the surviving corporation occurs, or if additional shares or new or different shares or other securities of Lilly or any other issuer are distributed with respect to the shares of Lilly stock through a spin-off, exchange offer, or other extraordinary distribution, the committee shall make those adjustments it determines appropriate in the number of shares still subject to purchase under this stock option or to the option price or both. If an adjustment would result in a fractional share, then upon exercise of this stock option and payment of the option price the committee may in its discretion either pay cash for the fractional right or round the fraction.

Section 4. Option Exercise Period

This stock option may be exercised from the vesting date to and including the termination date (option exercise period).

The vesting date shall be the earliest to occur of the following:

a. [VESTING DATE – 3RD ANNIVERSARY OF GRANT DATE]

b. The date of death of the grantee while in the active service of the company

c. The date on which the grantee becomes

(1). A retired employee under the Lilly Retirement Plan

(2). A retired employee under the retirement plan or program of a subsidiary of Lilly

(3). A retired employee under a retirement program specifically approved by the committee (a retiree)

d. The date after the last day of employment on which the grantee's employment is terminated by reason of disability

e. The date after the last day of employment on which the grantee's employment is terminated by reason of a plant closing or reduction in workforce (as defined below)

Except that the committee, in its sole discretion, may provide by exception for an earlier vesting date.

The termination date shall be the earliest to occur of the following:

a. [TERMINATION DATE – 10 YEARS AFTER GRANT DATE]

b. The thirtieth day after termination of employment (as defined below), except by reason of:

(1). Death

(2). Retirement as a retiree

(3). Disability as described in subparagraph 4(d) above

(4). Cause as determined by the committee

c. The corresponding calendar day in the sixtieth month following the day on which the grantee becomes a retiree, or the grantee's employment is terminated by reason of disability, or on the last day of that sixtieth month if there is no corresponding day in that month

d. The corresponding calendar day in the sixtieth month following the date of death of the grantee while in the active service of the company, or on the last day of that sixtieth month if there is no corresponding day in that month

e. The day of termination of employment by reason of cause as determined by the committee

The committee, in its sole discretion, may provide by exception for a later termination date, but not later than ten (10) years after the date of grant.

Termination of employment means the cessation for any reason of the relation of employer and employee between the grantee and the company. A termination of employment of a grantee who is an employee of a subsidiary of Lilly shall occur upon the consummation of a partial or complete divestiture of such subsidiary or all or substantially all its business, whether by way of merger, joint venture, sale of stock, sale of assets or otherwise resulting in Lilly no longer controlling, directly or indirectly, 50% or more of the voting power of the entity employing the grantee. Plant closing means the closing of a plant site or other corporate location that directly results in termination of employment. Reduction in workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment. The committee's determination whether the grantee's

employment has been terminated by reason of disability, retirement as a retiree, for cause or otherwise, whether a leave of absence constitutes a termination of employment, or whether a grantee's termination is a direct result of either a plant closing or a reduction in workforce shall be final and binding on the grantee. The company shall incur no liability to grantee under this stock option by terminating the employment of grantee or terminating grantee's status as an eligible employee whether by action with respect to grantee individually, either with or without cause, or by action affecting a group of employees including by partial or complete divestiture of a subsidiary or line of business of the company, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation.

The company may determine in its discretion not to permit any option exercises during a period not to exceed 15 days at the end of each calendar year or in connection with special circumstances such as stock splits (the blackout period). Grantees may contact the exercise agent to be advised of the blackout period for any specific year.

Section 5. Limitations on Right to Exercise Stock Option

The right to exercise this stock option during the option exercise period shall be subject to the following limitations:

a. Only the grantee or a guardian acting for the grantee under judicial authority may exercise this stock option.

b. After the death of the grantee, this stock option may be exercised only by a successor grantee who has become entitled to exercise by will or the laws of descent and distribution and who has furnished proof satisfactory to Lilly of his or her right to exercise. The term grantee includes a successor grantee where applicable.

c. The grantee may not exercise this stock option with respect to a fractional share or with respect to less than one hundred (100) shares of Lilly Stock unless the exercise covers the entire balance of the shares of Lilly Stock subject to purchase. This number is not subject to an adjustment under Section 3.

d. The grantee's right to exercise this stock option and Lilly's obligation to issue or transfer shares are subject to all stock exchange requirements, to all applicable laws, and to approvals by any governmental or regulatory agency as may be required.

Section 6. Non-Transfer of Stock Option

Neither this stock option nor any right under it is transferable except by will or applicable laws of descent and distribution. This stock option may not be sold and has no commercial value.

Section 7. Exercise of Option

A grantee may exercise this stock option by delivering to Lilly or the exercise agent, as applicable, in accordance with Section 10 a notice of exercise in the form of a notice to be approved by the company and made available to the grantee. The following additional provisions apply, as applicable, depending on the mode of payment selected by the grantee:

a. Cash Exercise. The grantee may choose to pay for the option exercise by delivering funds directly. In that event, the notice of exercise must be accompanied by cash, a personal check, or a cashier's check in U. S. dollars in the amount of the option price and any required withholding tax. The notice of exercise must specify the number of shares of Lilly stock covered by the exercise. Once delivered, the notice of exercise shall be irrevocable. Upon receipt of the notice of exercise, Lilly shall deliver to the grantee a statement of the fair market value of Lilly stock on the exercise date and the amount of withholding tax due, if any.

b. Exercise using shares (stock swap). Where permitted, the grantee may exchange shares owned by the grantee for at least 6 months whose current value covers the option price. The notice of exercise must state the number of shares being exchanged as well as the number of shares of Lilly stock covered by the exercise. Any required withholding tax must be paid by cash, a personal check, or a cashier's check in U. S. dollars. Once delivered, the notice of exercise shall be irrevocable. Upon receipt of the notice of exercise, Lilly shall deliver to the grantee a statement of the fair market value of Lilly stock on the exercise date and the amount of withholding tax due, if any.

c. Cashless Exercise. The grantee may choose to pay for the option exercise through a sale of Lilly stock received upon exercise of this option. The exercise agent, a financial or brokerage institution approved by the company shall execute such a sale. The exercise agent shall agree to pay on behalf of the grantee the option price and any withholding taxes. At the election of the grantee, the exercise agent shall either:

(1). Sell, and retain the proceeds of, a sufficient number of shares of Lilly stock from the exercise to pay the option price, any withholding taxes, and transaction costs, with the remaining shares of Lilly stock and any cash balance to be delivered to the grantee

(2). Sell all the shares exercised and deliver to the grantee the cash balance remaining after deduction of the option price, any withholding taxes, and transaction costs.

The notice of exercise shall be delivered in accordance with procedures to be established by Lilly and communicated to the grantee. Once delivered, the notice shall be irrevocable except that an attempted exercise may be deemed null and void by Lilly or the exercise agent in its discretion if it determines that the anticipated proceeds from the sale of the option shares could be insufficient to cover the option price, withholding taxes, and transaction costs.

Section 8. Ownership of Lilly Stock and Delivery of Certificate

Lilly will not issue or transfer shares of Lilly stock upon exercise of this option until the option price and any withholding taxes have been fully paid or the exercise agent has certified that it will make such payments in accordance with procedures satisfactory to Lilly. The grantee shall have no rights as a shareholder as to shares covered by an exercise until the shares are issued or transferred on Lilly's books. At the time the Grantee becomes the owner of the shares covered by the exercise, he or she shall cease to be the owner of any shares exchanged in payment of the option price. Shares of Lilly stock may be issued or transferred only to:

a. Grantee

b. The Grantee and another as joint tenants with right of survivorship

c. The exercise agent provided that Lilly or its exercise agent has received satisfactory evidence of grantee's consent to the delivery of the shares to such agent.

After issuance or transfer of the shares of Lilly stock, Lilly shall deliver to the grantee or exercise agent, as applicable, a certificate or other evidence of ownership of the shares of Lilly stock covered by the particular exercise.

Section 9. Withholding Taxes and Responsibility for Taxes

Before Lilly issues or transfers shares of Lilly stock upon exercise of this option, the grantee must pay to the company, or cause the exercise agent to certify to Lilly that it will pay in accordance with procedures satisfactory to Lilly, the amount of federal, state, or local taxes, which, determined in Lilly's sole discretion are required to be withheld. If such withholding taxes are not paid within seven (7) days after the notice is sent to the grantee, the Company may take whatever action it deems appropriate, including withholding or selling sufficient shares of Lilly stock from the exercise to pay the withholding taxes and assessing interest or late fees. The company may, by notice to the grantee and subject to such rules as the company may adopt, require that the grantee pay at the time of exercise an amount estimated by the company to cover all or a portion of the withholding taxes.

Regardless of any action the company takes with respect to income tax, social insurance, payroll tax, payment on account or other tax-related withholding (tax-related items), the ultimate liability for all tax-related items legally due by grantee is grantee's responsibility. The company

a. Makes no representations or undertakings regarding the treatment of any tax-related items in connection with any aspect of the option grant, including the grant, vesting or exercise of the option, the subsequent sale of shares acquired and the receipt of any dividend

b. Does not commit to structure the terms of the grant or any aspect of this stock option to reduce or eliminate grantee's liability for tax-related items.

Section 10. Notices and Payments

Any notice to be given by the grantee under this stock option shall be in writing, and any notice or payment shall be deemed to have been given or made only upon receipt by the stock option services department of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, or by such other person or department and at such other location as may be specified from time to time by the company and communicated to the grantee. Any notice or communication by Lilly under this stock option shall be in writing and shall be deemed to have been given in the case of the grantee if mailed or delivered to the grantee at any address specified in writing to Lilly by the grantee.

Section 11. Waiver

The waiver by Lilly of any provision of this stock option shall not operate as or be construed as a waiver of the same or any other provision of this stock option at any subsequent time for any other purpose.

Section 12. Revocation or Modification of Stock Option

This stock option shall be irrevocable except that Lilly shall have the right under Section 13(e) of the 2002 plan to:

a. Revoke this stock option at any time if it is contrary to law

b. Modify this stock option to bring it into compliance with any valid and mandatory regulation

c. Modify this stock option provided that the modification is consistent with the plan; is found by the committee to be necessary or advisable to carry out the purposes of the plan or for the effective administration of the plan; and is found by the committee not to diminish the rights of the grantee or the value of the stock option to the grantee.

Section 13. Section Headings

The section headings in this stock option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this stock option.

Section 14. Determinations by Committee; Severability

Determinations by the committee or persons to whom the committee has delegated its authority shall be final, conclusive and binding with respect to the interpretation of the 2002 plan and this stock option. The provisions of this agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable, with or without notice or cause.

Section 15. Change in Control

Section 12(a)(i) of the 2002 plan does not apply to this stock option.

Section 16. Nature of this Grant

In accepting the grant, grantee acknowledges that:

a. The 2002 plan is established voluntarily by the company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the company at any time, unless otherwise provided in the 2002 plan and this agreement.

b. The grant of stock options is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past.

c. All decisions with respect to future stock option grants, if any, will be at the sole discretion of the committee.

d. Grantee's participation in the plan shall not create a right to further employment with the company and shall not interfere with the ability of the company to terminate grantee's employment relationship at any time with or without cause or notice.

e. This stock option is an extraordinary item that does not constitute compensation of any kind (except as characterized for tax purposes only as compensation) for services of any kind rendered to the company, and which is outside the scope of grantee's employment contract, if any.

f. Stock options are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

g. The future value of the underlying shares is unknown and cannot be predicted with certainty.

h. If the underlying shares do not increase in value, this stock option will have no value

i. If the grantee exercises this stock option and obtains shares, the value of those shares acquired upon exercise may increase or decrease in value, even below the option price

In consideration of the grant of this stock options, no claim or entitlement to compensation or damages shall arise from termination of the options or diminution in value of the options or shares purchased through exercise of the options resulting from termination of grantee's employment by the company (for any reason whatsoever).

Section 17. Effective Date

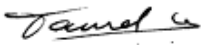
The effective date of this stock option shall be the date of its execution by Lilly.

Section 18. Governing Law: English Language Controls

This option grant is governed by, and subject to, the laws of the state of Indiana, as provided in the 2002 plan. For purposes of litigating any dispute that arises under this grant or the 2002 plan, the parties hereby submit to and consent to the jurisdiction of the state of Indiana, agree that such litigation may be conducted in the courts of Indiana, or the federal courts for the United States for the southern district of Indiana, where this grant is made and/or to be performed. This stock option may be translated into languages other than English for the convenience of the grantee. Such translations shall have no legal force and effect, it being understood that the English language version shall control.

IN WITNESS WHEREOF, Lilly has caused this stock option to be executed and granted in Indianapolis, Indiana, by its proper officer.

Eli Lilly and Company



By: _____

Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer

Sample Incentive Stock Option Form

Eli Lilly and Company
Incentive Stock Option

This Incentive Stock Option has been granted on **[GRANT DATE]**, by Eli Lilly and Company, an Indiana corporation with its principal offices in Indianapolis, Indiana (Lilly), to

Grantee: _____

Grantee Global ID: _____

Number of Shares: _____

Option Price: **$_____ per share**

Vesting Date: **[VESTING DATE]**

Termination Date: **[TERMINATION DATE]**
(or earlier in certain circumstances)

Table of Contents

A. Recitals

Under the 2002 Lilly Stock Plan (2002 plan), the compensation committee (committee) has determined the form of this stock option and selected the grantee, an eligible employee of the company, to receive a stock option under the plan. The applicable terms of the 2002 plan are incorporated in this stock option by reference, including the definitions of terms contained in the 2002 plan. In this stock option, the term company means Lilly and its subsidiaries, unless the context requires otherwise.

B. Option

Lilly grants to the grantee the right to purchase Lilly stock from Lilly by one or more exercises of this stock option under the terms and conditions noted below.

Section 1. Number of Shares

Subject to adjustment as provided in Section 3, the grantee may purchase the number of shares of Lilly stock set forth on the first page of this stock option.

Section 2. Option Price

Subject to adjustment as provided in Section 3, the option price shall be the price per share in U.S. dollars set forth on the first page of this stock option. That price has been determined by the committee to be the fair market value of Lilly stock at the grant date.

Section 3. Adjustments to Number of Shares and Option Price

If any subdivision or combination of shares of Lilly stock, or any stock dividend, capital reorganization, recapitalization, or consolidation or merger with Lilly as the surviving corporation occurs, or if additional shares or new or different shares or other securities of Lilly or any other issuer are distributed with respect to the shares of Lilly stock through a spin-off, exchange offer, or other extraordinary distribution, the committee shall make those adjustments it determines appropriate in the number of shares still subject to purchase under this stock option or to the option price or both. If an adjustment would result in a fractional share, then upon exercise of this stock option and payment of the option price the committee may in its discretion either pay cash for the fractional right or round the fraction.

Section 4. Option Exercise Period

This stock option may be exercised from the vesting date to and including the termination date (option exercise period).

The vesting date shall be the earliest to occur of the following:

a. [VESTING DATE –3 RD ANNIVERSARY OF GRANT DATE]

b. The date of death of the grantee while in the active service of the company

c. The date on which the grantee becomes

(1). A retired employee under the Lilly Retirement Plan

(2). A retired employee under the retirement plan or program of a subsidiary of Lilly

(3). A retired employee under a retirement program specifically approved by the committee (a retiree)

d. The date after the last day of employment on which the grantee's employment is terminated by reason of disability

e. The date after the last day of employment on which the grantee's employment is terminated by reason of a plant closing or reduction in workforce (as defined below)

Except that the committee, in its sole discretion, may provide by exception for an earlier vesting date.

The termination date shall be the earliest to occur of the following:

a. [TERMINATION DATE – 10 YEARS AFTER GRANT DATE]

b. The thirtieth day after termination of employment (as defined below), except by reason of:

(1). Death

(2). Retirement as a retiree

(3). Disability as described in subparagraph 4(d) above

(4). Cause as determined by the committee

c. The corresponding calendar day in the sixtieth* month following the day on which the grantee becomes a retiree, or the grantee's employment is terminated by reason of disability, or on the last day of that sixtieth month if there is no corresponding day in that month

d. The corresponding calendar day in the sixtieth month following the date of death of the grantee while in the active service of the company, or on the last day of that sixtieth month if there is no corresponding day in that month

e. The day of termination of employment by reason of cause as determined by the committee

---

* If you intend to defer exercise of this Stock Option beyond three months after retirement or one year after termination of employment by reason of disability, you should consult your tax adviser as that action may result in the loss of the favorable U.S. tax treatment afforded the exercise of an Incentive Stock Option.

The committee, in its sole discretion, may provide by exception for a later termination date, but not later than ten (10) years after the date of grant. However, no option intended to qualify as an ISO may be granted under the Plan if such grant, together with any applicable prior grants, would exceed any maximum established under federal tax law for ISOs that may be granted to a single employee. Should it be determined that any ISO granted under the Plan exceeds such maximum, the ISO shall be converted to an NQSO to the extent, but only to the extent, of such excess.

Options intended to qualify as ISOs granted to non-U.S. citizens or residents that are exercised by the grantee while the Grantee no longer resides in the U.S. shall be convered to NQSOs.

Termination of employment means the cessation for any reason of the relation of employer and employee between the grantee and the company. A termination of employment of a grantee who is an employee of a subsidiary of Lilly shall occur upon the consummation of a partial or complete divestiture of such subsidiary or all or substantially all its business, whether by way of merger, joint venture, sale of stock, sale of assets or otherwise resulting in Lilly no longer controlling, directly or indirectly, 50% or more of the voting power of the entity employing the grantee. Plant closing means the closing of a plant site or other corporate location that directly results in termination of employment. Reduction in workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment. The committee's determination whether the grantee's employment has been terminated by reason of disability, retirement as a retiree, for cause or otherwise, whether a leave of absence constitutes a termination of employment, or whether a grantee's termination is a direct result of either a plant closing or a reduction in workforce shall be final and binding on the grantee. The company shall incur no liability to grantee under this stock option by terminating the employment of grantee or terminating grantee's status as an eligible employee whether by action with respect to grantee individually, either with or without cause, or by action affecting a group of employees including by partial or complete divestiture of a subsidiary or line of business of the company, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation.

The company may determine in its discretion not to permit any option exercises during a period not to exceed 15 days at the end of each calendar year or in connection with special circumstances such as stock splits (the blackout period). Grantees may contact the exercise agent to be advised of the blackout period for any specific year.

Section 5. Limitations on Right to Exercise Stock Option.

The right to exercise this stock option during the option exercise period shall be subject to the following limitations:

a. Only the grantee or a guardian acting for the grantee under judicial authority may exercise this stock option.

b. After the death of the grantee, this stock option may be exercised only by a successor grantee who has become entitled to exercise by will or the laws of descent and distribution and who has furnished proof satisfactory to Lilly of his or her right to exercise. The term grantee includes a successor grantee where applicable.

c. The grantee may not exercise this stock option with respect to a fractional share or with respect to less than one hundred (100) shares of Lilly Stock unless the exercise covers the entire balance of the shares of Lilly Stock subject to purchase. This number is not subject to an adjustment under Section 3.

d. The grantee's right to exercise this stock option and Lilly's obligation to issue or transfer shares are subject to all stock exchange requirements, to all applicable laws, and to approvals by any governmental or regulatory agency as may be required.

Section 6. Non-Transfer of Stock Option.

Neither this stock option nor any right under it is transferable except by will or applicable laws of descent and distribution. This stock option may not be sold and has no commercial value.

Section 7. Exercise of Option.

A grantee may exercise this stock option by delivering to Lilly or the exercise agent, as applicable, in accordance with Section 10 a notice of exercise in the form of a notice to be approved by the company and made available to the grantee. The following additional provisions apply, as applicable, depending on the mode of payment selected by the grantee:

a. Cash Exercise. The grantee may choose to pay for the option exercise by delivering funds directly. In that event, the notice of exercise must be accompanied by cash, a personal check, or a cashier's check in U. S. dollars in the amount of the option price and any required withholding tax. The notice of exercise must specify the number of shares of Lilly stock covered by the exercise. Once delivered, the notice of exercise shall be irrevocable. Upon receipt of the notice of exercise, Lilly shall deliver to the grantee a statement of the fair market value of Lilly stock on the exercise date and the amount of withholding tax due, if any.

b. Exercise using shares (stock swap). Where permitted, the grantee may exchange shares owned by the grantee for at least 6 months whose current value covers the option price. The notice of exercise must state the number of shares being exchanged as well as the number of shares of Lilly stock covered by the exercise. Any required withholding tax must be paid by cash, a personal check, or a cashier's check in U. S. dollars. Once delivered, the notice of exercise shall be irrevocable. Upon receipt of the notice of exercise, Lilly shall deliver to the grantee a statement of the fair market value of Lilly stock on the exercise date and the amount of withholding tax due, if any.

c. Cashless Exercise. PLEASE NOTE: THE EXERCISING OF AN ISO USING THE CASHLESS EXERCISE METHODS WILL RESULT IN THE DISQUALIFICATION OF THE ISO AND CONVERT THE OPTION TO A NQSO.

   The grantee may choose to pay for the option exercise through a sale of Lilly stock received upon exercise of this option. The exercise agent, a financial or brokerage institution approved by the company shall execute such a sale. The exercise agent shall agree to pay on behalf of the grantee the option price and any withholding taxes. At the election of the grantee, the exercise agent shall either:

   (1). Sell, and retain the proceeds of, a sufficient number of shares of Lilly stock from the exercise to pay the option price, any withholding taxes, and transaction costs, with the remaining shares of Lilly stock and any cash balance to be delivered to the grantee

   (2). Sell all the shares exercised and deliver to the grantee the cash balance remaining after deduction of the option price, any withholding taxes, and transaction costs.

The notice of exercise shall be delivered in accordance with procedures to be established by Lilly and communicated to the grantee. Once delivered, the notice shall be irrevocable except that an attempted exercise may be deemed null and void by Lilly or the exercise agent in its discretion if it determines that the grantee did not deliver sufficient funds to cover the option price, withholding taxes, and transaction costs.

Section 8. Ownership of Lilly Stock and Delivery of Certificate.

Lilly will not issue or transfer shares of Lilly stock upon exercise of this option until the option price and any withholding taxes have been fully paid or the exercise agent has certified that it will make such payments in accordance with procedures satisfactory to Lilly. The grantee shall have no rights as a shareholder as to shares covered by an exercise until the shares are issued or transferred on Lilly's books. At the time the Grantee becomes the owner of the shares covered by the exercise,

he or she shall cease to be the owner of any shares exchanged in payment of the option price. Shares of Lilly stock may be issued or transferred only to:

a. Grantee

b. The Grantee and another as joint tenants with right of survivorship

c. The exercise agent provided that Lilly or its exercise agent has received satisfactory evidence of grantee's consent to the delivery of the shares to such agent.

After issuance or transfer of the shares of Lilly stock, Lilly shall deliver to the grantee or exercise agent, as applicable, a certificate or other evidence of ownership of the shares of Lilly stock covered by the particular exercise.

Section 9. Withholding Taxes and Responsibility for Taxes.

Before Lilly issues or transfers shares of Lilly stock upon exercise of this option, the grantee must pay to the company, or cause the exercise agent to certify to Lilly that it will pay in accordance with procedures satisfactory to Lilly, the amount of federal, state, or local taxes, which, determined in Lilly's sole discretion are required to be withheld. If such withholding taxes are not paid within seven (7) days after the notice is sent to the grantee, the Company may take whatever action it deems appropriate, including withholding or selling sufficient shares of Lilly stock from the exercise to pay the withholding taxes and assessing interest or late fees. The company may, by notice to the grantee and subject to such rules as the company may adopt, require that the grantee pay at the time of exercise an amount estimated by the company to cover all or a portion of the withholding taxes.

Regardless of any action the company takes with respect to income tax, social insurance, payroll tax, payment on account or other tax-related withholding (tax-related items), the ultimate liability for all tax-related items legally due by grantee is grantee's responsibility. The company

a. Makes no representations or undertakings regarding the treatment of any tax-related items in connection with any aspect of the option grant, including the grant, vesting or exercise of the option, the subsequent sale of shares acquired and the receipt of any dividend

b. Does not commit to structure the terms of the grant or any aspect of this stock option to reduce or eliminate grantee's liability for tax-related items.

Section 10. Notices and Payments.

Any notice to be given by the grantee under this stock option shall be in writing, and any notice or payment shall be deemed to have been given or made only upon receipt by the stock option services department of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, or by such other person or department and at such other location as may be specified from time to time by the company and communicated to the grantee. Any notice or communication by Lilly under this stock option shall be in writing and shall be deemed to have been given in the case of the grantee if mailed or delivered to the grantee at any address specified in writing to Lilly by the grantee.

Section 11. Waiver.

The waiver by Lilly of any provision of this stock option shall not operate as or be construed as a waiver of the same or any other provision of this stock option at any subsequent time for any other purpose.

Section 12. Disposition of Lilly Stock.

If the grantee disposes of Lilly stock purchased under the stock option within two years from the date of grant or within one year after the issuance or transfer of such Lilly stock to the grantee, the grantee shall promptly notify the Lilly Stock Option Services department of the disposition. Before making any disposition within those periods, you should consult your tax adviser as that

action under current law may result in less favorable tax treatment than if disposition is made following those periods.

Section 13. Revocation or Modification of Stock Option.

This stock option shall be irrevocable except that Lilly shall have the right under Section 13(e) of the 2002 plan to:

a. Revoke this stock option at any time if it is contrary to law

b. Modify this stock option to bring it into compliance with any valid and mandatory regulation

c. Modify this stock option provided that the modification is consistent with the plan; is found by the committee to be necessary or advisable to carry out the purposes of the plan or for the effective administration of the plan; and is found by the committee not to diminish the rights of the grantee or the value of the stock option to the grantee.

Section 14. Section Headings.

The section headings in this stock option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this stock option.

Section 15. Determinations by Committee; Severability.

Determinations by the committee or persons to whom the committee has delegated its authority shall be final, conclusive and binding with respect to the interpretation of the 2002 plan and this stock option. The provisions of this agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable, with or without notice or cause.

Section 16. Change in Control.

Section 12(a)(i) of the 2002 plan does not apply to this stock option.

Section 17. Nature of this Grant.

In accepting the grant, grantee acknowledges that:

a. The 2002 plan is established voluntarily by the company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the company at any time, unless otherwise provided in the 2002 plan and this agreement.

b. The grant of stock options is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past.

c. All decisions with respect to future stock option grants, if any, will be at the sole discretion of the committee.

d. Grantee's participation in the plan shall not create a right to further employment with the company and shall not interfere with the ability of the company to terminate grantee's employment relationship at any time with or without cause or notice.

e. This stock option is an extraordinary item that does not constitute compensation of any kind (except as characterized for tax purposes only as compensation) for services of any kind rendered to the company, and which is outside the scope of grantee's employment contract, if any.

f. Stock options are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

g. The future value of the underlying shares is unknown and cannot be predicted with certainty.

h. If the underlying shares do not increase in value, this stock option will have no value

i. If the grantee exercises this stock option and obtains shares, the value of those shares acquired upon exercise may increase or decrease in value, even below the option price

In consideration of the grant of this stock options, no claim or entitlement to compensation or damages shall arise from termination of the options or diminution in value of the options or shares purchased through exercise of the options resulting from termination of grantee's employment by the company (for any reason whatsoever).

Section 18. Effective Date.

The effective date of this stock option shall be the date of its execution by Lilly.

Section 19. Governing Law: English Language Controls.

This option grant is governed by, and subject to, the laws of the state of Indiana, as provided in the 2002 plan. For purposes of litigating any dispute that arises under this grant or the 2002 plan, the parties hereby submit to and consent to the jurisdiction of the state of Indiana, agree that such litigation may be conducted in the courts of Indiana, or the federal courts for the United States for the southern district of Indiana, where this grant is made and/or to be performed. This stock option may be translated into languages other than English for the convenience of the grantee. Such translations shall have no legal force and effect, it being understood that the English language version shall control.

IN WITNESS WHEREOF, Lilly has caused this stock option to be executed and granted in Indianapolis, Indiana, by its proper officer.

Eli Lilly and Company

By: 

Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer

Sample Performance Award Form

Eli Lilly and Company
Performance Award

This Performance Award has been granted for the period of January 1, [YEAR] through December 31, [YEAR] by Eli Lilly and Company, an Indiana corporation with its principal offices in Indianapolis, Indiana (Lilly), to

Grantee: _____

Payment Levels

EPS	$0.00-$__	$__-$__	$__-$__	$__-$__	$__-$__	$__-above
Performance Shares	[box 1]	[box 2]	[box 3]	[box 4]	[box 5]	[box 6]

For details on the topics listed below, see the specified sections.

RECITALS

Under the 2002 LILLY STOCK PLAN ("2002 Plan"), the Compensation Committee ("Committee") has determined the form of this Performance Award and selected the Grantee, an Eligible Employee of the Company, to receive a Performance Award for the Award Period January 1, [YEAR], through December 31, [YEAR]. The applicable terms of the 2002 Plan are incorporated in this Performance Award by reference, including the definitions of terms contained in the 2002 Plan.

ARTICLE I

PERFORMANCE AWARD

Lilly grants to the Grantee the right to acquire Lilly Stock by issuance or transfer to the Grantee of the Performance Shares to which he or she is entitled as a Performance Award upon the terms and conditions following:

Section 1.01. *Statement of Award Period.* The Award Period shall be the [one] fiscal year[s] of Lilly beginning January 1, [YEAR], and ending December 31, [YEAR].

Section 1.02. *Number of Shares.* The number of Performance Shares for the Award Period shall be the number of shares set out in the table on the first page of this Award for the applicable level of earnings per share ("EPS"), subject to adjustment as provided in Section 1.09.

The number of Performance Shares for the Award Period shall also be subject to any adjustment deemed appropriate by the Committee under Section 4(b) of the 2002 Plan upon the occurrence, prior to the end of the Award Period, of any subdivision or combination of shares of Lilly Stock, or a stock dividend, capital reorganization, recapitalization, or consolidation or merger with Lilly as the surviving corporation, or if additional shares or new or different shares or other securities of Lilly or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off, exchange offer, or other extraordinary distribution occurring prior to the end of the Award Period.

Section 1.03. *Computation of EPS.* The EPS shall be computed for the Award Period in accordance with Section 2.07 and the following procedures:

a. A determination of adjusted consolidated net income ascertained from the Company's audited consolidated financial statements shall be made for the Award Period in accordance with generally accepted accounting principles, adjusted to the extent deemed appropriate by the Committee for any unusual items deemed significant by the Committee.

b. The number of shares of outstanding Lilly Stock used to compute consolidated earnings per share shall be determined on a diluted basis or its equivalent in accordance with generally accepted accounting principles.

c. To calculate consolidated earnings per share, the adjusted consolidated net income shall be divided by the number of shares of outstanding Lilly Stock as computed in accordance with subsection (b) above and the quotient rounded to the nearest cent.

Section 1.04. *Determination and Announcement of Award.* After the EPS for the Award Period is computed, the EPS and the resulting number of Performance Shares for Grantee (determined in accordance with Sections 1.02 and 1.09), together with the Committee's election between cash and shares under Section 1.05, shall be communicated to Grantee.

If any event described in Section 4(b) of the 2002 Plan occurs after the end of the Award Period but prior to the issuance or transfer of Performance Shares, the number of Performance Shares awarded shall be subject to any adjustment determined by the Committee to be appropriate under Section 4(b) of the 2002 Plan. A fractional share otherwise resulting from such adjustment shall in the discretion of the Committee either be paid in cash or rounded.

Section 1.05. *Committee Election to Pay Cash.* At any time until the determination of EPS and the resulting number of Performance Shares, the Committee may, if it so elects, determine to pay part or all of any Performance Award in cash in lieu of issuing or transferring Performance Shares. The amount of cash shall be based upon the fair market value of Lilly Stock on a valuation date to be determined by the Committee.

Section 1.06. *Issuance or Transfer of Performance Shares and Payment of Cash Award.* Subject to the condition relating to withholding taxes stated in Section 2.04, Lilly shall, within a reasonable time after the determination and announcement of the award, issue or transfer to the Grantee any Performance Shares to be issued or transferred under Section 1.05 and pay to the Grantee any cash determined to be payable under that section. Grantee shall have no right as a shareholder of Lilly with respect to the shares of Lilly Stock until the shares are issued or transferred on the books of Lilly.

Section 1.07. *Restricted Stock.* Any shares issued or transferred under this grant shall be in the form of restricted stock that will be governed by the provisions of Section 7 of the 2002 Plan and a form of restricted stock grant to be provided to the Grantee. The Restriction Period shall be one year from the date of payment, as specified in the restricted stock grant document. The restrictions shall lapse upon the earliest of (a) the expiration of the Restriction Period if all conditions related to the Restriction Period have been met; (b) the date of the death, disability or retirement of the Grantee; or (c) a change in control as provided under Section 12(a)(ii) of the 2002 Plan, unless the Committee specifies in the restricted stock grant document that Section 12(a)(ii) shall not apply.

Section 1.08. *Consideration for Performance Award and Requirement of Continued Employment.* This Performance Award is made in consideration of services rendered by the Grantee to the Company during the entire Award Period. If the status of the Grantee as an Eligible Employee, as defined in the 2002 Plan, terminates before the end of the Award Period, then all rights of the Grantee under this Performance Award shall terminate with respect to the Award Period unless the Committee determines in its discretion to make a complete or partial exception to the rule of this Section 1.08. The Company shall incur no liability to Grantee under this Performance Award by terminating Grantee's status as an Eligible Employee whether by action with respect to Grantee individually, either with or without cause, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation, or otherwise.

Section 1.09. *Adjustments for Certain Employment Status Changes.* The number of Performance Shares set forth on the table on the first page of this Performance Award is based on the assumption that the Grantee is a full-time employee in good standing throughout the entire Award Period. Unless

otherwise required by law, the number of shares shall be adjusted for changes in employment status during the Award Period as follows:

a. *Part-time Schedule.* In the event the Grantee is or becomes employed on a regular part-time basis, (e.g., two, three, or four days per week), the number of shares shall be adjusted downward proportionally to reflect the reduced schedule, taking into account the number of months in the Award Period during which the reduced schedule is worked.

b. *Leaves of Absence.* The number of shares shall be reduced proportionally for any amount of time in the Award Period during which the Grantee is on an approved unpaid leave of absence longer than ninety (90) days.

c. *Demotions and Disciplinary Actions.* The Senior Vice President of Lilly responsible for human resources may, in his or her discretion, reduce the number of shares, prorated according to time, for any portion of the Award Period during which the Grantee has been (i) demoted to a job classification below those considered by the Committee to be eligible for Performance Awards, or (ii) subject to disciplinary action by the Company. In the case of disciplinary action during the Award Period, the Senior Vice President responsible for human resources may also, in his or her discretion, withhold payment of this Performance Award entirely.

ARTICLE II

MISCELLANEOUS PROVISIONS

Section 2.01. *Notices and Payments.* Any notice to be given by the Grantee or Successor Grantee shall be in writing, and any notice and payment shall be deemed to have been given or made only upon receipt by the Treasurer of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285. Any notice or communication by Lilly shall be in writing and shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any Successor Grantee, at the address specified in writing to Lilly by the Successor Grantee.

Section 2.02. *Waiver.* The waiver by Lilly of any provision of this instrument at any time or for any purpose shall not operate as a waiver of that provision or any other provision of this instrument at any subsequent time or for any other purpose.

Section 2.03. *Revocation or Modification.* This Performance Award shall be irrevocable except that Lilly shall have the right to revoke or modify this Performance Award under Section 13(e) of the 2002 Plan.

Section 2.04. *Withholding Tax.* As a condition to the delivery of a certificate evidencing ownership of shares of Lilly Stock issued or transferred under Article I, Lilly may, by notice to the Grantee or Successor Grantee, require that Lilly be paid the amount of any federal, state, or local taxes required by law to be withheld by reason of the issuance or transfer of the shares or cash in lieu thereof and may apply any cash payments to be made under Section 1.05 to any taxes required to be withheld.

Section 2.05. *Non-Transfer of Performance Award.* No right in or under this Performance Award is transferable except by operation of law to a duly appointed guardian of the estate of Grantee or upon the death of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of Section 1.08.

Section 2.06. *Section Headings.* The section headings in this instrument are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

Section 2.07. *Determinations by Committee.* Determinations by the Committee (or in the case of Section 1.09, the Senior Vice President of Lilly responsible for human resources) pursuant to any provision of the 2002 Plan, pursuant to rules, regulations and procedures adopted by the Committee or pursuant to this instrument, including without limitation the determination of the amount and method of computation of EPS or whether to make an exception to the rule of Section 1.08, shall be final and binding on Grantee and any Successor Grantee. The Committee may adjust consolidated net income for the Award Period by adding back the after-tax effect of the accrual for Performance Awards.

Section 2.08. *Change in Control.* The provisions of Section 12(a)(iii) of the 2002 Plan apply to this Performance Award with the exception that holders of outstanding performance award grants will be paid an amount equal to the product of (a) the Grantee's award opportunity for the performance award based on the Company's expected results for the Award Period (as determined by the company's last approved forecast prior to the Change in Control) and (b) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of the Award Period to the date of the change in control and the denominator of which is the total number of months in the Award Period.

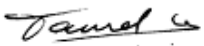
Section 2.09. *No Right to Employment or Future Grants.* The Committee selects Grantees in its discretion. The grant of this Performance Award or any previous grants of Performance Awards does not confer or imply any right to continue in the employ of the Company or affect the Company's ability to terminate the Grantee's employment at any time, with or without notice or cause. Neither this nor any previous grant shall confer or imply any rights to future grants of Performance Awards.

Section 2.10. *Effective Date.* The effective date of this instrument shall be January 1, [YEAR].

Section 2.11. *Governing Law.* The validity and construction of this Performance Award shall be governed by the laws of the State of Indiana without regard to its conflict-of-laws principles.

IN WITNESS WHEREOF, Lilly has caused this Performance Award to be executed and granted in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY



By_____
Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer

Sample Restricted Stock Grant Form

ELI LILLY AND COMPANY

RESTRICTED STOCK GRANT

This Restricted Stock Grant has been executed and delivered as of this «Grant_Day» day of «Grant_Month», «Grant_Year», by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana ("Lilly"), to

«Full_Name»

("Grantee").

RECITALS

Under the 2002 LILLY STOCK PLAN ("2002 Plan"), the Compensation Committee ("Committee") has determined the form of this Restricted Stock Grant ("Grant") and selected the Grantee, an Eligible Employee of the Company, to receive a Restricted Stock Grant and the shares of Lilly Stock that are the subject of the Grant. The applicable terms of the 2002 Plan are incorporated in this Restricted Stock Grant by reference, including the definitions of terms contained in the 2002 Plan.

RESTRICTED STOCK GRANT

In consideration of services agreed to be rendered, Lilly has made this Grant and concurrently has issued or transferred to the Grantee shares of Lilly Stock, either in certificated or book-entry form. This Grant and the issuance or transfer of shares are made upon the following terms and conditions:

Section 1. *Number of Shares.* The number of shares of Lilly Stock issued or transferred under this Grant is «Number_of_Shares» shares.

Section 2. *Rights of the Grantee as Shareholder.* The Grantee, as the owner of record of the shares of Lilly Stock issued or transferred pursuant to this Grant, is entitled to all the rights of a shareholder of Lilly, including the right to vote, the right to receive dividends payable either in stock or in cash, and the right to receive shares in any recapitalization of Lilly, subject, however, to the restrictions stated in this Grant. If the Grantee receives any additional shares of Lilly Stock or stock of another corporation by reason of being the holder of the shares of Lilly Stock issued or transferred under this Grant, all the additional shares shall be subject to the provisions of this Grant.

Section 3. *Restriction Period.* The period of restriction ("Restriction Period") under this Grant shall commence on the effective date of the Grant and expire at the close of business on «Restrictions_Expiration_Date» or upon the earlier death of the Grantee.

Section 4. *Custody of Certificates.* During the Restriction Period the certificates, if any, evidencing ownership of the shares of Lilly Stock shall be held by Lilly.

Section 5. *Conditions During Restriction Period.* During the entire Restriction Period the following conditions must continue to be satisfied:

a. The employment of the Grantee with the Company must not terminate. "Termination of employment" shall mean the cessation for any reason of the relation of employer and employee between the Grantee and the Company.

b. The Grantee must not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock issued or transferred pursuant to this Grant or suffer any such assignment or transfer involuntarily.

Section 6. *Consequences of Breach of Conditions.* If any of the conditions that must continue to be satisfied during the Restriction Period under Section 5 is breached during the Restriction Period, the following consequences shall attach:

a. If the condition in Section 5.a. is breached, either by act of the Grantee or otherwise, the Grantee, by accepting this Grant and the issuance or transfer of the shares of Lilly Stock under this Grant, agrees that upon such breach all interest of the Grantee in the shares of Lilly Stock shall terminate and that the Grantee shall cease to be a shareholder of Lilly with respect to the shares; provided, the Committee may provide for a partial or complete exception to this requirement as it deems equitable in its discretion. The Committee's determination shall be final and binding on the Grantee. The Company shall incur no liability to the Grantee under this Grant by terminating the Grantee's status as an Eligible Employee, whether by action with respect to the Grantee individually, either with or without cause, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation, or otherwise.

b. If the Grantee breaches, or attempts to breach, the condition in Section 5.b., any such attempt shall be ineffective, and the Grantee agrees, by accepting this Grant

and the shares of Lilly Stock issued or transferred under this Grant, that upon such breach Lilly shall not be required to transfer the shares and may continue to hold any certificates until the expiration of the Restricted Period or until the Grantee's interest terminates under Section 6.a. The Grantee further agrees to indemnify and hold harmless the Company and its agents and employees from all losses, costs and expenses resulting from the Grantee's breach or attempted breach of Section 5.b.

Section 7. *Lapse of Restrictions.* At the end of the Restriction Period if the condition specified in Section 5.a. has not been breached during the Restriction Period, all restrictions shall terminate, and Lilly shall release any restrictions placed on transferability of the shares and shall deliver the certificates, if any, to Grantee. If the conditions described in Sections 5.b. should occur, Lilly shall have no obligation other than to deliver shares registered in the name of the Grantee, and Lilly shall be entitled to withhold transfer or delivery of any of the shares if, and for so long as, in the judgment of Lilly's counsel, Lilly would incur a risk of liability to any party who may claim an interest in the shares arising from a breach or attempted breach of Section 5.b.

Section 8. *Termination or Modification of Grant.* Lilly may revoke this Grant at any time during the Restriction Period if it is contrary to law and, in that event, shall give notice to the Grantee. Lilly may also modify this Grant and the issuance or transfer of the Lilly Stock pursuant to this Grant to the extent necessary to bring the Grant and the issuance or transfer of the shares of Lilly Stock into compliance with any valid and mandatory regulation now or hereafter promulgated by any governmental agency having jurisdiction. By accepting this Grant and the issuance or transfer of shares of Lilly Stock under this Grant, the Grantee agrees that Lilly may change the number of shares of Lilly Stock issued or transferred as Lilly deems necessary in light of the amendment of this Grant.

Section 9. *Transfer to a Successor Grantee.* Upon the death of the Grantee, Lilly shall transfer to the Successor Grantee shares that are free of all restrictions under this Grant.

Section 10. *Specific Performance of the Grantee's Covenants.* By accepting this Grant and the issuance or transfer of the shares of Lilly Stock that are the subject of this Grant, the Grantee acknowledges that Lilly does not have an adequate remedy in damages for the breach by the Grantee of the covenants made by the Grantee in Sections 6 and 8 of this Grant and agrees that Lilly is entitled to and may obtain an order or a decree of specific performance against the Grantee issued by any court having jurisdiction.

Section 11. *Notices.* Any notice to be given by the Grantee or Successor Grantee shall be in writing and shall be deemed to have been given only upon receipt thereof by the Treasurer of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285. Any notice or communication by Lilly to the Grantee shall be in writing and shall be deemed to have been given or made if mailed or delivered to the Grantee in person or at the address specified in writing to Lilly by the Grantee and, in the case of any Successor Grantee, at the address specified in writing to Lilly by the Successor Grantee.

Section 12. *Waiver.* The waiver by Lilly of any provision of this Grant at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Grant at any subsequent time or for any other purpose.

Section 13. *Withholding Tax.* As a condition to the release of restrictions under Section 7 or transfer under Section 9, or if the Grantee makes the election permitted by Section 83(b) of the Internal Revenue Code, Lilly shall require that Lilly be paid the amount of any federal, state, or local taxes required by law to be withheld.

Section 14. *Section Headings.* The section headings in this Grant are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

Section 15. *Determinations by Committee.* Determinations by the Committee pursuant to any provision of the 2002 Plan, pursuant to rules, regulations, and procedures adopted by the Committee, or pursuant to this instrument, including, without limitation of the foregoing, determination whether the conditions in Sections 3 or 5 have been satisfied or determination whether to make an exception to the consequences attaching under Section 6.a., shall be final and binding on the Grantee.

Section 16. *Change in Control.* The provisions of Section 12(a)(ii) of the 2002 Plan do not apply to this Restricted Stock Grant.

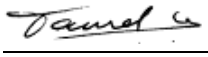
Section 17. *Effective Date.* The effective date of this instrument shall be the date of its execution by Lilly.

Section 18. *No Right to Employment.* Nothing in this Grant shall confer upon the Grantee the right to continue in the employment of the Company or affect any rights of the Company to terminate the employment of the Grantee at any time, with or without notice or cause.

Section 19. *Governing Law.* The validity and construction of this Grant shall be governed by the laws of the State of Indiana regardless of the conflict of laws provisions of the State of Indiana.

IN WITNESS WHEREOF, Lilly has caused this Grant to be executed in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY

By: 

Sidney Taurel
Chairman of the Board,
President and
Chief Executive Officer

ACCEPTANCE OF GRANT

The undersigned Grantee accepts the Grant and the shares of Lilly Stock issued or transferred under the Grant and agrees to be bound by the provisions of the Grant, including but not limited to, the agreements and covenants of the Grantee expressed in Sections 6, 8, and 10.

Dated this _____ day of _____, 20 _____

_____

(Signature of Grantee)

EXHIBIT 11. STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars and shares in millions except per-share data)			
BASIC				
Net income	$ 755.2	$ 714.4	$1,812.5	$1,813.6
Average number of common shares outstanding	1,084.8	1,076.3	1,083.0	1,076.4
Basic earnings per share	$ .70	$ .66	$ 1.67	$ 1.68
DILUTED				
Net income	$ 755.2	$ 714.4	$1,812.5	$1,813.6
Average number of common shares outstanding	1,084.8	1,076.3	1,083.0	1,076.4
Incremental shares – stock options and contingently issuable shares	4.4	5.5	5.9	5.6
Adjusted average shares	1,089.2	1,081.8	1,088.9	1,082.0
Diluted earnings per share	$ .69	$ .66	$ 1.66	$ 1.68

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)

	Nine Months Ended September 30, 2004	Years Ended December 31,				
		2003	2002	2001	2000	1999
Consolidated pretax income from continuing operations	$2,421.9	$3,261.7	$3,457.7	$3,506.9	$3,858.7	$3,245.4
Interest from continuing operations and other fixed charges	115.3	121.9	140.0	253.3	225.4	213.1
Less interest capitalized during the period from continuing operations	(80.0)	(60.9)	(60.3)	(61.5)	(43.1)	(29.3)
Earnings	$2,457.2	$3,322.7	$3,537.4	$3,698.7	$4,041.0	$3,429.2
Fixed charges [1]	$ 115.3	$ 121.9	$ 140.0	$ 253.3	$ 225.4	$ 213.2
Ratio of earnings to fixed charges	21.3	27.3	25.3	14.6	17.9	16.1

[1] Fixed charges include interest from continuing operations for all years presented and preferred stock dividends for 1999.

EXHIBIT 31.1 Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board, President, and Chief Executive Officer

CERTIFICATIONS

I, Sidney Taurel, chairman of the board, president, and chief executive officer, 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)) 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) 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

c) 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 function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that 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 controls over financial reporting.

Date: November 1, 2004

By: s/ Sidney Taurel

Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer

EXHIBIT 31.2 Rule 13a-14(a) Certification of Charles E. Golden, Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, Charles E. Golden, executive vice president and chief financial officer, 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)) 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) 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

c) 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 function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that 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 controls over financial reporting.

Date: November 1, 2004

By: s/ Charles E. Golden

Charles E. Golden
Executive 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 his knowledge:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (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 November 1, 2004

/s/ Sidney Taurel

Sidney Taurel
Chairman of the Board, President, and
Chief Executive Officer

Date November 1, 2004

/s/ Charles E. Golden

Charles E. Golden
Executive Vice President and
Chief Financial Officer

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 spokespersons based on then-current expectations of management. All forward-looking statements made by us are subject to risks and uncertainties. One can identify forward-looking statements by the use of words such as “expects,” “plans,” “will,” “estimates,” “forecasts,” “projects,” “believes,” “anticipates,” and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address our growth strategy, financial results, regulatory issues, and status of product approvals, development programs, litigation, and investigations.

Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

- competitive factors, including new patented products or expanded indications for existing products introduced by competitors, which can lead to declining demand for our products; generic competition as patents on key products expire; and pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies

- governmental factors, including federal, state, and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which our products are sold or that ease the approval process for generic products

- the difficulties and uncertainties inherent in new product development and introduction of new products. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success 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. In addition, it can be very difficult to predict sales growth rates of new products

- delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in delays in product launches and 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

- changes in inventory levels maintained by pharmaceutical wholesalers that can cause reported sales for a particular period to differ significantly from underlying prescriber demand

- patent challenges, including challenges to our patents by generic pharmaceutical manufacturers under the Hatch Waxman Act or patent infringement suits brought against us by other patent holders, that could cause us to lose market exclusivity for, or preclude commercialization of, our products

- regulatory issues concerning compliance with current Good Manufacturing Practice (cGMP) regulations for pharmaceutical products that can lead to product recalls and seizures, interruption of production, and delays in the approvals of new products pending resolution of the cGMP issues

- other legal factors, including product liability or other liability claims, liabilities based on marketing and promotional practices or research practices, antitrust and pricing claims, and environmental matters

- changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits

- economic factors over which we have no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas, such as Latin America

- changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Emerging Issues Task Force

- internal factors, such as changes in business strategies and the impact of restructurings, asset impairments, technology acquisition and disposition transactions, and business combinations

We undertake no duty to update forward-looking statements.