

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1993 Commission File Number 1-6351

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

| | | |
|---------------------------|---------------------|----------------------------------|
| INDIANA | 35-0470950 | LILLY CORPORATE CENTER |
| (State or other | (IRS Employer | INDIANAPOLIS, INDIANA 46285 |
| jurisdiction of incor- | Identification No.) | (Address of principal (Zip Code) |
| poration or organization) | | executive offices) |

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|-------------------------------------|---|
| Common Stock | New York Stock Exchange Pacific Stock Exchange |
| Contingent Payment Obligation Units | American Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange Pacific Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

The aggregate market value of voting stock of the Registrant held by non-affiliates as of February 21, 1994 (Common Stock): \$13,447,757,840.

The number of shares of common stock outstanding as of February 21, 1994:

| CLASS | NUMBER OF SHARES OUTSTANDING |
|--------|------------------------------|
| Common | 292,665,649 |

Portions of the following documents have been incorporated by reference into this report:

| DOCUMENT | PARTS INTO WHICH INCORPORATED |
|--|-------------------------------|
| Registrant's Annual Report to Shareholders for fiscal year ended December 31, 1993 | Parts I, II, and IV |
| Registrant's Proxy Statement dated March 14, 1994 | Part III |

PART I

Item 1. BUSINESS

Eli Lilly and Company was incorporated in 1901 under the laws of Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. The Company*, including its subsidiaries, is engaged in the discovery, development, manufacture, and sale of products in one industry segment - Life Sciences. Products are manufactured or distributed through owned or leased facilities in the United States, Puerto Rico, and 27 other countries, in 19 of which the Company owns or has an interest in manufacturing facilities. Its products are sold in approximately 120 countries.

Most of the Company's products were discovered or developed through the Company's research and development activities, and the success of the Company's business depends to a great extent on the introduction of new products resulting from these research and development activities. Research efforts are primarily directed toward the discovery of products to diagnose and treat diseases in human beings and animals and to increase the efficiency of animal food production. Research efforts are also directed toward developing medical devices.

FINANCIAL INFORMATION RELATING TO INDUSTRY
SEGMENTS AND CLASSES OF PRODUCTS

Financial information relating to industry segments and classes of products, set forth in the Company's 1993 Annual Report at pages 18-19 under "Review of Operations - Segment Information" (pages 12-13 of Exhibit 13 to this Form 10-K), is incorporated herein by reference.

Due to several factors, including the introduction of new products by the Company and other manufacturers, the relative contribution of any particular Company product to consolidated net sales is not necessarily constant from year to year, and its contribution to net income is not necessarily the same as its contribution to consolidated net sales.

PRODUCTS

Pharmaceutical Products

Pharmaceutical products include

Anti-infectives, including the oral cephalosporin antibiotics Ceclor (Registered), Keflex(Registered), and Keftab(Registered), used in the treatment of a wide range of bacterial infections; the oral carbacephem antibiotic Lorabid(Trademark), used to treat a variety of infections; the injectable cephalosporin antibiotics Mandol(Registered), Tazidime(Registered), Kefurox(Registered), and Kefzol(Registered), used to treat a wide range of infections in the hospital setting; Nebcin(Registered), an injectable aminoglycoside antibiotic used in hospitals to treat a broad range of infections caused by staphylococci and Gram-negative bacteria; and Vancocin(Registered) HCl, an antibiotic used primarily to treat staphylococcal infections;

Central-nervous-system agents, including the antidepressant agent Prozac(Registered), a highly specific serotonin uptake inhibitor, indicated for the treatment of depression and, in certain countries, for bulimia and obsessive-compulsive disorder; and the analgesic Darvocet-N(Registered) 100, which is indicated for the relief of mild-to-moderate pain;

* The terms "Company" and "Registrant" are used interchangeably herein to refer to Eli Lilly and Company or to Eli Lilly and Company and its consolidated subsidiaries, as the context requires.

Diabetic care products, including Iletin(Registered) (insulin) in its various pharmaceutical forms; and Humulin(Registered), human insulin produced through recombinant DNA technology;

Oncolytic agents, including Oncovin(Registered), indicated for treatment of acute leukemia and, in combination with other oncolytic agents, for treatment of several different types of advanced cancers; Velban(Registered), used in a variety of malignant neoplastic conditions; and Eldisine(Registered), indicated for treatment of acute childhood leukemia resistant to other drugs;

An antiulcer agent, Axid(Registered), an H2 antagonist, indicated for the treatment of active duodenal ulcer, for maintenance therapy for duodenal ulcer patients after healing of an active duodenal ulcer, and for reflux esophagitis; and

Additional pharmaceuticals, including cardiovascular therapy products, principally Dobutrex(Registered); hormones, including Humatrope(Registered), human growth hormone produced by recombinant DNA technology; and sedatives.

Medical Devices and Diagnostic Products

Medical devices include patient vital-signs measurement and electrocardiography systems, intravenous fluid-delivery and control systems, implantable cardiac pacemakers and implantable cardioverter/defibrillators, cardiac defibrillators and monitors, coronary angioplasty catheter systems, peripheral and coronary atherectomy catheter systems, and devices for use during minimally-invasive surgery procedures.

Diagnostic products include monoclonal-antibody-based diagnostic tests for colon, prostate, and testicular cancer, as well as for infertility, pregnancy, heart attack, thyroid deficiencies, allergies, anemia, dwarfism, and infectious diseases.

Animal Health Products

Animal health products include Tylan(Registered), an antibiotic used to control certain diseases in cattle, swine, and poultry and to improve feed efficiency and growth; Rumensin(Registered), a cattle feed additive that improves feed efficiency and growth; Compudose(Registered), a controlled-release implant that improves feed efficiency and growth in cattle; Coban(Registered), Monteban(Registered) and Maxiban(Registered), anticoccidial agents for use in poultry; Apralan(Registered), an antibiotic used to control enteric infections in calves and swine; Micotil(Registered), an antibiotic used to treat bovine respiratory disease; and other products for livestock and poultry.

MARKETING

Most of the Company's major products are marketed worldwide.

In the United States, the Company's Pharmaceutical Division distributes pharmaceutical products principally through approximately 225 wholesale distributing outlets. Marketing policy is designed to assure immediate availability of these products to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Four wholesale distributing companies in the United States accounted for approximately 11%, 9%, 6%, and 5% respectively, of consolidated net sales in 1993. No other distributor accounted for as much as 5% of consolidated net sales. The Company also makes direct sales of its pharmaceutical products to the United States government and to other manufacturers, but those direct sales do not constitute a material portion of consolidated net sales.

The Company's pharmaceutical products are promoted in the United States under the Lilly and Dista trade names by one hospital and three retail sales forces employing salaried sales representatives. These sales representatives, approximately half of whom are registered pharmacists, call upon physicians, wholesalers, hospitals, managed-care organizations, retail pharmacists, and other health care professionals. Their efforts are supported by the Company through advertising in medical and drug journals, distribution of literature and samples of certain products to physicians, and exhibits for use at medical meetings. In the past few years, large purchasers of pharmaceuticals, such

as managed-care groups and government and long-term care institutions, have begun to account for an increasing portion of total pharmaceutical purchases in the United States. In 1992, reflecting these changes, the Company created special sales groups to service government and long-term care institutions, and expanded its managed-care sales organization. In response to competitive pressures, the Company has entered into arrangements with a number of these organizations providing for discounts or rebates on one or more Company products.

Pharmaceutical products are promoted outside the United States by salaried sales representatives. While the products marketed vary from country to country, anti-infectives constitute the largest single group in total volume. Distribution patterns vary from country to country.

IVAC Corporation markets its patient temperature-measuring and vital-signs products and intravenous fluid-infusion systems principally to hospitals in the United States. Sales in the United States are conducted by a direct sales force. Sales outside the United States are conducted by both direct sales representatives and independent distributors.

Cardiac Pacemakers, Inc. markets pacemaker products and automatic implantable cardioverter/defibrillators to physicians and hospitals. Sales are conducted by direct sales representatives and by independent distributors both inside and outside the United States.

Physio-Control Corporation markets cardiac defibrillators and monitors, electrocardiography systems, and vital-signs-measurement equipment to hospitals and emergency care units. In the United States, sales are conducted by direct sales representatives. Sales outside the United States are conducted by both direct sales representatives and independent distributors. Physio-Control suspended production in May 1992 following an inspection of its operations by the U.S. Food and Drug Administration ("FDA"). During 1993, Physio-Control received FDA authorization to resume shipments of the majority of its product line. Physio-Control is seeking FDA authorization to resume shipments of its remaining products.

Advanced Cardiovascular Systems, Inc. primarily markets coronary dilatation balloon catheter systems to cardiologists to open obstructed coronary arteries. In the United States, sales are conducted by a direct sales force. Sales outside the United States are conducted by both direct sales representatives and independent distributors.

Devices for Vascular Intervention, Inc. markets atherectomy catheter systems for the treatment of coronary vascular disease by the removal of atherosclerotic plaque. In the United States, sales are conducted by direct sales representatives. Sales outside the United States are conducted by independent distributors.

Origin Medsystems, Inc., acquired by the Company in 1992, markets devices for use in minimally invasive surgical procedures. Sales in the United States are conducted by direct sales representatives. Sales outside the United States are conducted by independent distributors and a direct sales force.

Heart Rhythm Technologies, Inc. is developing catheter-based ablation systems to correct faulty signals at the heart, using a less-invasive approach than current therapy. Heart Rhythm Technologies has no products currently approved for marketing.

Hybritech Incorporated and Pacific Biotech, Inc. market their immunodiagnostic products to hospitals, commercial laboratories, clinics, and physicians. Sales are conducted by direct sales representatives and by independent distributors both inside and outside the United States.

Elanco Animal Health, a division of the Company, employs field salespeople throughout the United States to market animal health products. Sales are made to wholesale distributors, retailers, feed manufacturers, or producers in conformance with varying distribution patterns applicable to the various types of products. The Company also has an extensive sales force outside the United States to market its animal health products.

RAW MATERIALS

Most of the principal materials used by the Company in manufacturing operations are chemical, plant, and animal products that are available from more than one source. Certain raw materials are available or are purchased principally from only one source. Unavailability of certain materials from present sources could cause an interruption in production pending establishment of new sources or, in some cases, implementation of alternative processes.

Although the major portion of the Company's sales abroad are of products manufactured wholly or in part abroad, a principal source of active ingredients for these manufactured products continues to be the Company's facilities in the United States.

PATENTS AND LICENSES

The Company owns, has applications pending for, or is licensed under, a substantial number of patents, both in the United States and in other countries, relating to products, product uses, and manufacturing processes. There can be no assurance that patents will result from the Company's pending applications. Moreover, patents relating to particular products, uses, or processes do not preclude other manufacturers from employing alternative processes or from successfully marketing substitute products to compete with the patented products or uses.

Patent protection of certain products, processes, and uses - particularly that relating to Ceclor, Dobutrex, Humulin, Prozac, Axid, and Lorabid - is considered to be important to the operations of the Company. The United States product patent covering Ceclor, the Company's second largest selling product, expired in December 1992. The Company holds a U.S. patent on a key intermediate material that remains in force until December 1994. It has been reported that several abbreviated new drug applications for generic formulations of cefaclor (the active ingredient in Ceclor) have been filed in the U.S. and regulatory submissions have been made in other countries. Small quantities of a generic formulation are currently being marketed in India. Although the Company cannot predict the ultimate effect on the sales of Ceclor or the Company's results of operations, the Company believes that the expiration of the U.S. product and intermediate patents will not have a material adverse effect on the Company's near-term consolidated financial position. The United States patent covering Dobutrex expired in October 1993. Prior to the expiration, U.S. sales of Dobutrex accounted for approximately 2% of the Company's worldwide sales. The patent expiration has resulted in a significant decline in U.S. Dobutrex sales, and the Company expects this decline to continue. During the first two months of 1994, U.S. sales of the product declined approximately 75%. The contribution of Dobutrex to the Company's net income is greater than its contribution to net sales. The Company is unable to predict the effect of the expiration on the Company's consolidated results of operations; however, the Company believes the expiration will not have a material adverse effect on its consolidated financial position. The United States patent covering Humulin expires in 2000, the Prozac patent expires in 2001, the Axid patent expires in 2002, and the Lorabid patent expires in 2004.

The Company also grants licenses under patents and know-how developed by the Company and manufactures and sells products and uses technology and know-how under licenses from others. Royalties received by the Company in relation to licensed pharmaceuticals, medical devices, and diagnostic products amounted to approximately \$56.7 million in 1993, and royalties paid by it in relation to pharmaceuticals, medical devices, and diagnostic products amounted to approximately \$92.5 million in 1993.

COMPETITION

The Company's pharmaceutical products compete with products manufactured by numerous other companies in highly competitive markets in the United States and throughout the world. Its medical devices compete with numerous domestic and foreign manufacturers of conventional mercury-glass thermometers, implantable cardiac pacemakers, cardiac defibrillators and monitors, electronic temperature-measuring systems, vital-signs measuring systems, intravenous systems, angioplasty catheter systems, and minimally-invasive surgery devices. The Company's diagnostic products

compete with conventional immunodiagnostic assays as well as with monoclonal-antibody-based products marketed by numerous foreign and domestic manufacturers. Its animal health products compete on a worldwide basis with products of pharmaceutical, chemical, and other companies that operate animal health divisions or subsidiaries.

Important competitive factors include price and cost-effectiveness, product characteristics and dependability, service, and research and development of new products and processes. The introduction of new products and the development of new processes by domestic and foreign companies can result in progressive price reductions or decreased volume of sales of competing products, or both. New products introduced with patent protection usually must compete with other products already on the market at the time of introduction or products developed by competitors after introduction. The Company believes its competitive position in these markets is dependent upon its research and development endeavors in the discovery and development of new products, together with increased productivity resulting from improved manufacturing methods, marketing efforts, and customer service. There can be no assurance that products manufactured or processes used by the Company will not become outmoded from time to time as a result of products or processes developed by its competitors.

GOVERNMENTAL REGULATION

The Company's operations have for many years been subject to extensive regulation by the federal government, to some extent by state governments, and in varying degrees by foreign governments. The Federal Food, Drug, and Cosmetic Act, other federal statutes and regulations, various state statutes and regulations, and laws and regulations of foreign governments govern testing, approval, production, labeling, distribution, post-market surveillance, advertising, promotion, and in some instances, pricing, of most of the Company's products. In addition, the Company's operations are subject to complex federal, state, local, and foreign environmental laws and regulations. It is anticipated that compliance with regulations affecting the manufacture and sale of current products and the introduction of new products will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, the federal administration has identified health care reform as a priority and introduced legislation that, if enacted, would make fundamental changes in the health care delivery system. In addition, a number of reform measures have been proposed by members of Congress. Many state legislatures are also considering health care reform measures. The nature of the changes that may ultimately be enacted and their impact on the Company and the pharmaceutical industry are unknown. However, several of the measures currently under discussion, if enacted, could affect the industry and the Company by, among other things, increasing pressures on pricing, restricting physicians' choice of therapies, raising effective tax rates, and reducing incentives to invest in research and development. Outside the United States, governments in several countries, including Germany, Italy, and the United Kingdom, are implementing health care cost-control measures that may adversely affect pharmaceutical industry revenues. The Company is unable to predict the extent to which its business may be affected by these or other future legislative and regulatory developments.

RESEARCH AND DEVELOPMENT

The Company's research and development activities are responsible for the discovery or development of most of the products offered by the Company today. Its commitment to research and development dates back more than 100 years. The growth in research and development expenditures and personnel over the past several years demonstrates both the continued vitality of the Company's commitment and the increasing costs and complexity of bringing new products to the market. At the end of 1993, approximately 5,600 people, including a substantial number who are physicians or scientists holding graduate or postgraduate degrees or highly skilled technical personnel, were engaged in research and development activities. The Company expended \$766.9 million on research and development activities in 1991, \$924.9 million in 1992, and \$954.6 million in 1993.

The Company's research is concerned primarily with the effects of synthetic chemicals and natural products on biological systems. The results of that research are applied to the development of

products for use by or on humans and animals, and for other uses. Major effort is devoted to pharmaceutical products. In late 1993, the Company decided to concentrate its pharmaceutical research and development efforts on the search for compounds that will cure or treat diseases in five categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular diseases. The Company is engaged in biotechnology research programs involving recombinant DNA and monoclonal antibodies. The Company's biotechnology research is supplemented through its Hybritech and Pacific Biotech subsidiaries, which conduct research using monoclonal-antibody-based product technology for diagnosis of certain diseases or medical conditions.

In addition to the research activities carried on in the Company's own laboratories, the Company sponsors and underwrites the cost of research and development by independent organizations, including educational institutions and research-based human health care companies, and contracts with others for the performance of research in their facilities. It utilizes the services of physicians, hospitals, medical schools, and other research organizations in the United States and numerous other countries to establish through clinical evidence the safety and effectiveness of new products.

IVAC, Cardiac Pacemakers, Advanced Cardiovascular Systems, Physio-Control, Devices for Vascular Intervention, Origin Medsystems, and Heart Rhythm Technologies conduct research and development in the area of medical devices.

Extensive work is also conducted in the animal sciences, including animal nutrition and physiology and veterinary medicine. Certain of the Company's research and development activities relating to pharmaceutical products may be applicable to animal health products. An example is the search for agents that will cure infectious disease.

QUALITY ASSURANCE

The Company's success depends in great measure upon customer confidence in the quality of the Company's products and in the integrity of the data that support their safety and effectiveness. The quality of the Company's products arises from the total commitment to quality in all parts of the Company, including research and development, purchasing, facilities planning, manufacturing, and distribution. Quality-assurance procedures have been developed relating to the quality and integrity of the Company's scientific information and production processes.

With respect to pharmaceutical, diagnostic, and animal health products, control of production processes involves rigid specifications for ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. Control tests are made at various stages of production processes and on the final product to assure that the product meets the Company's standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination of these tests. Additional assurance of quality is provided by a corporate quality-assurance group that monitors existing pharmaceutical and animal health manufacturing procedures and systems in the parent company, subsidiaries, and affiliates.

The quality of medical devices is assured through specifications of components and finished products, inspection of certain components, certification of certain vendors, control of the manufacturing environment, and use of statistical process controls. Final products are tested to assure conformance with specifications.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information regarding the executive officers of the Company. All but three of the executive officers have been employed by the Company in executive or managerial positions during the last five years.

Randall L. Tobias became Chairman of the Board and Chief Executive Officer in June 1993. He had served as Vice Chairman of the Board of American Telephone and Telegraph Company from 1986 until he assumed his present position. He has been a member of the Board of Directors of the Company since 1986. August M. Watanabe joined the Company in 1990 as Vice

President of Lilly Research Laboratories. Previously he had served as Chairman of the Department of Medicine at Indiana University School of Medicine from 1983 through 1990. From 1987 until he joined the Company in August 1990, Mitchell E. Daniels, Jr., President, North American Pharmaceutical Operations, Pharmaceutical Division, served as President and Chief Executive Officer of the Hudson Institute and was of counsel to Baker & Daniels. From 1985 to 1987 he served on former President Reagan's staff as Assistant to the President for Political and Intergovernmental Affairs.

Except as indicated in the table below, the term of office for each executive officer indicated herein expires on the date of the annual meeting of the Board of Directors, to be held on April 18, 1994, or on the date his successor is chosen and qualified. No director or executive officer of the Company has a "family relationship" with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer of the Company and any other person pursuant to which the executive officer was selected.

| NAME | AGE | OFFICES |
|--------------------------------|-----|---|
| Randall L. Tobias | 52 | Chairman of the Board and Chief Executive Officer (since June 1993) and a Director |
| Mel Perelman, Ph.D. | 63 | Executive Vice President (since December 1986) and a Director(1) |
| Sidney Taurel | 45 | Executive Vice President (since January 1993) and a Director |
| Joseph C. Cook, Jr. | 52 | Group Vice President, Manufacturing, Engineering, and Corporate Quality (since June 1992) (2) |
| James M. Cornelius | 50 | Vice President, Finance and Chief Financial Officer (since January 1983) and a Director |
| Mitchell E. Daniels, Jr. | 44 | President, North American Pharmaceutical Operations, Pharmaceutical Division (since April 1993) (3) |
| Ronald W. Dollens | 47 | President, Medical Devices and Diagnostics Division (since July 1991) (3) |
| Michael L. Eagle | 46 | Vice President, Manufacturing (since January 1994) (4) |
| Brendan P. Fox | 50 | President, Elanco Animal Health Division (since January 1991) (3) |
| Pedro P. Granadillo | 46 | Vice President, Human Resources (since April 1993) |
| J. B. King | 64 | Vice President and General Counsel (since October 1987) |
| Stephen A. Stitle | 48 | Vice President, Corporate Affairs (since April 1993) and a Director |
| W. Leigh Thompson, Ph.D., M.D. | 55 | Chief Scientific Officer (since January 1993) (3) |
| August M. Watanabe, M.D. | 52 | Vice President (since January 1994) and a Director(4) |

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1 Retired as an officer and director effective December 31, 1993

- 2 Retired as an officer effective December 31, 1993
- 3 Serves in office until his successor is appointed
- 4 Became executive officer January 1994

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EMPLOYEES

At the end of 1993, the Company had approximately 32,700 employees, including approximately 11,000 employees outside the United States. A substantial number of the Company's employees have long records of continuous service. Approximately 2,600 employees, including 1,900 U.S. employees, are retiring under voluntary early retirement programs announced in the fourth quarter of 1993.

FINANCIAL INFORMATION RELATING TO FOREIGN AND DOMESTIC OPERATIONS

Financial information relating to foreign and domestic operations, set forth in the Company's 1993 Annual Report at pages 18-19 under "Review of Operations - Segment Information" (pages 12-13 of Exhibit 13), is incorporated herein by reference.

Eli Lilly International Corporation, a subsidiary, coordinates the Company's manufacture and sale of products outside the United States.

Local restrictions on the transfer of funds from branches and subsidiaries located abroad (including the availability of dollar exchange) have not to date been a significant deterrent in the Company's overall operations abroad. The Company cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on its future operations or what other restrictions may be imposed in the future.

RECENT DEVELOPMENTS

On January 18, 1994, the Company announced its intent to divest itself of its medical device and diagnostics ("MDD") businesses. The final form of the divestiture has not been resolved. It will depend on tax, market, and other considerations, including the nature of any offers the Company may receive from prospective purchasers of one or more of the businesses. Current plans call for the creation of a new holding company comprising six of the businesses and the divestiture of the new company through a spin-off to Company shareholders, one or more public offerings of the holding company's shares, or a combination of these methods. These six businesses are Advanced Cardiovascular Systems, Cardiac Pacemakers, Devices for Vascular Intervention, Heart Rhythm Technologies, IVAC, and Origin Medsystems. The Company currently intends to sell separately the three other businesses in the MDD division - Hybritech, Pacific Biotech, and Physio-Control. The agreements under which the Company acquired Hybritech, Pacific Biotech, and Origin Medsystems include provisions that could affect the timing of these transactions.

On March 8, 1994, the Company announced that it had signed a letter of intent with Sphinx Pharmaceuticals Corporation for the acquisition of Sphinx by the Company. Sphinx is engaged in drug discovery and development by generating combinatorial chemistry libraries of small organic molecules and by high-throughput screening of compounds for biological activity. The transaction is subject to the signing of a definitive agreement, applicable government approval, and approval by Sphinx shareholders. Three purported class actions have been filed by shareholders of Sphinx seeking, among other things, to enjoin the transaction.

Item 2. PROPERTIES

The Company's principal domestic and international executive offices are located in Indianapolis. At December 31, 1993, the Company owned 14 production plants and facilities in the United States and Puerto Rico. These plants and facilities contain an aggregate of approximately 12 million square feet of floor area. Most of the plants and facilities involve production of both pharmaceutical and animal health products. The Company owns manufacturing, research, and administrative facilities for medical devices and diagnostic products, containing an aggregate of approximately 1.9 million square feet, in seven cities in the United States and Puerto

Rico. The Company's Medical Devices and Diagnostics Division leases manufacturing, research, and administrative facilities in the United

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States containing an aggregate of approximately 800,000 square feet. The Company also leases sales offices in a number of cities located in the United States.

The Company has 25 production plants and facilities in 19 countries outside the United States, containing an aggregate of approximately 3.9 million square feet of floor space. Leased production and warehouse facilities are utilized in some of these countries as well as in nine other countries including Puerto Rico.

The Company's main research and development laboratories in Indianapolis and Greenfield, Indiana, consist of approximately 2.8 million square feet. Its major research and development facilities abroad are located in Belgium and the United Kingdom and contain approximately 435,000 square feet. The Company also owns two tracts of land, containing an aggregate of approximately 1,700 acres, a portion of which is used for field studies of products.

The Company believes that none of its properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business of the Company. The buildings owned by the Company are of varying ages and in good condition.

Item 3. LEGAL PROCEEDINGS

The Company is currently a defendant in a variety of product and patent litigation matters. In approximately 205 actions, plaintiffs seek to recover damages on behalf of children or grandchildren of women who ingested diethylstilbestrol during pregnancy. In another approximately 170 actions, plaintiffs seek to recover damages as a result of the ingestion of Prozac. In the patent suits, it is asserted that one or more Company products or processes infringe issued patents. The holders of those patents seek monetary damages and injunctions against further infringement. Products involved include Humulin, Humatrope, bovine somatotropin and certain medical devices.

A federal grand jury in Baltimore, Maryland is conducting an inquiry into the Company's compliance with the Food and Drug Administration's regulatory requirements affecting the Company's pharmaceutical manufacturing operations. The Company is cooperating fully with the inquiry.

The Company has been named in approximately ten of more than 40 lawsuits filed in various federal courts against a number of U.S. pharmaceutical manufacturers and in some cases wholesalers. Most of the suits in which the Company is a defendant purport to be class actions on behalf of all retail pharmacies in the United States and allege an industry-wide agreement to deny favorable pricing on sales to certain retail pharmacies. At least one also alleges price discrimination. The suits are in an early procedural stage.

The Company is also a defendant in other litigation, including product liability suits, of a character regarded as normal to its business.

While it is not possible to predict or determine the outcome of the legal actions pending against the Company, in the opinion of the Company such actions will not ultimately result in any liability that would have a material adverse effect on its consolidated financial position.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 1993, no matters were submitted to a vote of security holders.

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PART II

Item 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information relating to the principal market for the Company's common stock and related stockholder matters, set forth in the Company's 1993 Annual Report under "Review of Operations - Selected Quarterly Data (unaudited)," at page 20 (page 14 of Exhibit 13), is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of the Company's five most recent fiscal years, set forth in the Company's 1993 Annual Report under "Review of Operations - Selected Financial Data (unaudited)," at page 21 (page 15 of Exhibit 13), are incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Management's discussion and analysis of results of operations and financial condition, set forth in the Company's 1993 Annual Report under "Review of Operations - Operating Results" (pages 9-13), "Review of Operations - Financial Condition" (pages 13 and 16), and "Review of Operations - Environmental and Legal Matters" (page 16) (together, pages 1-7 of Exhibit 13), is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and its subsidiaries, listed in Item 14(a)1 and included in the Company's 1993 Annual Report at pages 12, 14, 15, and 17 (Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows), pages 18-19 (Segment Information), and pages 22-33 (Notes to Consolidated Financial Statements) (together, pages 8-13 and 16-30 of Exhibit 13), and the Report of Independent Auditors set forth in the Company's 1993 Annual Report at page 34 (page 31 of Exhibit 13), are incorporated herein by reference.

Information on quarterly results of operations, set forth in the Company's 1993 Annual Report under "Review of Operations - Selected Quarterly Data (unaudited)," at page 20 (page 14 of Exhibit 13), is incorporated herein by reference.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the Company's directors, set forth in the Company's Proxy Statement dated March 14, 1994, under "Election of Directors - Nominees for Election," at pages 2-5, is incorporated herein by reference. Information relating to the Company's executive officers is set forth at pages 6-7 of this Form 10-K under "Executive Officers of the Company." Additional information with respect to the Company's directors and certain of its officers, set forth in the Company's Proxy Statement dated March 14, 1994, under "Other Matters," at page 25, is incorporated herein by reference.

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Item 11. EXECUTIVE COMPENSATION

Information relating to executive compensation, set forth in the Company's Proxy Statement dated March 14, 1994, under "Election of Directors - Executive Compensation," at pages 9-20, is incorporated herein by reference, except that the Compensation and Management Development Committee Report and Performance Graph are not so incorporated.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to ownership of the Company's common stock by persons known by the Company to be the beneficial owners of more than 5% of the outstanding shares of common stock and by management, set forth in the Company's Proxy Statement dated March 14, 1994, under "Election of Directors - Common Stock Ownership by Directors and Executive Officers," at pages 6-7, and "Election of Directors - Principal Holders of Common Stock," at page 8, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries, included in the Company's 1993 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income - Years Ended December 31, 1993, 1992, and 1991 (page 12) (page 8 of Exhibit 13)

Consolidated Balance Sheets - December 31, 1993 and 1992 (pages 14-15) (pages 9-10 of Exhibit 13)

Consolidated Statements of Cash Flows - Years Ended December 31, 1993, 1992, and 1991 (page 17) (page 11 of Exhibit 13)

Segment Information (pages 18-19) (pages 12-13 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 22-33) (pages 16-30 of Exhibit 13)

(a)2. Financial Statement Schedules

The following consolidated financial statement schedules of the Company and its subsidiaries are included in this Form 10-K:

Schedule I Marketable Securities - Other Investments (page F-1)

Schedule V Property, Plant, and Equipment (page F-2)

Schedule VI Accumulated Depreciation, Depletion, and Amortization of Property, Plant, and Equipment (page F-3)

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Schedule VII Guarantees of Securities of Other Issuers (page F-4)

Schedule VIII Valuation and Qualifying Accounts (page F-5)

Schedule IX Short-Term Borrowings (page F-6)

Schedule X Supplementary Income Statement Information (page F-7)

All other schedules (Nos. II, III, IV, XI, XII, XIII, and XIV) for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or are adequately explained in the financial statements and, therefore, have been omitted.

Financial statements of interests of 50% or less, which are accounted for by the equity method, have been omitted because they do not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary.

The report of the Company's independent auditors with respect to the schedules listed above is contained herein as a part of Exhibit 23, Consent of Independent Auditors.

(a)3. Exhibits

- 3.1 Amended Articles of Incorporation
- 3.2 By-laws
- 4.1 Form of 7% Bond 1984-1994/96 of Eli Lilly Overseas Finance N.V.
- 4.2 Form of Guarantee dated as of January 9, 1984, by Eli Lilly and Company to Holders of 7% Bonds 1984-1994/96 of Eli Lilly Overseas Finance N.V.
- 4.3 Form of Letter Agreement dated as of January 9, 1984, between Eli Lilly and Company, Eli Lilly Overseas Finance N.V., and Swiss Bank Corporation
- 4.4 Form of Bond Purchase Agreement dated as of December 3, 1984, including form of Bond, between City of Clinton, Indiana, Eli Lilly and Company, and Chemical Bank*
- 4.5 Form of Loan Agreement dated as of December 3, 1984, between Eli Lilly and Company and City of Clinton, Indiana*
- 4.6 Form of Bond Purchase Agreement dated as of December 3, 1984, including form of Bond, between Tippecanoe County, Indiana, Eli Lilly and Company, and Chemical Bank*
- 4.7 Form of Loan Agreement dated as of December 3, 1984, between Eli Lilly and Company and Tippecanoe County, Indiana*
- 4.8 Form of Indenture dated as of May 15, 1985, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee
- 4.9 Form of Eli Lilly and Company Convertible Debenture due 1994
- 4.10 Form of Indenture with respect to Contingent Payment Obligation Units dated March 18, 1986, between Eli Lilly and Company and Harris Trust and Savings Bank, as Trustee

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* Exhibits 4.4-4.7 are not filed with this report. Copies of these exhibits will be furnished to the Securities and Exchange Commission upon request.

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- 4.11 Rights Agreement dated as of July 18, 1988, between Eli Lilly and Company and Bank One, Indianapolis, NA
- 4.12 Form of Indenture dated as of February 21, 1989, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee
- 4.13 Form of Eli Lilly and Company Five Year Convertible Note
- 4.14 Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee
- 4.15 Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on, February 1, 1991
- 4.16 Form of Indenture dated as of September 5, 1991, among the Lilly Savings Plan Master Trust Fund C, as Issuer; Eli Lilly and Company, as Guarantor; and Chemical Bank, as Trustee*
- 10.1 1984 Lilly Stock Plan, as amended
- 10.2 1989 Lilly Stock Plan, as amended
- 10.3 The Lilly Deferred Compensation Plan, as amended

- 10.4 The Lilly Directors' Deferred Compensation Plan, as amended
- 10.5 The Lilly Non-Employee Directors' Deferred Stock Plan, as amended
- 10.6 Eli Lilly and Company Senior Executive Bonus Plan, as amended
- 10.7 The Lilly Non-Employee Directors' Retirement Plan
- 10.8 Letter Agreement dated September 3, 1993, between the Company and Vaughn D. Bryson
- 11. Computation of Earnings Per Share on Primary and Fully Diluted Bases
- 12. Computation of Ratio of Earnings to Fixed Charges
- 13. Annual Report to Shareholders for the Year Ended December 31, 1993 (portions incorporated by reference into this Form 10-K)
- 21. List of Subsidiaries
- 23. Consent of Independent Auditors
- 99. Report to Holders of Eli Lilly and Company Contingent Payment Obligation Units

(b) Reports on Form 8-K

The Company filed no Reports on Form 8-K during the fourth quarter of 1993.

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* Exhibit 4.16 is not filed with this report. Copies of this exhibit will be furnished to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By s/Randall L. Tobias
 (Randall L. Tobias, Chairman of the Board and Chief Executive Officer)

March 21, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|--|---|----------------|
| s/Randall L. Tobias (RANDALL L. TOBIAS) | Chairman of the Board, Chief Executive Officer, and a Director (principal executive officer) | March 21, 1994 |
| s/James M. Cornelius (JAMES M. CORNELIUS) | Vice President, Finance, Chief Financial Officer, and a Director (principal financial officer) | March 21, 1994 |
| s/Keith E. Brauer (KEITH E. BRAUER) | Chief Accounting Officer (principal accounting officer) | March 21, 1994 |

| | | |
|--|----------|----------------|
| s/Steven C. Beering, M.D. (STEVEN C. BEERING, M.D.) | Director | March 21, 1994 |
| s/James W. Cozad (JAMES W. COZAD) | Director | March 21, 1994 |
| (KAREN N. HORN, Ph.D.) | Director | March 21, 1994 |
| s/J. Clayburn La Force, Jr., Ph.D. (J. CLAYBURN LA FORCE, JR., Ph.D.) | Director | March 21, 1994 |
| s/Kenneth L. Lay, Ph.D. (KENNETH L. LAY, Ph.D.) | Director | March 21, 1994 |

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| | | |
|--|----------|----------------|
| s/Ben F. Love (BEN F. LOVE) | Director | March 21, 1994 |
| s/Stephen A. Stitle (STEPHEN A. STITLE) | Director | March 21, 1994 |
| s/Sidney Taurel (SIDNEY TAUREL) | Director | March 21, 1994 |
| s/August M. Watanabe, M.D. (AUGUST M. WATANABE, M.D.) | Director | March 21, 1994 |
| s/Alva O. Way (ALVA O. WAY) | Director | March 21, 1994 |
| s/Richard D. Wood (RICHARD D. WOOD) | Director | March 21, 1994 |

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TRADEMARKS

Apralan(Registered) (apramycin sulfate, Elanco)
Axid(Registered) (nizatidine, Lilly)
Ceclo(Registered) (cefaclor, Lilly)
Coban(Registered) (monensin sodium, Elanco)
Compudose(Registered) (estradiol controlled-release implant, Elanco)
Darvocet-N(Registered) (propoxyphene napsylate with acetaminophen, Lilly)
Dobutrex(Registered) (dobutamine hydrochloride, Lilly)
Eldisine(Registered) (vindesine sulfate, Lilly)
Humatrope(Registered) (somatropin of recombinant DNA origin, Lilly)
Humulin(Registered) (human insulin of recombinant DNA origin, Lilly)
lletin(Registered) (insulin, Lilly)
Keflex(Registered) (cephalexin, Dista)
Kefstab(Registered) (cephalexin hydrochloride, Dista)
Kefurox(Registered) (cefuroxime sodium, Lilly)
Kefzol(Registered) (cefazolin sodium, Lilly)
Lorabid(Trademark) (loracarbef, Lilly)
Mandel(Registered) (cefamandole nafate, Lilly)
Maxiban(Registered) (narsin and nicarbazine, Elanco)
Micotil(Registered) (tilmicosin phosphate, Elanco)
Monteban(Registered) (narsin, Elanco)
Nebcin(Registered) (tobramycin sulfate, Lilly)
Oncovin(Registered) (vincristine sulfate, Lilly)
Prozac(Registered) (fluoxetine hydrochloride, Dista)
Rumensin(Registered) (monensin sodium, Elanco)
Tazidime(Registered) (ceftazidime, Lilly)
Tylan(Registered) (tylosin, Elanco)
Vancocin(Registered) (vancomycin hydrochloride, Lilly)

Velban(Registered) (vinblastine sulfate, Lilly)

ELI LILLY AND COMPANY AND SUBSIDIARIES
 SCHEDULE I. MARKETABLE SECURITIES - OTHER INVESTMENTS
 DECEMBER 31, 1993

| Col. A ----- | Col. B ----- | Col. C ----- | Col. D ----- | Col. E ----- |
|--|--|--------------------------|---|---|
| Name of Issuer and Title of Issue | Number of Shares or Units- Principal Amount of Bonds and Notes | Cost of Each Issue | Market Value of Issue at Balance Sheet Date | Amount at Which Each Portfolio of Equity Security Issues and Each Other Security Issue Carried in the Balance Sheet |
| ----- (Dollars in millions) | | | | |
| CERTIFICATES OF DEPOSIT, TIME DEPOSITS, AND INTEREST-BEARING DEMAND DEPOSITS | | | | |
| | \$ 491.8 | \$ 491.8 | \$ 492.1 | \$ 491.8 |
| REPURCHASE AGREEMENTS | | | | |
| Collateralized by U.S. government or U.S. government agency securities | 28.0 | 28.0 | 28.0 | 28.0 |
| Collateralized by other investments | 42.3 | 42.3 | 42.3 | 42.3 |
| EQUITY INVESTMENTS AND LIMITED PARTNERSHIPS | 216.5 | 216.5 | 221.3 | 204.0 |
| EURO COMMERCIAL PAPER AND BONDS | 390.4 | 390.4 | 388.5 | 386.0 |
| TOTALS | \$1,169.0 ===== | \$1,169.0 ===== | \$1,172.2 ===== | \$1,152.1 ===== |
| Classified as: | | | | |
| Current asset - Cash equivalent | | | | \$ 482.9 |
| - Short-term investments | | | | 447.5 |
| Noncurrent asset | | | | 221.7 |
| TOTAL | | | | \$1,152.1 ===== |
| Securities classified as cash equivalents | | | | \$ 482.9 |
| Cash | | | | 56.7 |
| Cash and cash equivalents | | | | \$ 539.6 ===== |

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ELI LILLY AND COMPANY AND SUBSIDIARIES
 SCHEDULE V. PROPERTY, PLANT, AND EQUIPMENT

| Col. A ----- | Col. B ----- | Col. C ----- | Col. D ----- | Col. E ----- | Col. F ----- |
|-----------------|-------------------------|-----------------|-----------------|-------------------------|-----------------|
| | Balance at Beginning | (A) | Add (Deduct) | Other Changes Add | Balance |

of Additions Translation (Deduct) At End
 Classification Period At Cost Retirements Adjustments Describe of Period

(Dollars in millions)

Year Ended

Dec 31, 1991

| | | | | | | |
|------------------------------|-----------|-----------|---------|----------|------|------------|
| Land | \$ 102.1 | \$ 8.8 | \$ - | \$.6 | \$ - | \$ 111.5 |
| Buildings | 1,141.3 | 228.0 | 9.2 | (2.3) | - | 1,357.8 |
| Equipment | 2,376.9 | 500.2 | 76.2 | (5.6) | - | 2,795.3 |
| Construction- in-progress | 895.5 | 405.4 | - | 3.1 | - | 1,304.0 |
| | ----- | ----- | ----- | ----- | | ----- |
| TOTALS | \$4,515.8 | \$1,142.4 | \$ 85.4 | \$ (4.2) | \$ - | \$ 5,568.6 |
| | ===== | ===== | ===== | ===== | | ===== |

Year Ended

Dec 31, 1992

| | | | | | | |
|------------------------------|-----------|----------|---------|------------|---------------|------------|
| Land | \$ 111.5 | \$ 3.1 | \$ 0.3 | \$ (0.4) | \$ (1.1) (B) | \$ 112.8 |
| Buildings | 1,357.8 | 371.6 | 30.8 | (30.4) | (12.8) (B) | 1,655.4 |
| Equipment | 2,795.3 | 756.5 | 126.6 | (83.6) | 2.7 (B) | 3,344.3 |
| Construction- in-progress | 1,304.0 | (218.3) | - | (16.9) | (33.2) (B) | 1,035.6 |
| | ----- | ----- | ----- | ----- | | ----- |
| TOTALS | \$5,568.6 | \$ 912.9 | \$157.7 | \$ (131.3) | \$ (44.4) (B) | \$ 6,148.1 |
| | ===== | ===== | ===== | ===== | | ===== |

Year Ended

Dec 31, 1993

| | | | | | | |
|------------------------------|-----------|---------|---------|-----------|---------------|-----------|
| Land | \$ 112.8 | \$ 15.4 | \$ 0.1 | \$ 0.2 | \$ 1.9 (B) | \$ 130.2 |
| Buildings | 1,655.4 | 312.3 | 10.4 | (14.7) | 14.7 (B) | 1,957.3 |
| Equipment | 3,344.3 | 563.3 | 60.9 | (39.6) | (35.4) (B) | 3,771.7 |
| Construction- in-progress | 1,035.6 | (257.5) | - | (14.5) | (56.3) (B) | 707.3 |
| | ----- | ----- | ----- | ----- | | ----- |
| TOTALS | \$6,148.1 | \$633.5 | \$ 71.4 | \$ (68.6) | \$ (75.1) (B) | \$6,566.5 |
| | ===== | ===== | ===== | ===== | | ===== |

NOTE A Additions represent cash expenditures for projects in numerous locations both inside and outside the United States. In 1992 and 1993 there were no major projects for which cash expenditures exceeded 2% of total assets at either the beginning or the end of the year. In 1991 the 2% threshold was exceeded by one major project relating to an anticipated new product launch. Expenditures for this project were primarily for additions at Indiana locations.

NOTE B Amounts shown are attributable to corporate restructuring, acquisitions, divestitures and miscellaneous reclassifications.

The range of annual rates used in computing provisions for depreciation was 2 percent to 10 percent for buildings and generally 4 percent to 25 percent for equipment.

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ELI LILLY AND COMPANY AND SUBSIDIARIES

SCHEDULE VI. ACCUMULATED DEPRECIATION, DEPLETION, AND AMORTIZATION
 OF PROPERTY, PLANT, AND EQUIPMENT

| Col. A | Col. B | Col. C | Col. D | Col. E | Col. F |
|-------------|------------|------------|-------------|--------------|--------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | Balance at | Additions | | | Other |
| | Beginning | Charged to | | Add (Deduct) | Changes |
| | of | Costs and | Retirements | Translation | Add (Deduct) |
| Description | Period | Expenses | | Adjustments | Describe |
| | | | | | of Period |
| | | | | | At End |
| | | | | | Balance |
| | | | | | At End |

(Dollars in millions)

Year Ended

| | | | | | | |
|--------------|-----------|---------|---------|----------|-------------|-----------|
| Dec 31, 1991 | | | | | | |
| Buildings | \$ 377.1 | \$ 48.9 | \$ 6.3 | \$. 1 | \$ - | \$ 419.8 |
| Equipment | 1,202.0 | 218.5 | 52.5 | (1.7) | - | 1,366.3 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| TOTALS | \$1,579.1 | \$267.4 | \$58.8 | \$(1.6) | \$ - | \$1,786.1 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Year Ended | | | | | | |
| Dec 31, 1992 | | | | | | |
| Buildings | \$ 419.8 | \$ 62.3 | \$ 21.3 | \$ (8.4) | \$ 32.2 (A) | \$ 484.6 |
| Equipment | 1,366.3 | 268.3 | 97.6 | (40.4) | 94.8 (A) | 1,591.4 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| TOTALS | \$1,786.1 | \$330.6 | \$118.9 | \$(48.8) | \$127.0 (A) | \$2,076.0 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Year Ended | | | | | | |
| Dec 31, 1993 | | | | | | |
| Buildings | \$ 484.6 | \$ 74.1 | \$ 4.9 | \$ (4.6) | \$ 9.2 (A) | \$ 558.4 |
| Equipment | 1,591.4 | 294.5 | 58.9 | (20.1) | 1.0 (A) | 1,807.9 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| TOTALS | \$2,076.0 | \$368.6 | \$63.8 | \$(24.7) | \$ 10.2 (A) | \$2,366.3 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

NOTE A - Amounts shown are primarily attributable to corporate restructuring, divestitures and transfers between accounts.

ELI LILLY AND COMPANY AND SUBSIDIARIES

SCHEDULE VII. GUARANTEES OF SECURITIES OF OTHER ISSUERS

| Col. A | Col. B | Col. C | Col. D | Col. E | Col. F | Col. G |
|--|--|---|--|---|---------------------|---|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Name of Issuer of securities guaranteed by person for which statement is filed | Title of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person or persons for which statement is filed | Amount in treasury of issuer of securities guaranteed | Nature of guarantee | Nature of any default by issuer of securities guaranteed in principal interest, sinking fund or redemption provisions, or payments of dividends |
| ----- | | | | | | |
| The Indianapolis Local Public Improvement Bond Bank | Harding St. Project | \$35,451,123 | -0- | | Debt Service | None |

ELI LILLY AND COMPANY AND SUBSIDIARIES

SCHEDULE VIII. VALUATION AND QUALIFYING ACCOUNTS

| Col. A | Col. B | Col. C | Col. D | Col. E |
|--------|--------|-----------|--------|--------|
| ----- | ----- | ----- | ----- | ----- |
| | | Additions | | |

| Description | (1) | | (2) | | Balance at End of Period |
|--|--------------------------------|-------------------------------|------------------------------------|---------------------|--------------------------|
| | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts-Describe | Deductions-Describe | |
| (Dollars in millions) | | | | | |
| | (A) | | (A) | | (A) |
| Year Ended December 31, 1991 | | | | | |
| Allowance for cash discounts and returns | \$ 6.2 | | | | \$ 6.6 |
| Allowance for doubtful accounts | 17.1 | | | | 21.0 |
| | ---- | | | | ---- |
| TOTALS | \$23.3 | | | | \$27.6 |
| | ===== | | | | ===== |
| Year Ended December 31, 1992 | | | | | |
| Allowance for cash discounts and returns | \$ 6.6 | | | | \$ 8.1 |
| Allowance for doubtful accounts | 21.0 | | | | 26.9 |
| | ---- | | | | ---- |
| TOTALS | \$27.6 | | | | \$35.0 |
| | ===== | | | | ===== |
| Year Ended December 31, 1993 | | | | | |
| Allowance for cash discounts and returns | \$ 8.1 | | | | \$ 8.6 |
| Allowance for doubtful accounts | 26.9 | | | | 23.7 |
| | ---- | | | | ---- |
| TOTALS | \$35.0 | | | | \$32.3 |
| | ===== | | | | ===== |

NOTE A - The information called for under columns C and D is not given, as the additions, deductions, and balances are not individually significant.

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ELI LILLY AND COMPANY AND SUBSIDIARIES

SCHEDULE IX. SHORT-TERM BORROWINGS

| Col. A | Col. B | Col. C | Col. D | Col. E | Col. F |
|---|--------------------------|--------------------------------|--|---|---|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Category of Aggregate Short-Term Borrowings | Balance at End of Period | Weighted Average Interest Rate | Maximum Amount Outstanding During the Period | Average Amount Outstanding During the Period(C) | Weighted Average Interest Rate During the Period(D) |
| (Dollars in millions) | | | | | |
| Year Ended December 31, 1991 | | | | | |
| Payable to banks (A) | \$315.0 | 6% | \$ 324.4 | \$ 188.5 | 7% |
| Commercial paper (B) | 375.2 | 5% | 1,160.6 | 482.7 | 6% |
| | ---- | | | | |
| Short-term borrowings | \$690.2 | 6% | | | |
| Year Ended December 31, 1992 | | | | | |

| | | | | | |
|-----------------------|---------|----|---------|----------|----|
| Payable to banks (A) | \$174.9 | 6% | \$350.4 | \$ 287.3 | 7% |
| Commercial paper (B) | 416.3 | 3% | 837.2 | 541.6 | 4% |
| | ----- | | | | |
| Short-term borrowings | \$591.2 | 4% | | | |
| Year Ended | | | | | |
| December 31, 1993 | | | | | |
| Payable to banks (A) | \$178.4 | 7% | \$195.2 | \$114.7 | 9% |
| Commercial paper (B) | 346.4 | 3% | 877.6 | 434.7 | 3% |
| | ----- | | | | |
| Short-term borrowings | \$524.8 | 4% | | | |

NOTE A - Amounts payable to banks represent worldwide borrowings under lines-of-credit and the current portion of long-term debt.

NOTE B - Commercial paper is issued in the United States for periods up to 270 days.

NOTE C - Average of daily balances.

NOTE D - Total interest divided by average borrowings outstanding.

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ELI LILLY AND COMPANY AND SUBSIDIARIES

SCHEDULE X. SUPPLEMENTARY INCOME STATEMENT INFORMATION

| Col. A ----- Item | Col. B ----- Charged to Costs and Expenses Year Ended December 31 ----- 1993 1992 1991 ----- (Dollars in millions) | | |
|--------------------------------------|---|---------|---------|
| | Maintenance and repairs | \$178.8 | \$193.4 |
| Taxes, other than payroll and income | 77.7 | 77.4 | 57.3 |
| Advertising costs | 29.6 | 24.3 | 21.0 |
| Royalty expense | 107.2 | 87.0 | 79.4 |

Amounts for depreciation and amortization of intangible assets are presented in the Statements of Cash Flows.

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INDEX TO EXHIBITS

The following documents are filed as part of this report:

| Exhibit ----- | Location ----- |
|------------------|-------------------|
|------------------|-------------------|

| | | |
|-----|--|---|
| 3.1 | Amended Articles of Incorporation | Incorporated by reference from Exhibit 3(i) to the Company's Registration Statement on Form S-8, Registration No. 33-50783 |
| 3.2 | By-laws | Filed herewith |
| 4.1 | Form of 7% Bond 1984-1994/96 of Eli Lilly Overseas Finance N.V. | Incorporated by reference from Exhibit 4.1 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1990 |
| 4.2 | Form of Guarantee dated as of January 9, 1984, by Eli Lilly and Company to Holders of 7% Bonds 1984-1994/96 of Eli Lilly Overseas Finance N.V. | Incorporated by reference from Exhibit 4.2 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1990 |
| 4.3 | Form of Letter Agreement dated as of January 9, 1984, between Eli Lilly and Company, Eli Lilly Overseas Finance N.V., and Swiss Bank Corporation | Incorporated by reference from Exhibit 4.3 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1990 |
| 4.4 | Form of Bond Purchase Agreement dated as of December 3, 1984, including form of Bond, between City of Clinton, Indiana, Eli Lilly and Company, and Chemical Bank | * |
| 4.5 | Form of Loan Agreement dated as of December 3, 1984, between Eli Lilly and Company and City of Clinton, Indiana | * |
| 4.6 | Form of Bond Purchase Agreement dated as of December 3, 1984, including form of Bond, between Tippecanoe County, Indiana, Eli Lilly and Company, and Chemical Bank | * |
| 4.7 | Form of Loan Agreement dated as of December 3, 1984, between Eli Lilly and Company and Tippecanoe County, Indiana | * |

- - - - -
* Exhibits 4.4-4.7 are not filed with this report. Copies of these exhibits will be furnished to the Securities and Exchange Commission upon request.

| | | |
|-----|---|--|
| 4.8 | Form of Indenture dated as of May 15, 1985, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee | Incorporated by reference from Exhibit 4(a) to the Company's Registration Statement on Form S-15, Registration No. 2-96799 |
| 4.9 | Form of Eli Lilly and Company Convertible Debenture due 1994 | Incorporated by reference from Exhibit 4(b) to the Company's Registration Statement on Form S-15, |

Registration No. 2-96799

- | | | |
|------|--|--|
| 4.10 | Form of Indenture with respect to Contingent Payment Obligation Units dated March 18, 1986, between Eli Lilly and Company and Harris Trust and Savings Bank, as Trustee | Incorporated by reference from Exhibit 4.3 to the Company's Registration Statement on Form S-4, Registration No. 33-3330 |
| 4.11 | Rights Agreement dated as of July 18, 1988, between Eli Lilly and Company and Bank One, Indianapolis, N.A. | Filed herewith |
| 4.12 | Form of Indenture dated as of February 21, 1989, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee | Incorporated by reference from Exhibit 4.16 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1988 |
| 4.13 | Form of Eli Lilly and Company Five Year Convertible Note | Incorporated by reference from Exhibit 4.17 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1988 |
| 4.14 | Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee | Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 33-38347 |
| 4.15 | Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on, February 1, 1991 | Incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-3, Registration No. 33-38347 |
| 4.16 | Form of Indenture dated as of September 5, 1991, among the Lilly Savings Plan Master Trust Fund C, as Issuer; Eli Lilly and Company, as Guarantor; and Chemical Bank, as Trustee | * |

- - - - -
* Exhibit 4.16 is not filed with this report. Copies of this exhibit will be furnished to the Securities and Exchange Commission upon request.

- | | | |
|------|---|--|
| 10.1 | 1984 Lilly Stock Plan, as amended | Incorporated by reference from Exhibit 10.2 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1988 |
| 10.2 | 1989 Lilly Stock Plan, as amended | Filed herewith |
| 10.3 | The Lilly Deferred Compensation Plan, as amended | Incorporated by reference from Exhibit 10.4 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1991 |
| 10.4 | The Lilly Directors' Deferred Compensation Plan, as amended | Incorporated by reference from Exhibit 10.5 to the Company's Report on Form |

| | | |
|------|---|--|
| | | 10-K for the fiscal year ended December 31, 1991 |
| 10.5 | The Lilly Non-Employee Directors' Deferred Stock Plan, as amended | Incorporated by reference from Exhibit 10.6 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1991 |
| 10.6 | Eli Lilly and Company Senior Executive Bonus Plan, as amended | Filed herewith |
| 10.7 | The Lilly Non-Employee Directors' Retirement Plan | Incorporated by reference from Exhibit 10.7 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1988 |
| 10.8 | Letter Agreement dated September 3, 1993, between the Company and Vaughn D. Bryson | Filed herewith |
| 11. | Computation of Earnings Per Share on Primary and Fully Diluted Bases | Filed herewith |
| 12. | Computation of Ratio of Earnings to Fixed Charges | Filed herewith |
| 13. | Annual Report to Shareholders for the Year Ended December 31, 1993 (portions incorporated by reference in this Form 10-K) | Filed herewith |
| 21. | List of Subsidiaries | Filed herewith |
| 23. | Consent of Independent Auditors | Filed herewith |
| 99. | Report to Holders of Eli Lilly and Company Contingent Payment Obligation Units | Filed herewith |

ELI LILLY AND COMPANY

BY-LAWS

As Amended through
December 20, 1993

ELI LILLY AND COMPANY

BY-LAWS

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of

ELI LILLY AND COMPANY

(An Indiana Corporation)

ARTICLE I

The Shareholders

SECTION 1.0. Annual Meetings. The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as properly may come before the meeting shall be held on the third Monday in April in each year, if not a legal holiday, or, if a legal holiday, then on the next succeeding day not a legal holiday.

SECTION 1.1. Special Meetings. Special meetings of the shareholders may be called at any time by the Board of Directors, the Chairman of the Board of Directors, or the President.

SECTION 1.2. Time and Place of Meetings. Each meeting of the shareholders shall be held at such time of day and place, either within or without the State of Indiana, as shall be determined by the Board of Directors. Each adjourned meeting of the shareholders shall be held at such time and place as may be provided in the motion for adjournment.

SECTION 1.3. Notice of Meetings. The Secretary shall cause a written or printed notice of the place, day and hour and the purpose or purposes of each meeting of the shareholders to be delivered or mailed at least ten (10) but not more than sixty (60) days prior to the meeting, to each shareholder of record entitled to vote at the meeting, at the shareholder's post office address as the same appears on the records maintained by the Corporation. Notice of any such shareholders meeting may be waived by any shareholder by delivering a written waiver to the Secretary before or after such meeting. Attendance at any meeting in person or by proxy when the instrument of proxy sets forth in reasonable detail the purpose or purposes for which the meeting is called, shall constitute a waiver of notice thereof. Notice of any adjourned meeting of the shareholders of the Corporation shall not be required to be given unless otherwise required by statute.

SECTION 1.4. Quorum. At any meeting of the shareholders a majority of the outstanding shares entitled to vote on a matter at such meeting, represented in person or by proxy, shall constitute a quorum for action on that matter. In the absence of a quorum, the holders of a majority of the shares entitled to vote present in person or by proxy, or, if no shareholder entitled to vote is present in person or by proxy, any officer entitled to preside at or act as Secretary of such meeting, may adjourn such meeting from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 1.5. Voting. Except as otherwise provided by statute or by the Articles of Incorporation, at each meeting of the shareholders each holder of shares entitled to vote shall have the right to one vote for each share standing in the shareholder's name on the books of the Corporation on the record date fixed for the meeting under Section 1.7. Each shareholder entitled to vote shall be entitled to vote in person or by proxy executed in writing (which shall include telegraphing, cabling, or facsimile transmission) by the shareholder or a duly authorized attorney in fact. The vote of shareholders approving any matter to which the provisions of Article 9(c) or 9(d) or Article 13 of the Articles of Incorporation or of a statute are applicable shall require the percentage of affirmative vote therein specified. All other matters, except the election of directors, shall require that the votes cast in favor of the matter exceed the votes cast opposing the matter at a meeting at which

a quorum is present. In the event that more than one group of shares is entitled to vote as a separate voting group, the vote of each group shall be considered and decided separately.

SECTION 1.6. Voting Lists. The Secretary shall make or cause to be made, after a record date for a meeting of shareholders has been fixed under Section 1.7 and at least five (5) days before such meeting, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of each such shareholder and the number of shares so entitled to vote held by each which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder entitled to vote at the meeting. Such list shall be produced and kept open at the time and place of the meeting and subject to the inspection of any such shareholder during the holding of such meeting or any adjournment. Except as otherwise required by law, such list shall be the only evidence as to who are the shareholders entitled to vote at any meeting of the shareholders. In the event that more than one group of shares is entitled to vote as a separate voting group at the meeting, there shall be a separate listing of the shareholders of each group.

SECTION 1.7. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, not more than seventy (70) days prior to the date on which the particular action requiring this determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, the determination shall, to the extent permitted by law, apply to any adjournment thereof.

ARTICLE II

Board of Directors

SECTION 2.0. General Powers. The property, affairs and business of the Corporation shall be managed under the direction of the Board of Directors.

SECTION 2.1. Number and Qualifications. The number of directors which shall constitute the whole Board of Directors shall be sixteen (16), which number may be either increased or diminished by resolution adopted by not less than a majority of the directors then in office; provided that the number may not be diminished below nine (9) and no reduction in number shall have the effect of shortening the term of any incumbent director. In the event that the holders of shares of preferred stock become entitled to elect two directors, the number of directors and the minimum number of directors shall be increased by two. Neither ownership of stock of the Corporation nor residence in the State of Indiana shall be required as a qualification for a director.

SECTION 2.2. Classes of Directors and Terms. The directors shall be divided into three classes as nearly equal in number as possible. Except as provided in Article 9 of the Articles of Incorporation fixing one, two, and three year terms for the initial classified board, each class of directors shall be elected for a term of three (3) years. In the event of vacancy, either by death, resignation, or removal of a director, or by reason of an increase in the number of directors, each replacement or new director shall serve for the balance of the term of the class of the director he or she succeeds or, in the event of an increase in the number of directors, of the class to which he or she is assigned. All directors elected for a term shall continue in office until the election and qualification of their respective successors, their death, their resignation in

accordance with Section 2.6, their removal in accordance with Section 2.7, or if there has been a reduction in the number of directors and no successor is to be elected, until the end of the term.

Directors elected by preferred shareholders voting as a class shall not be members of any of the foregoing classes and shall hold office until the next annual meeting of shareholders.

SECTION 2.3. Election of Directors. At each annual meeting of shareholders, the class of directors to be elected at the meeting shall be chosen by a plurality of the votes cast by the holders of shares entitled to vote in the election at the meeting, provided a quorum is present. The election of directors by the shareholders shall be by written ballot if directed by the chairman of the meeting or if the number of nominees exceeds the number of directors to be elected.

Any vacancy on the Board of Directors shall be filled by the affirmative vote of a majority of the remaining directors.

If the holders of preferred stock are entitled to elect two directors, those directors shall be elected by a plurality of the votes cast by the holders of shares of preferred stock entitled to vote in the election at the meeting, provided a quorum is present, voting separately as a class.

SECTION 2.4. Meetings of Directors.

a. Annual Meeting. Unless otherwise provided by resolution of the Board of Directors, the annual meeting of the Board of Directors shall be held at the place of and immediately following the annual meeting of shareholders, for the purpose of organization, the election of officers and the transaction of such other business as properly may come before the meeting. No notice of the meeting need be given, except in the case an amendment to the By-laws is to be considered.

b. Regular Meetings. The Board of Directors by resolution may provide for the holding of regular meetings and may fix the times and places (within or outside the State of Indiana) at which those meetings shall be held. Notice of regular meetings need not be given except when an amendment to the By-laws is to be considered. Whenever the time or place of regular meetings shall be fixed or changed, notice of this action shall be mailed promptly to each director not present when the action was taken, addressed to the director at his or her residence or usual place of business.

c. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President and shall be called by the Secretary at the request of any three (3) directors. Except as otherwise required by statute, notice of each special meeting shall be mailed to each director at his or her residence or usual place of business at least three (3) days before the day on which the meeting is to be held, or shall be sent to the director at such place by telegram, facsimile transmission, or cable, or telephoned or personally delivered, not later than the day before the day on which the meeting is to be held. The notice shall state the time and place (which may be within or outside the State of Indiana) of the meeting but, unless otherwise required by statute, the Articles of Incorporation or the By-laws, need not state the purposes thereof.

Notice of any meeting need not be given to any director, however, who shall attend the meeting, or who shall waive notice thereof, before, at the time of, or after the meeting, in a writing signed by the director and delivered to the Corporation. No notice need be given of any meeting at which every member of the Board of Directors shall be present.

SECTION 2.5. Quorum and Manner of Acting. A majority of the actual number of directors established pursuant to Section 2.1, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies on the Board of Directors under Section 2.3 or voting on a conflict of interest transaction under Section 2.12. The act of a majority of the directors present at a meeting at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by statute, by the Articles of Incorporation, or by the By-laws. Under the provisions of Article 13 of the Articles of Incorporation, certain actions by the Board of Directors therein specified require not only approval by the Board of Directors, but also approval by a majority of the Continuing Directors, as therein defined. Any or all directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications equipment by which all persons participating in the meeting may simultaneously hear each other, and participation in this manner shall constitute presence in person at the meeting. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. No notice of any adjourned meeting need be given.

SECTION 2.6. Resignations. Any director may resign at any time by giving written notice of resignation to the Board of Directors, the Chairman of the Board, the President, or the Secretary. Unless otherwise specified in the written notice, the resignation shall take effect upon receipt thereof.

SECTION 2.7. Removal of Directors. Any director, other than a director elected by holders of preferred stock voting as a class, may be removed from office at any time but only for cause and only upon the affirmative vote of at least 80% of the votes entitled to be cast by holders of all of the outstanding shares of Voting Stock (as defined in Article 13 of the Articles of Incorporation), voting together as a single class.

SECTION 2.8. Action without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if taken by all members of the Board of Directors or such committee, as the case may be, evidenced by a written consent signed by all such members and effective on the date, either prior or subsequent to the date of the consent, specified in the written consent, or if no effective date is specified in the written consent, the date on which the consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 2.9. Attendance and Failure to Object. A director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be presumed to have assented to the action taken, unless (a) the director's dissent shall be entered in the minutes of the meeting, (b) the director shall file a written dissent to such action with the Secretary of the meeting before adjournment thereof, or (c) the director shall forward such dissent by registered mail to the Secretary immediately after adjournment of the meeting. The right of dissent provided for by the preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a director who voted in favor of such action.

SECTION 2.10. Special Standing Committees. The Board of Directors, by resolution adopted by a majority of the actual number of directors elected and qualified, may designate from among its members one or more committees. Such committees shall have those powers of the Board of Directors which may by law be delegated to such committees and are specified by resolution of the Board of Directors.

SECTION 2.11. Appointment of Auditors. The Board of Directors, prior to each annual meeting of shareholders, shall appoint a firm of independent public accountants as auditors of the Corporation. Such appointment shall be submitted to the shareholders for ratification at the annual meeting next following such appointment. Should the holders of a majority of the outstanding shares entitled to vote fail to ratify the appointment of any firm as auditors of the Corporation, or should the Board of Directors for any reason determine that any such appointment be terminated, the Board of Directors shall appoint another firm of independent public accountants to act as auditors of the Corporation and such appointment shall be submitted to the shareholders for ratification at the annual or special shareholders meeting next following such appointment.

SECTION 2.12. Transactions with Corporation. No transaction with the Corporation in which one or more of its directors has a direct or indirect interest shall be either void or voidable because of such interest or because such director or directors are present at the meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such transaction or because the votes of such director or directors are counted for such purposes, if:

(a) the material facts of the transaction and the director's interest are disclosed or known to the Board of Directors or committee which authorizes, approves, or ratifies the transaction by the affirmative vote or consent of a majority of the directors (or committee members) who have no direct or indirect interest in the transaction and in any event, of at least two directors (or committee members);

(b) the material facts of the transaction and the director's interest are disclosed or known to the shareholders entitled to vote and they authorize, approve or ratify such transaction by vote; or

(c) the transaction is fair to the Corporation.

If a majority of the directors or committee members who have no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present for purposes of taking action under this section.

SECTION 2.13. Compensation of Directors. The Board of Directors is empowered and authorized to fix and determine the compensation of directors and additional compensation for such additional services any of such directors may perform for the Corporation.

ARTICLE III

Officers

SECTION 3.0. Officers, General Authority and Duties. The officers of the Corporation shall be a Chairman of the Board, a President, two (2) or more Vice Presidents, a Secretary, a Chief Financial Officer, a Treasurer, a Chief Accounting Officer, and such other officers as may be elected or appointed in accordance with the provisions of Section 3.2. One or more of the Vice Presidents may be designated by the Board to serve as Executive Vice Presidents or Group Vice Presidents. Any two (2) or more offices may be held by the same person. All officers and agents of the Corporation, as between themselves and the Corporation, shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as may be determined by resolution of the Board of Directors not inconsistent with the Bylaws.

SECTION 3.1. Election, Term of Office, Qualifications. Each

officer (except such officers as may be appointed in accordance with the provisions of Section 3.2. of this Article III) shall be elected by the Board of Directors at each annual meeting. Each such officer (whether elected at an annual meeting of the Board of Directors or to fill a vacancy or otherwise) shall hold office until the officer's successor is chosen and qualified, or until death, or until the officer shall resign in the manner provided in Section 3.3. or be removed in the manner provided in Section 3.4. The Chairman of the Board and the President shall be chosen from among the directors. Any other officer may but need not be a director of the Corporation. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 3.2. Other Officers, Election or Appointment. The Board of Directors from time to time may elect such other officers or agents (including one or more Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, a Controller, and one or more Assistant Controllers) as it may deem necessary or advisable. The Board of Directors may delegate to any officer the power to appoint any such officers or agents and to prescribe their respective terms of office, powers and duties.

SECTION 3.3. Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

SECTION 3.4. Removal. The officers specifically designated in Section 3.0. may be removed, either for or without cause, at any meeting of the Board of Directors called for the purpose, by the vote of a majority of the actual number of directors elected and qualified. The officers and agents elected or appointed in accordance with the provisions of Section 3.2. may be removed, either for or without cause, at any meeting of the Board of Directors at which a quorum be present, by the vote of a majority of the directors present at such meeting, by any superior officer upon whom such power of removal shall have been conferred by the Board of Directors, or by any officer to whom the power to appoint such officer has been delegated by the Board of Directors pursuant to Section 3.2. Any removal shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 3.5. Vacancies. A vacancy in any office by reason of death, resignation, removal, disqualification or any other cause, may be filled by the Board of Directors or by an officer authorized under Section 3.2. to appoint to such office.

SECTION 3.6. Honorary Chairman of the Board of Directors. The Board of Directors may elect or appoint an Honorary Chairman of the Board of Directors, who shall be vested with and shall perform all such powers and duties as may be prescribed by the Board.

SECTION 3.7. Chairman of the Board of Directors. The Chairman of the Board shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general supervision over the management and direction of the business of the Corporation. He or she shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chairman of the Board shall preside at all meetings of the shareholders and of the Board of Directors if present and shall have such powers and perform such duties as are assigned to him by the By-laws and by the Board of Directors. He or she shall, in the absence or incapacity of the President, perform all the duties and the functions and exercise the powers of the President. The Chairman shall be

chosen by the Board of Directors at each annual meeting from among the directors and shall serve until a successor is chosen and qualified, or until resignation or death.

SECTION 3.8. President. The President shall have such powers and perform such duties as are assigned to him by the Board of Directors. The President shall, in the absence or incapacity or the Chairman of the Board, perform all the duties and functions and exercise the powers of the Chairman of the Board.

SECTION 3.9. Executive Vice Presidents. Each Executive Vice President shall have such powers and perform such duties as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors. In the case of the death or incapacity of the Chairman of the Board and the President, the Executive Vice Presidents, if one or more be designated, shall, in the order of their seniority in office as Executive Vice Presidents, perform the duties and exercise the powers of the President.

SECTION 3.10. Group Vice Presidents. Each Group Vice President shall perform such duties and have such powers as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors. In the case of the death or incapacity of the Chairman of the Board, President and the Executive Vice Presidents, the Group Vice Presidents shall, in the order of their seniority in office as Group Vice Presidents, perform the duties and exercise the powers of the President unless otherwise ordered by the Board of Directors.

SECTION 3.11. Vice Presidents. Each Vice President shall perform such duties and have such powers as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.12. Secretary. The Secretary shall:

(a) record all the proceedings of the meetings of the shareholders and Board of Directors in books to be kept for such purposes;

(b) cause all notices to be duly given in accordance with the provisions of these By-laws and as required by statute;

(c) be custodian of the Seal of the Corporation, and cause such Seal to be affixed to all certificates representing shares of the Corporation prior to the issuance thereof (subject, however, to the provisions of Section 5.0) and to all instruments the execution of which on behalf of the Corporation under its Seal shall have been duly authorized in accordance with these By-laws;

(d) subject to the provisions of Section 5.0, sign certificates representing shares of the Corporation the issuance of which shall have been authorized by the Board of Directors; and

(e) in general, perform all duties incident to the office of Secretary and such other duties as are given to the Secretary by these By-laws or as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.13. Assistant Secretaries. Each Assistant Secretary shall assist the Secretary in his or her duties, and shall perform such other duties as the Board of Directors may from time to time prescribe or the Chairman of the Board or the President may from time to time delegate. At the request of the Secretary, any Assistant Secretary may temporarily act in the Secretary's place in the performing of part or all of the duties of the Secretary. In the case of the death of the Secretary, or in the case of the Secretary's absence or inability to act

without having designated an Assistant Secretary to act temporarily in his or her place, the Assistant Secretary who is to perform the duties of the Secretary shall be designated by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.14. Chief Financial Officer. The Chief Financial Officer shall:

(a) have supervision over and be responsible for the funds, securities, receipts, and disbursements of the Corporation;

(b) cause to be kept at the principal business office of the Corporation and preserved for review as required by law or regulation records of financial transactions and correct books of account using appropriate accounting principles;

(c) be responsible for the establishment of adequate internal control over the transactions and books of account of the Corporation;

(d) be responsible for rendering to the proper officers and the Board of Directors upon request, and to the shareholders and other parties as required by law or regulation, financial statements of the Corporation; and

(e) in general perform all duties incident to the office and such other duties as are given by the By-laws or as may be assigned by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.15. Treasurer. The Treasurer shall:

(a) have charge of the funds, securities, receipts and disbursements of the Corporation;

(b) cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as shall be selected in accordance with resolutions adopted by the Board of Directors;

(c) cause the funds of the Corporation to be disbursed from the authorized depositories of the Corporation, and cause to be taken and preserved proper records of all moneys disbursed; and

(d) in general, perform all duties incident to the office of Treasurer and such other duties as are given to the Treasurer by the By-laws or as may be assigned to him or her by the Chairman of the Board, the President, the Chief Financial Officer, or the Board of Directors.

SECTION 3.16. Assistant Treasurers. Each Assistant Treasurer shall assist the Treasurer in his or her duties, and shall perform such other duties as the Board of Directors may from time to time prescribe or the Chairman of the Board, the President or the Chief Financial Officer may from time to time delegate. At the request of the Treasurer, any Assistant Treasurer may temporarily act in the Treasurer's place in performing part or all of the duties of the Treasurer. In the case of the death of the Treasurer, or in the case of the Treasurer's absence or inability to act without having designated an Assistant Treasurer to act in his or her place, the Assistant Treasurer who is to perform the duties of the Treasurer shall be designated by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.17. Chief Accounting Officer. The Chief Accounting Officer shall:

(a) keep full and accurate accounts of all assets, liabilities, commitments, revenues, costs and expenses, and other financial transactions of the Corporation in books belonging to

the Corporation, and conform them to sound accounting principles with adequate internal control;

(b) cause regular audits of these books and records to be made;

(c) see that all expenditures are made in accordance with procedures duly established, from time to time, by the Corporation;

(d) render financial statements upon the request of the Board of Directors, and a full financial report prior to the annual meeting of shareholders, as well as such other financial statements as are required by law or regulation; and

(e) in general, perform all the duties ordinarily connected with the office of Chief Accounting Officer and such other duties as may be assigned to him or her by the Chairman of the Board, the President, the Chief Financial Officer, or the Board of Directors.

SECTION 3.18. General Counsel. The Board of Directors may appoint a general counsel who shall have general control of all matters of legal import concerning the Corporation.

SECTION 3.19. Other Officers or Agents. Any other officers or agents elected or appointed pursuant to Section 3.2 shall have such duties and responsibilities as may be fixed from time to time by the By-laws or as may be assigned to them by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.20. Compensation. The compensation of executive officers of the Corporation shall be fixed from time to time by the Compensation Committee established pursuant to Section 2.10. Unless the Board of Directors by resolution shall direct otherwise, the Salary Committee shall have the power to fix the compensation of employees who are not executive officers of the Corporation. No employee shall be prevented from receiving such compensation by reason of being a director of the Corporation.

SECTION 3.21. Surety Bonds. In case the Board of Directors shall so require, any officer or agent of the Corporation shall execute to the Corporation a bond in such sum and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his or her duties to the Corporation, including responsibility for negligence and for the accounting of all property, funds or securities of the Corporation which the officer or agent may handle.

ARTICLE IV

Execution of Instruments and Deposit of Corporate Funds

SECTION 4.0. Execution of Instruments Generally. All deeds, contracts, and other instruments requiring execution by the Corporation may be signed by the Chairman of the Board, the President or any Vice President. Authority to sign any deed, contract, or other instrument requiring execution by the Corporation may be conferred by the Board of Directors upon any person or persons whether or not such person or persons be officers of the Corporation. Such person or persons may delegate, from time to time, by instrument in writing, all or any part of such authority to any other person or persons if authorized so to do by the Board of Directors.

SECTION 4.1. Notes, Checks, Other Instruments. All notes, drafts, acceptances, checks, endorsements, and all evidences of indebtedness of the Corporation whatsoever, shall be signed by such officer or officers or such agent or agents of the Corporation and in such manner as the Board of Directors from

time to time may determine. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may determine.

SECTION 4.2. Proxies. Proxies to vote with respect to shares of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the Chairman of the Board, the President or a Vice President or by any other person or persons thereunto authorized by the Board of Directors.

ARTICLE V

Shares

SECTION 5.0. Certificates for Shares. Every holder of shares in the Corporation shall be entitled to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and the Secretary or an Assistant Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of the Chairman of the Board, the President, Vice President, Secretary, and Assistant Secretary, the signature of the transfer agent and registrar, and the Seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof. Every certificate shall state on its face the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom it is issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon written request and without charge, a summary of the designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series). Every certificate shall state whether such shares have been fully paid and are nonassessable. If any such shares are not fully paid, the certificate shall be legibly stamped to indicate the percentum which has been paid up, and as further payments are made thereon, the certificate shall be stamped accordingly. Subject to the foregoing provisions, certificates representing shares in the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificates representing such share, the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

SECTION 5.1. Transfer of Shares. Transfer of shares of the Corporation shall be made on the books of the Corporation by the holder of record thereof, or by the shareholder's attorney thereunto duly authorized in writing and filed with the Secretary of the Corporation or any of its transfer agents, and on surrender of the certificate or certificates representing such shares. The Corporation and its transfer agents and registrars, shall be entitled to treat the holder of record of any share or shares the absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such share or shares on the part

of any other person whether or not it or they shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Indiana. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

SECTION 5.2. Regulations. Subject to the provisions of this Article V the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer and regulation of certificates for shares of the Corporation.

SECTION 5.3. Transfer Agents and Registrars. The Board of Directors may appoint one or more transfer agents, one or more registrars, and one or more agents to act in the dual capacity of transfer agent and registrar with respect to the certificates representing shares of the Corporation.

SECTION 5.4. Lost or Destroyed Certificates. The holders of any shares of the Corporation shall immediately notify the Corporation or one of its transfer agents and registrars of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it alleged to have been lost or destroyed upon such terms and under such regulations as may be adopted by the Board of Directors, and the Board of Directors may require the owner of the lost or destroyed certificate or the owners legal representatives to give the Corporation a bond in such form and for such amount as the Board of Directors may direct, and with such surety or sureties as may be satisfactory to the Board of Directors to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against it or any such transfer agent or registrar on account of the alleged loss or destruction of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the judgment of the Board of Directors, it is proper so to do.

SECTION 5.5. Redemption of Shares Acquired in Control Share Acquisitions. Any or all control shares acquired in a control share acquisition shall be subject to redemption by the Corporation, if either:

(a) No acquiring person statement has been filed with the Corporation with respect to the control share acquisition, or

(b) The control shares are not accorded full voting rights by the Corporation's shareholders as provided in IC 23-1-42-9.

A redemption pursuant to Section 5.5(a) may be made at any time during the period ending sixty (60) days after the date of the last acquisition of control shares by the acquiring person. A redemption pursuant to Section 5.5(b) may be made at any time during the period ending two (2) years after the date of the shareholder vote with respect to the voting rights of the control shares in question. Any redemption pursuant to this Section 5.5 shall be made at the fair value of the control shares and pursuant to such procedures for the redemption as may be set forth in these By-laws or adopted by resolution of the Board of Directors.

As used in this Section 5.5, the terms "control shares," "control share acquisition," "acquiring person statement" and "acquiring person" shall have the meanings ascribed to them in IC 23-1-42.

ARTICLE VI

Miscellaneous

SECTION 6.0. Corporate Seal. The Seal of the Corporation shall consist of a circular disk around the circumference of which shall appear the words:

"ELI LILLY AND COMPANY, INDIANAPOLIS, INDIANA"

and across the center thereof the words:

"Established 1876 Incorporated 1901".

SECTION 6.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of the following December.

SECTION 6.2. Amendment of By-laws. These By-laws may be amended or repealed and new By-laws may be adopted by the affirmative vote of at least a majority of the actual number of directors elected and qualified at any regular or special meeting of the Board of Directors, provided that the notice or waiver of notice of such meeting states in effect that consideration is to be given at such meeting to the amendment or repeal of the By-laws or the adoption of new By-laws and; provided further that no provision of these By-laws incorporating a provision of Articles 9 or 13 of the Articles of Incorporation may be amended except in a manner consistent with those Articles as they may be amended in compliance with the requirements stated therein.

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ELI LILLY AND COMPANY

and

BANK ONE, INDIANAPOLIS, NA

Rights Agent

Rights Agreement

Dated as of July 18, 1988

RIGHTS AGREEMENT

This Agreement, dated as of July 18, 1988 between Eli Lilly and Company, an Indiana corporation (the "Company"), and Bank One, Indianapolis, NA, a national banking corporation (the "Rights Agent"):

W I T N E S S E T H

WHEREAS, the Board of Directors of the Company has authorized and declared a dividend distribution of one right (a "Right") for each share of Common Stock, par value \$.62-1/2 per share, of the Company ("Common Stock") outstanding on July 28, 1988 and has authorized the issuance of one Right with respect to each share of Common Stock that shall become outstanding between July 28, 1988 and the earlier of the Distribution Date or the Expiration Date (as such terms are hereinafter defined) or the date, if any, on which such rights may be redeemed, each Right initially representing the right to purchase one one-hundredth of a share of Series A Participating Preferred Stock of the Company ("Preferred Stock") having the rights and preferences set forth in the form of Certificate of Amendment of Articles of Incorporation of Eli Lilly and Company attached hereto as Exhibit C upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall

be the Beneficial Owner of a Substantial Block, but shall not include (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan or employee stock plan of the Company or of any Subsidiary of the Company or any Person organized, appointed, established or holding Voting Stock by, for or pursuant to, the terms of any such plan, (iv) any Person who acquires a Substantial Block in connection with a transaction or series of transactions approved prior to such transaction or transactions by the Board of Directors of the Company or (v) Lilly Endowment, Inc.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect as of the date hereof.

(c) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "Beneficially Own," any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly;

(ii) which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of any conversion, exchange or purchase rights (other than the Rights), warrants or options, or otherwise, provided, however, that a Person shall not be deemed the Beneficial Owner of securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, or (B) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any securities of

the Company;

provided, however, that a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, any security if the agreement, arrangement or understanding to vote such security arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and provided, further, that nothing in this paragraph (c) shall cause a person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to Beneficially Own, any securities acquired through such person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Business Day " shall mean any day other than a Saturday, Sunday or day on which banking institutions in the State of Indiana are authorized or obligated by law or executive order to close.

(e) "Close of Business " on any given date shall mean 5:00 P.M., Indianapolis time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., Indianapolis time, on the next succeeding Business Day.

(f) "Common Stock " shall have the meaning assigned to it in the recital, and "common stock " (i) when used with reference to any Person other than the Company shall mean the capital stock with the greatest voting power of such Person or, if such Person is a Subsidiary of another Person, the Person which ultimately controls such first-mentioned Person and (ii) when used with reference to any Person other than the Company which shall not be organized in corporate form shall mean units of beneficial interest which (A) shall represent the right to participate generally in the profits and losses of such Person (including, without limitation, any flow-through tax benefits resulting from an ownership interest in such Person) and which (B) shall be entitled to exercise the greatest voting power of such Person or, in the case of a limited partnership, shall have the power to remove the general partner or partners.

(g) "Continuing Director" shall mean any member of the Board of Directors of the Company (while such Person is a member of the Board) who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and who either (i) was a member of the Board prior to the time that any Person became an Acquiring Person, or (ii) became a member of the board subsequent to the time that any Person became an Acquiring Person, if such Person's nomination for election or election to the board was recommended or approved by a majority of the Continuing Directors then in office.

(h) "Distribution Date" shall have the meaning assigned to it in Section 3.

(i) "Equivalent Stock" shall have the meaning assigned to it in Section 7.

(j) "Exchange Act" shall have the meaning assigned to it in Section 1(c).

(k) "Expiration Date" shall have the meaning assigned to it in Section 7.

(l) "Person" shall mean any individual, firm, corporation or other entity and shall include any successor by merger or otherwise of such entity.

(m) "Preferred Stock" shall have the meaning assigned to it in the recital.

(n) "Purchase Price" shall have the meaning assigned to it in Section 4.

(o) "Redemption Price" shall have the meaning assigned to it in Section 23.

(p) "Stock Acquisition Date" shall mean the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such.

(q) "Subsidiary" shall mean, with respect to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient, in the absence of contingencies, to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person and any

Affiliate of such Person.

(r) "Substantial Block" shall mean a number of shares of Voting Stock having in the aggregate 20% or more of the general voting power (or which would have such voting power but for the application of the Indiana Control Share Statute).

(s) "Trading Day" shall have the meaning assigned to it in Section 11(d).

(t) "Voting Stock" shall mean 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 and shall include any shares of the Company's capital stock during any period such shares may be subject to the voting limitation provisions of the Indiana Control Share Statute.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3, shall prior to the Distribution Date also be the holders of Common Stock) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agent or Agents as it may deem necessary or desirable.

Section 3. Issue of Right Certificates.

(a) The "Distribution Date " shall mean the earlier of (i) the tenth Business Day after the date of the commencement of a tender or exchange offer (as determined by reference to Rule 14d-2(a) (or any successor rule) under the Exchange Act) by any Person (other than the Company, any Subsidiary of the Company, Lilly Endowment, Inc., or any employee benefit plan or employee stock plan of the Company or any Subsidiary of the Company) for a number of shares of the outstanding Voting Stock having 30% or more of the general voting power or (ii) the tenth Business Day after a Stock Acquisition Date provided, however, that the Company's Board of Directors in its discretion may extend the time periods referred to clauses (i) and (ii) above during which period of extension the Board may determine the day that shall

constitute the Distribution Date, if any. Up to and including the Distribution Date, (x) the Rights will be evidenced by the certificate for Common Stock registered in the names of the holders of Common Stock (which certificates for Common Stock shall be deemed also to be Right Certificates) and not by separate Right Certificates, and (y) the right to receive Right Certificates will be transferable only in connection with the transfer of Common Stock. As soon as practicable after the Distribution Date, the Rights Agent will mail, by first-class, insured, postage prepaid mail, to each record holder of Common Stock as of the Close of Business on the Distribution Date, as shown by the records of the Company at the Close of Business on the Distribution Date, at the address of such holder shown on such records, a Right Certificate, in substantially the form of Exhibit A hereto, evidencing one Right for each share of Common Stock so held.

(b) On July 29, 1988 or as soon as practicable thereafter, the Company will send a copy of a Summary of Rights to Purchase Preferred Stock ("Summary of Rights "), in substantially the form attached hereto as Exhibit B, by first-class mail, postage prepaid, to each record holder of Common Stock as of the Close of Business on July 28, 1988, at the address of such holder shown on the records of the Company.

(c) As soon as practicable, the Company will cause certificates for Common Stock issued after the date of this Agreement, but prior to the earlier of the Distribution Date or the Expiration Date or the date, if any, on which the Rights may be redeemed, to have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also entitles the holder hereof to certain Rights as set forth in a Rights Agreement between Eli Lilly and Company and Bank One, Indianapolis, NA, dated as of July 18, 1988, as the same shall be amended from time to time (the "Rights Agreement "), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of Eli Lilly and Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Eli Lilly and Company will mail to the holder of this certificate a copy of the Rights Agreement without charge after receipt of a

written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement) or one of certain transferees thereof, whether currently held by or on behalf of such Person or by any subsequent holder, may be limited as provided in Section 7(e) of the Rights Agreement.

With respect to such certificates containing the foregoing legend, until the Distribution Date, the Rights associated with Common Stock represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate shall also constitute the transfer of the Rights associated with the Common Stock certificate.

(d) Until the Distribution Date, the surrender for transfer of any of the certificates for Common Stock outstanding on or after July 28, 1988, with or without a copy of the Summary of Rights attached thereto, shall also constitute the transfer of the Rights associated with Common Stock represented by such certificates. After the Distribution Date, the Rights will be evidenced solely by the Right Certificates.

Section 4. Form of Right Certificates.

(a) The Right Certificates (and the forms of assignment and of election to purchase shares to be printed on the reverse thereof) shall be in substantially the form of Exhibit A hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11, Section 13 and Section 22, the Right Certificates, whenever issued, shall be dated as of July 28, 1988, and on their face shall entitle the holders thereof to purchase such number of shares of Preferred Stock as shall be set forth therein at the price per one one-hundredth of a share set forth therein (the "Purchase Price"), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to

adjustment as provided herein. (b) Any Right Certificate issued pursuant to Section 3(a) or Section 22 that represents Rights Beneficially Owned by:

(i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person,

(ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or

(iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e), and any Right Certificate issued pursuant to Section 6 or Section 11 upon transfer, exchange, replacement or adjustment of any other Right Certificate referred to in this sentence, shall contain (to the extent feasible and reasonably identifiable as such) the following legend:

The Rights represented by this Right Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement? or one of certain transferees thereof. Accordingly, under certain circumstances as provided in the Rights Agreement, this Right Certificate and the Rights represented hereby may be limited as provided in Section 7(e) of such Agreement.

Section 5. Countersignature and Registration.

(a) The Right Certificates shall be executed on behalf of the Company by its President or any Vice President, either manually or by facsimile signature, and have affixed thereto the Company's seal or a facsimile thereof which shall be attested by

the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Right Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by the Rights Agent, issued and delivered with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Company; and any Right Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal stock transfer office, which as of the date hereof is located at 111 Monument Circle, Indianapolis, Indiana 46277, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each Right Certificate, the date of each Right Certificate and the number of each Right Certificate.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14, at any time after the Close of Business on the Distribution Date, and prior to the Close of Business on the Expiration Date or the day prior to the day, if any, on which the Rights are to be redeemed pursuant to Section 23, any Right Certificate or Certificates may be transferred, split up, combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase such

number of shares of Preferred Stock as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Right Certificate shall make such request in writing, signed by the registered holder with such signature guaranteed in such manner as is reasonably satisfactory to the Rights Agent, delivered to the Rights Agent, and shall surrender the Right Certificate or Right Certificates to be transferred, split up, combined or exchanged at the principal stock transfer office of the Rights Agent. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Right Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e) and Section 14, countersign and deliver to the person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Right Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate, if mutilated, the Company will execute and deliver a new Right Certificate of like tenor to the Rights Agent for delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 7(e) and unless previously redeemed, the registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Section 9 and Section 23) in whole or in part at any time after the date on which the Company's right to redeem has expired pursuant to Section 23, upon surrender of the Right Certificate, with the form of election to purchase on the reverse side thereof duly executed, to the Rights Agent at the principal stock transfer office of the Rights Agent, together with payment of the Purchase Price for each one one-hundredth of a share of Preferred Stock (or other securities or property as the case may be) as to which the Rights are exercised, at or prior to the Close of Business on July 28, 1998 (such date being hereinafter referred to as the "Expiration Date "). If at any time after the Rights become exercisable hereunder but prior to the Expiration Date the Company is prohibited by its Articles of Incorporation from issuing Preferred Stock or Common Stock upon the exercise of all of the outstanding Rights, the Company may issue upon the exercise of the Rights shares of stock or other securities of the Company of equivalent value to the Preferred Stock or Common Stock ("Equivalent Stock "), as determined by the Board of Directors. For purposes of this Section 7(a), any exercise shall be effective as of the Wednesday of the calendar week immediately succeeding the calendar week in which the Rights Agent receives the Right Certificate.

(b) The Purchase Price for each one one-hundredth of a share of Preferred Stock pursuant to the exercise of a Right shall initially be \$325, shall be subject to adjustment from time to time as provided in Sections 11 and 13 and shall be payable in lawful money of the United States of America.

(c) Upon receipt of a Right Certificate, with the form of election to purchase duly executed, accompanied by payment of the Purchase Price for the shares to be purchased and an amount equal to any applicable transfer tax in cash, or by certified check or money order payable to the order of the Company, the Rights Agent

shall, subject to Section 20(j) and to the final sentence of Section 7(a), thereupon promptly (i) requisition from any transfer agent of Preferred Stock or Common Stock (or any Equivalent Stock then issuable) a certificate for the number of shares of Preferred Stock or Common Stock (or any Equivalent Stock then issuable) to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of a fractional share in accordance with Section 14 and (iii) promptly after receipt of such certificate, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, and, when appropriate, after receipt promptly deliver such cash to or upon the order of the registered holder of such Right Certificate.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Section 14.

(e) Notwithstanding any provision of this Agreement to the contrary, upon the occurrence of any of the events described in clauses (a), (b) or (c) of the first sentence of Section 13 or subparagraphs (A), (B), (C), or (D) of Section 11(a)(ii), any Rights that are at the time of the occurrence of such event Beneficially Owned by (i) an Acquiring Person or by any Associate or Affiliate of such Acquiring Person or (ii) a transferee of an Acquiring Person or of any Associate or Affiliate of such Acquiring Person (A) who becomes a transferee after the Acquiring Person becomes such, or (B) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (1) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement

or understanding regarding the transferred Rights or (2) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall be exercisable for shares of Common Stock (if Section 11(a)(ii) is applicable) or shares of common stock of the Principal Party (as defined in Section 13) (if Section 13 is applicable) without regard to the adjustments with respect to the amount of securities issuable otherwise provided for in Section 11(a)(ii) or Section 13.

In lieu of such adjustments:

(i) If Section 11(a)(ii) is applicable, each holder of such Rights shall thereafter have the right to receive upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of one-hundredths of a share of Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price per one one-hundredths of a share of Preferred Stock by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 100% of the then current market price per share of Common Stock (determined pursuant to Section 11(d) hereof) on the date of the occurrence of any of the events listed in Section 11(a)(ii); and

(ii) If Section 13 is applicable, each holder of such Rights shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of shares of common stock of the Principal Party (as defined in Section 13) as shall, based on the current market price per share of the common stock of the Principal Party (determined in the same manner as the current market price of Common Stock is determined under Section 11(d) hereof) on the date of consummation of the events described in Section 13, have a value equal to the Purchase Price.

The Company shall use all reasonable efforts to ensure

that the provisions of this Section 7(e) and Section 4(b) are complied with, but shall have no liability to any holder of Right Certificates or other Person as a result of its making or failing to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Right Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Company.

Section 9. Reservation and Availability of Shares of Preferred Stock. The Company covenants and agrees that it shall from time to time (a) cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock or its authorized and issued shares of Preferred Stock held in its treasury (and, following the occurrence of any event set forth in Section 11(a)(ii) hereof, out of its authorized and unissued shares of Common Stock

and/or other securities or shares held in its treasury), the number of shares of Preferred Stock (and, following the occurrence of any event set forth in Section 11(a)(ii) hereof, Common Stock and/or other securities) that will be sufficient to permit the exercise in full of all outstanding Rights, (b) take all such action as may be necessary to insure that all shares of Preferred Stock or Common Stock and/or other securities delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and non assessable, (c) pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any shares of Preferred Stock or Common Stock and/or other securities upon the exercise of Rights and (d) take all such action, from and after the date the Rights become exercisable hereunder, as may be necessary to permit the exercise of the Rights for Preferred Stock or Common Stock and/or other securities, including any required registration under the Securities Act of 1933, as amended (the "1933 Act"), and, in connection therewith and if deemed desirable by the Company, use its best efforts to list (or continue the listing of) the Preferred Stock or Common Stock and/or other securities on a national securities exchange and to cause all shares of Preferred Stock reserved for issuance upon exercise of Rights to be listed on such exchange upon official notice of issuance upon such exercise. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky " laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days, the exercisability of the Rights in order to comply with all applicable federal and state securities laws. Upon any such suspension, the Company shall issue a public announcement (and shall provide written notice to the Rights Agent) stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained and until a registration statement has been declared

effective. Notwithstanding the provisions of clause (c) of the first sentence of this Section 9, the Company shall not be required to pay any transfer tax which may be payable in respect of any transfer involved in the transfer or delivery of Right Certificates or the issuance or delivery of certificates for Preferred Stock or Common Stock and/or other securities in a name other than that of the registered holder of the Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for shares of Preferred Stock or Common Stock and/or other securities upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. Preferred Stock Record Date. Each Person in whose name any certificate for shares of Preferred Stock (or Common Stock or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Preferred Stock (or Common Stock or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock (or Common Stock or other securities, as the case may be) transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Stock (or Common Stock or other securities, as the case may be) transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a shareholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number of Shares or Number of Rights. The Purchase Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a)(i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on Common Stock payable in shares of Common Stock, (B) subdivide the outstanding Common Stock, (C) combine the outstanding Common Stock into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the surviving corporation), except as otherwise provided in this Section 11(a), then and in each such event the number of shares issuable upon the exercise of a Right and the Purchase Price payable after such event shall be the number of shares issuable immediately prior to such event multiplied by a fraction the numerator of which is the number of Rights outstanding immediately prior to such event and the denominator of which is the number of Rights outstanding immediately after such event and the Purchase Price after such event shall be the Purchase Price in effect immediately prior to such event multiplied by such fraction. If an event occurs which would require an adjustment under both Section 11(a)(i) and Section 11(a)(ii), the adjustment provided for in Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii).

(ii) In the event on or at any time after a Stock Acquisition Date

(A) (1) any Person (other than a wholly owned Subsidiary of the Company), directly or indirectly, shall merge into the Company or any of its Subsidiaries or otherwise combine with the Company or any of its Subsidiaries and the Company or such Subsidiary shall be the continuing or surviving corporation of such merger or combination, or (2) any Person, directly or indirectly, shall sell or otherwise transfer, in one or

more transactions, assets to the Company or any of its Subsidiaries in exchange for 50% or more of the shares of any class of capital stock of the Company or any of its Subsidiaries, and Common Stock of the Company shall remain outstanding and unchanged,

(B) any Acquiring Person, directly or indirectly, shall (1) in one or more transactions, transfer any assets to the Company or any of its Subsidiaries in exchange (in whole or in part) for shares of any class of capital stock of the Company or any of its Subsidiaries or for securities exercisable for or convertible into shares of any class of capital stock of the Company or any of its Subsidiaries or otherwise obtain from the Company or any of its Subsidiaries, with or without consideration, any additional shares of any class of capital stock of the Company or any of its Subsidiaries or other securities exercisable for or convertible into shares of any class of capital stock of the Company or any of its Subsidiaries (other than as part of a pro rata distribution to all holders of Common Stock), (2) sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise dispose of (in one or more transactions), to, from or with, as the case may be, the Company or any of its Subsidiaries, assets on terms and conditions less favorable to the Company or such Subsidiary than the Company or such Subsidiary would be able to obtain in arm's-length negotiation with an unaffiliated third party, (3) receive any compensation from the Company or any of the Company's Subsidiaries other than compensation for full-time employment as a regular employee, or fees for serving as director, at rates in accordance with the Company's (or its Subsidiaries') past practices, or (4) receive the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance provided by the Company or any of its

Subsidiaries on terms and conditions less favorable to the Company or such Subsidiary than the Company or such Subsidiary would be able to obtain in arm's-length negotiation with an unaffiliated party,

(C) there shall be any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other similar transaction or series of transactions involving the Company or any of its Subsidiaries (whether or not with or into or otherwise involving an Acquiring Person) which has the effect, directly or indirectly, of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities or of securities exercisable for or convertible into equity securities of the Company or any of its Subsidiaries which is directly or indirectly owned by any Acquiring Person or any Associate or Affiliate of any Acquiring Person or

(D) any Person (other than the Company, Lilly Endowment, Inc., any Subsidiary of the Company, any employee benefit plan or employee stock plan of the Company or of any Subsidiary of the Company or any Person organized, appointed, established or holding Voting Stock by, for or pursuant to, the terms of any such plan or any Person who acquires a Substantial Block in connection with a transaction or series of transactions approved prior to such transaction or transactions by the Board of Directors of the Company), who or which alone or together with its Affiliates and Associates become the Beneficial Owner of a number of shares of the outstanding Voting Stock having 25% or more of the general voting power of the Company; then, and in each such case, proper provision shall be made so that each holder of a Right, except as provided below and in Section 7(e), shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of

this Agreement, in lieu of a number of one-hundredths of a share of Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price per one one-hundredth of a share of Preferred Stock by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 50% of the current market price per share of Common Stock (determined pursuant to Section 11(d) hereof) on the date of the occurrence of any of the events listed above in this subparagraph (ii); provided, however, that if the transaction that would otherwise give rise to the foregoing adjustment is also subject to the provisions of Section 13, then only the provisions of Section 13 shall apply and no adjustment shall be made pursuant to this Section 11(a)(ii). The Company shall not consummate any such merger, combination, transfer or transaction unless prior thereto there shall be sufficient authorized but unissued Common Stock and authorized and issued Common Stock held in its treasury to permit the exercise in full of the Rights in accordance with the foregoing sentence; provided, however, that in no case may the Company consummate any such merger, combination, transfer or transaction if at the time of or immediately after such transaction there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

In the event that the issuance of any Common Stock pursuant to the exercise of the Rights as required by the preceding paragraph is prohibited by any provision of the Company's Articles of Incorporation, then upon the exercise of a Right in accordance with the preceding paragraph, proper provision shall be made so that each holder of a Right (except as provided in

Section 7(e)) shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, the greater of (x) the number of one one hundredths of a share of Preferred Stock to which such Right related immediately prior to such event or (y) the number of one one-hundredths of a share of Preferred Stock as shall, based on the current market price per share of Preferred Stock (determined pursuant to Section 11(d)) on the date of the occurrence of any one of the events listed above in this subparagraph (ii), have a value equal to twice the Purchase Price or such number of shares or other units of Equivalent Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price per one one-hundredth of a share of Preferred Stock by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 50% of the current market price per share or other unit of the Equivalent Stock of the Company (determined on substantially the same basis as is prescribed by Section 11(d)) on the date of consummation of such merger, combination or transfer. In the event that at any time the Company should be prohibited by law, by any provision of its Articles of Incorporation or by any instrument or agreement to which the Company is a party or by which it is bound from issuing sufficient Equivalent Stock to permit the exercise of all outstanding Rights in accordance with the foregoing sentence, then, in lieu of issuing such Equivalent Stock upon such exercise, the Company shall pay to each holder of a Right (except as provided in Section 7(e)) upon surrender of the Right as provided herein but without payment of the Purchase Price, an amount in cash for each Right equal to the Purchase Price.

(iii) In the event the Company shall at any time after the date of this Agreement (A) combine or subdivide the

outstanding Preferred Stock into a different number of shares, or (B) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e), the holder of any Right exercised after such time shall be entitled to receive, upon payment of the Purchase Price, the number of shares of Preferred Stock or the number and kind of shares of such other capital stock, as the case may be, issuable on the effective date of such combination, subdivision or reclassification which such holder would have been entitled to receive had such holder been the holder of the number of shares of Preferred Stock for which such Right was then exercisable immediately prior to such effective date. If an event occurs which would require an adjustment under both this Section 11(a) (iii) and Section 11(a) (ii), the adjustment provided for in this Section 11(a) (iii) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a) (ii).

(b) In case the Company shall fix a record date for the issuance of rights or warrants to all holders of shares of Common Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Stock or securities convertible into Common Stock at a price per share of Common Stock (or having a conversion price per share, if a security convertible into Common Stock) less than the current market price per share of Common Stock (as defined in Section 11(d)) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so to be offered (and/or the aggregate initial conversion price of the convertible

securities so to be offered) would purchase at such current market price and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock to be offered for subscription or purchase (or into which the convertible securities to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent. Shares of Common Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of shares of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness or assets (other than any distribution approved by a majority of the Continuing Directors then in office or a regular periodic cash dividend at a rate not in excess of 130% of the rate of the last cash dividend theretofore paid or a dividend payable in Common Stock) or subscription rights or warrants (excluding those referred to in Section 11(b)), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the current market price per share of Common Stock (as defined in Section 11(d)) on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable

to one share of Common Stock, and of which the denominator shall be such current market price per share of Common Stock. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) For the purpose of any computation hereunder, the "current market price" per share of Preferred Stock or Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such stock for the 30 consecutive Trading Days immediately prior to such date; provided, however, that in the event that the current market price per share of such stock is determined during a period following the announcement by the issuer of such stock of a dividend or distribution on such stock payable in shares of such stock or securities convertible into shares of such stock, and prior to the expiration of 30 Trading Days after the ex-dividend date for such dividend or distribution, then, and in each such case, the current market price shall be appropriately adjusted to reflect the current market price per share of such stock. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of such stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of such stock are listed or admitted to trading or, if the shares of such stock are not listed or admitted to trading on any national securities exchange, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc., Automated Quotation System ("NASDAQ "). If on any such date the shares of such stock are not quoted

by any such organization, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used. The term "Trading Day " shall mean a day on which the principal national securities exchange on which the shares of such stock are listed or admitted to trading is open for the transaction of business or, if the shares of such stock are not listed or admitted to trading on any national securities exchange, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of Indiana are not authorized or obligated by law or executive order to close. If such stock is not publicly held or not so listed or traded, "current market price " per share shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent.

(e) Except as hereinafter provided, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest one hundredth of a share as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which mandates such adjustment or (ii) the date of the expiration of the right to exercise any Rights.

(f) In the event that at any time, as a result of an adjustment made pursuant to Section 11(a)(ii) or Section 13, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than shares of Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares contained in Section 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and

14 with respect to the shares of Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-hundredths of a share of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Section 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-hundredths of a share (calculated to the nearest one-hundredth) obtained by (i) multiplying (x) the number of one one-hundredths of a share covered by a Right immediately prior to such adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number of shares of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the numbers of Rights shall be exercisable for the number of shares of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one-hundredth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This

record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i) the Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of one one-hundredths of a share of Preferred Stock issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-hundredth share and the number of shares which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value of the shares of Preferred Stock issuable upon exercise of the Rights, the Company shall take all corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non assessable shares of such Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a

record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date the shares of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the shares of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares and securities upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any consolidation or subdivision of the Common Stock or Preferred Stock, issuance wholly for cash of any Common Stock at less than the current market price, issuance wholly for cash of Common Stock or securities which by their terms are convertible into or exchangeable for Common Stock, stock dividends or issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Company to holders of its Common Stock and/or Preferred Stock shall not be taxable to such shareholders.

Section 12. Certification of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 or 13, the Company shall (a) promptly prepare a certificate setting forth such adjustment, and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Preferred Stock or the Common Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 25. Notwithstanding the foregoing sentence, the failure of the Company to give such notice shall not affect the validity of, or

the force or effect of, the requirement for such adjustment.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power. In the event on or at any time after a Stock Acquisition Date, directly or indirectly, (a) the Company shall consolidate with, or merge with and into, any other Person, (b) any other Person shall consolidate, merge with and into the Company, the Company shall be the continuing or surviving corporation of such merger and, in connection with such merger, all or part of the Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (c) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person (other than a pro rata distribution by the Company of assets (including securities) of the Company or any of its Subsidiaries to all holders of the Company's Common Stock), then, and in each such case:

(A) except as provided in Section 7(e), proper provision shall be made so that (i) each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of shares of common stock of the Principal Party (as hereinafter defined) as shall, based on the current market price per share of the common stock of the Principal Party (determined in the same manner as the current market price of Common Stock is determined under Section 11(d)) on the date of consummation of such consolidation, merger, sale or transfer, have a value equal to twice the Purchase Price; (ii) the Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company " shall thereafter be deemed to refer to such Principal Party; and (iv) the Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its common stock in accordance with Section 9) in connection with such

consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to the shares of its common stock thereafter deliverable upon the exercise of the Rights; provided, however, that, upon the subsequent occurrence of any merger, consolidation, sale of all or substantially all assets, recapitalization, reclassification of shares, reorganization or other extraordinary transaction in respect of such Principal Party, except as provided in Section 7(e), each holder of a Right shall thereupon be entitled to receive, upon exercise of a Right and payment of the Purchase Price, such cash, shares, rights, warrants and other property which such holder would have been entitled to receive had such holder, at the time of such transaction, owned the shares of common stock of the Principal Party purchasable upon the exercise of a Right, and such Principal Party shall take such steps (including, but not limited to, reservation of shares of stock) as may be necessary to permit the subsequent exercise of the Rights in accordance with the terms hereof for such cash, shares, rights, warrants and other property.

(B) "Principal Party" shall mean

(1) in the case of any transaction described in (a) or (b) of the first sentence of this Section 13, (i) the Person that is the issuer of any securities into which shares of Common Stock of the Company are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer the common stock of which has the greatest market value or (ii) if no securities are so issued, (x) the Person that is the other party to the merger or consolidation and that survives said merger or consolidation, or, if there is more than one such Person, the Person the common stock of which has the greatest market value or (y) if the Person that is the other party to the merger or consolidation does not survive the merger or consolidation, the Person that does survive the merger or consolidation (including the Company if it survives);

(2) in the case of any transaction described in (c) of

the first sentence of this Section 13, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if each Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons as is the issuer of common stock having the greatest market value of shares outstanding; provided, however, that in any such case (w) if the common stock of such Person is not at such time and has not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another corporation the common stock of which is and has been so registered, "Principal Party " shall refer to such other corporation, (x) if the common stock of such Person is not and has not been so registered and such Person is not a direct or indirect Subsidiary of another corporation the common stock of which is and has been so registered, "Principal Party " shall refer to the corporation which ultimately controls such Person, (y) in case such Person is a Subsidiary, directly or indirectly, of more than one corporation, the common stocks of all of which are and have been so registered, "Principal Party " shall refer to whichever of such corporations is the issuer of the common stock having the greatest market value of shares held by the public, and (z) in case such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly, by the same Person, the rules set forth in (w) - (y) above shall apply to each of the chains of ownership having an interest in such joint venture as if such party were a Subsidiary of both or all of such joint ventures and the Principal Parties in each such chain shall bear the obligations set forth in this Section 13 in the same ratio as their direct or indirect interests in such Person bear to the total of such interests.

The Company shall not consummate any such consolidation, merger, sale or transfer unless prior thereto the Company and such issuer shall have executed and delivered to the Rights Agent a supplemental agreement making valid provision for the result described in subsections (A) and (B) above provided, however, that in no case may the Company consummate any such consolidation, merger, sale or transfer if (i) at the time of or immediately after such transaction there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (ii) prior to, simultaneously with or immediately after such transaction, the shareholders of the Person who constitutes, or would constitute, the Principal Party for purposes of Section 13 shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates. The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers.

Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights. If the Company shall determine not to issue such fractional Rights, in lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal

consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ. If on any such date the Rights are not quoted by any such organization, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) The Company shall not be required to issue fractions of shares (other than fractions which are integral multiples of the fraction of a share for which a Right is then exercisable) upon exercise of the Rights or to distribute certificates which evidence fractional shares (other than fractions which are integral multiples of the fraction of a share for which a Right is exercisable). In lieu of fractional shares that are not integral multiples of the fraction for which a Right is then exercisable, the Company shall pay to the registered holders of Right Certificates at the time such Right Certificates are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a share of Preferred Stock. For purposes of this Section 14, the current market value of a share of Preferred Stock shall be the closing price of a share of Preferred Stock (as determined pursuant to the second sentence of Section 11(d)) for the Trading Day immediately prior to the date of such exercise.

(c) The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares (other than fractions which are integral multiples of the fraction of a share for which a Right is then exercisable) upon exercise of a Right.

Section 15. Rights of Action. All rights of action in

respect of this Agreement are vested in the respective registered holders of the Right Certificates (and prior to the Distribution Date, the registered holders of the Common Stock); and any registered holder of any Right Certificate (or, prior to the Distribution Date, any registered holder of the Common Stock), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, any registered holder of the Common Stock), may, on his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) up to and including the Distribution Date, the Rights will be transferable only in connection with the transfer of Common Stock;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent and then if surrendered at the principal stock transfer office of the Rights Agent, duly endorsed or accompanied by a proper instrument of transfer; and

(c) the Company and the Rights Agent may deem and treat the person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificate or the associated

Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.

Section 17. Right Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 24), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

(b) The Rights Agent shall be protected and shall

incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Right Certificate or certificate for Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificates so countersigned, and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates

shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but

all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate nor shall it be responsible for any adjustment required under the provisions of Section 11 or 13 or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Preferred Stock to be issued pursuant to this Agreement or any Right Certificate or as to whether any shares of Preferred Stock will, when issued, be validly authorized and issued, fully paid and non assessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of

the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise of transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of Common Stock and Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of Common Stock and Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after such

removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then such registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent whether appointed by the Company or by such a court, shall be a corporation organized and doing business under the laws of the United States or of a state of the United States in good standing, which is authorized under such laws to exercise stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of Common Stock and Preferred Stock, and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates.

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price per share and the number or kind or class of shares of stock or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement.

Section 23. Redemption. The Board of Directors may, at its option and as provided herein, elect to redeem all but not less than all the then outstanding Rights at a redemption price of \$.01 per Right; as such amount may be appropriately adjusted to reflect any combination or subdivision of the outstanding Common Stock, any dividend payable in Common Stock in respect of the outstanding Common Stock or any other similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price ") at any time up to and including the tenth Business Day after a Stock Acquisition Date; provided, however, that the Board of Directors of the Company may extend the time during which the Rights may be redeemed to be at any time as may be determined by the Board of Directors of the Company; and provided, further, that if the Board of Directors of the Company authorizes redemption of the Rights or an extension of the time period during which the Rights may be redeemed after the time that any Person becomes an Acquiring Person, then there must be Continuing Directors then in office and such authorization or extension shall require the concurrence of a majority of such Continuing Directors. Promptly upon the action of the Board of Directors of the Company electing to redeem the Rights, the Company shall make a public announcement thereof, and from and after the date of such announcement, without any further action and without any further notice, the only right of the holders of Rights shall be to receive the Redemption Price. As soon as practicable after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable prior to the expiration of the Company's right of redemption hereunder.

Section 24. Notice of Proposed Actions.

(a) In case the Company, after the Distribution Date, shall propose (1) to pay any dividend payable in stock of any class to the holders of its Common Stock or Preferred Stock or to make any other distribution to the holders of its Common Stock or Preferred Stock (other than any distribution approved by a majority of the Continuing Directors then in office or a regular periodic cash dividend at a rate not in excess of 130% of the rate of the last cash dividend theretofore paid), or (2) to offer to the holders of its Common Stock or Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Common Stock or Preferred Stock or shares of stock of any class or any other securities, rights or options, or (3) to effect any reclassification of its Common Stock or Preferred Stock (other than a reclassification involving only the subdivision of outstanding shares of Common Stock), or (4) to effect any consolidation or merger into or with, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person, or (5) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Right, in accordance with Section 25, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of Common Stock and/or Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (a) or (b) above at least twenty days prior to the record date for determining holders of Common Stock and/or Preferred Stock for purposes of such action, and in the case of any such other action, at least twenty days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Common Stock and/or Preferred Stock, whichever shall be the

earlier. The failure to give notice required by this Section 24 or any defect therein shall not affect the legality or validity of the action taken by the Company or the vote upon any such action.

(b) In case any of the events set forth in Section 11(a)(ii) hereof shall occur, then, in any such case, the Company shall as soon as practicable thereafter give to each holder of a Right to the extent feasible and in accordance with Section 25 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) hereof.

Section 25. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285

Attention: Secretary

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Bank One, Indianapolis, NA
111 Monument Circle
Indianapolis, Indiana 46277

Attention: Security Holder Services Department

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Rights Agent.

Section 26. Supplements and Amendments. Prior to the

Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing shares of Common Stock. From and after the Distribution Date and subject to the penultimate sentence of this Section 26, the Company and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Right Certificates in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder (which lengthening or shortening, after the time that any Person becomes an Acquiring Person, shall be effective only if there are Continuing Directors and shall require the concurrence of a majority of such Continuing Directors), or (iv) to change or supplement the provisions hereof in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Right Certificates; provided this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, or (B) any other time period, unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 26, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made which changes the Redemption Price, the Expiration Date, the Purchase Price or the number of shares of Preferred Stock for which a Right is exercisable. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Stock.

Section 27. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights

Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 28. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Rights Agent and the registered holders of the Right Certificates any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Right Certificates.

Section 29. Governing Law. This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Indiana and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

Section 30. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, illegal, or unenforceable, (a) such invalid, illegal or unenforceable term, provision, covenant or restriction shall nevertheless be valid, legal and enforceable to the extent, if any, provided by such court or authority, and (b) the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 32. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 33. Determinations and Actions Taken by the Board of Directors. For all purposes of this Agreement, any calculation of the number of shares of Common Stock or of any other class of capital stock outstanding at any particular time, including for purposes of determining the particular percentage of the outstanding Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) (as in effect on the date of this Agreement) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement); provided, however, that any determination or action by the Board of Directors of the Company pursuant to this Section 33 shall be made by a vote of a majority of the Continuing Directors then in office.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

Exhibit A

[Form of Right Certificate]

Certificate No. R-

Rights

NOT EXERCISABLE AFTER PUBLIC ANNOUNCEMENT OF REDEMPTION IS MADE. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$.01 PER RIGHT (SUBJECT TO ADJUSTMENT) ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. IN THE EVENT THAT THE RIGHTS REPRESENTED BY THIS CERTIFICATE ARE ISSUED TO A PERSON WHO IS AN ACQUIRING PERSON OR AN ASSOCIATE OR AFFILIATE THEREOF (AS DEFINED IN THE RIGHTS AGREEMENT) OR CERTAIN TRANSFEREES THEREOF, THIS RIGHT CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BE SUBJECT TO CERTAIN LIMITATIONS IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e)

OF THE RIGHTS AGREEMENT.

RIGHT CERTIFICATE

ELI LILLY AND COMPANY

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of July 18, 1988 (the "Rights Agreement"), between Eli Lilly and Company, an Indiana corporation (the "Company"), and Bank One, Indianapolis, NA, a national banking corporation (the "Rights Agent"), to purchase from the Company, unless the Rights have been previously redeemed, at any time after the date on which the Company's right to redeem has expired and prior to the Expiration Date (as such term is defined in the Rights Agreement), at the principal stock transfer office of the Rights Agent, or its successors as Rights Agent, one one-hundredth (1/100) of a fully paid non assessable share of the Series A Participating Preferred Stock of the Company ("Preferred Stock "), at a purchase price of \$325 per one one-hundredth of a share (the "Purchase Price ") upon presentation and surrender of this Right Certificate with the Form of Election to Purchase duly executed. The number of Rights evidenced by this Right Certificate (and the number of shares which may be purchased upon exercise thereof) set forth above, and the Purchase Price per one one-hundredth of a share set forth above, are the number and Purchase Price as of July 28, 1988 based on the shares of Common Stock of the Company as constituted at such date.

Upon the occurrence of an event described in clauses (a), (b) or (c) of the first sentence of Section 13 or subparagraphs (A), (B), (C) or (D) of Section 11(a)(ii) of the Rights Agreement, the holder of any Rights that are, or were, beneficially owned by an Acquiring Person or an Associate or Affiliate thereof (as defined in the Rights Agreement) or certain transferees thereof shall not be entitled to the benefit of the adjustments described in Section 11(a)(ii) and Section 13.

As provided in the Rights Agreement, the Purchase Price and the number and kind of shares of Preferred Stock or other securities which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon

the happening of certain events.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal stock transfer office of the Rights Agent and at the principal office of the Company.

This Right Certificate, with or without other Right Certificates, upon surrender at the principal stock transfer office of the Rights Agent, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder to purchase such number of shares of Preferred Stock as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Company at its option at a redemption price of \$.01 per Right, which amount is subject to adjustment as provided in the Rights Agreement.

No fractional shares of Preferred Stock (other than fractions which are integral multiples of the fraction of a share for which a Right is then exercisable) will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment shall be made, as provided in the Rights Agreement.

No holder of this Right Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of

the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or, to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of _____, 1988.

ATTEST: ELI LILLY AND COMPANY

By
Title:

Countersigned:

BANK ONE, INDIANAPOLIS, NA

By
Authorized Signature

[Form of Reverse Side of Right Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Right Certificate.)

FOR VALUE RECEIVED

hereby sells, assigns and transfers unto

(Please print name and address of transferee)
this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint Attorney to transfer the within Right Certificate on the books of the within-named Rights Agent, with full power of substitution.

Dated: -----, 19---

Signature

Signature Guaranteed:

Certificate

The undersigned hereby certifies (after due inquiry and to the best knowledge of the undersigned) by checking the appropriate boxes that:

(1) this Right Certificate [] is [] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement);

(2) the undersigned [] did [] did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: -----, 19----

Signature

Signature Guaranteed:

NOTICE

The signature to the foregoing Assignment must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise the Right Certificate.)

To Eli Lilly and Company:

The undersigned hereby irrevocably elects to exercise Rights represented by this Right Certificate to purchase the shares of Preferred Stock issuable upon the exercise of such Rights and requests that certificates for such shares be issued

in the name of:

Please insert social security
or other identifying number

(Please print name and address)

If such number of rights shall not be all the Rights evidenced by this
Right Certificate, a new Right Certificate for the balance remaining
of such Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number

(Please print name and address)

Dated: -----, 19-----

Signature

Signature Guaranteed:

Certificate

The undersigned hereby certifies (after due inquiry and to
the best knowledge of the undersigned) by checking the appropriate
boxes that:

(1) the Rights evidenced by this Right Certificate [] are []
are not being exercised by or on behalf of a Person who is or was an
Acquiring Person or an Affiliate or Associate of an Acquiring Person
(as such terms are defined in the Rights Agreement);

(2) the undersigned [] did [] did not acquire the Rights
evidenced by this Right Certificate from any person who is, was or
subsequently became an Acquiring Person or an Affiliate or Associate
of an Acquiring Person.

Dated: , 19

Signature

Signature Guaranteed:

NOTICE

The signature to the foregoing Election to Purchase and
Certificate must correspond to the name as written upon the face of
this Right Certificate in every particular, without alteration or

enlargement or any change whatsoever.

Exhibit B

SUMMARY OF RIGHTS TO PURCHASE PREFERRED STOCK

On July 18, 1988, the Board of Directors of Eli Lilly and Company (the "Company ") declared a distribution of one Right for each outstanding share of Common Stock, par value \$.62-1/2 per share, of the Company ("Common Stock "). The distribution is payable to the shareholders of record as of the close of business on July 28, 1988, and, in addition, the Company has authorized the issuance of one Right with respect to each share of Common Stock that shall become outstanding after July 28, 1988, and until the earlier of the Distribution Date or Expiration Date (as such terms are hereinafter defined) or the date on which Rights are redeemed. When exercisable, each Right initially entitles the registered holder to purchase from the Company one one-hundredth of a share of a new series of the Company's preferred stock designated as Series A Participating Preferred Stock ("Preferred Stock ") at a price of \$325 per one one-hundredth of a share (the "Purchase Price "), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement ") between the Company and Bank One, Indianapolis, NA, as Rights Agent (the "Rights Agent ").

Up to and including the Distribution Date, the Rights will be evidenced, with respect to any of the Common Stock certificates outstanding as of the close of business on July 28, 1988, by such Common Stock certificates, and the Rights will be transferred with and only with Common Stock. In addition, (i) new Common Stock certificates issued after July 28, 1988, upon transfer or new issuance of Common Stock, will contain a notation incorporating the Rights Agreement by reference and (ii) the surrender for transfer of any certificates for Common Stock outstanding after July 28, 1988, will also constitute the transfer of the Rights associated with Common Stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates ") will be mailed to holders of record of Common Stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

Under the Rights Agreement, the Distribution Date is defined as the earlier of the tenth business day after (i) the commencement of a tender or exchange offer by any person (other than the Company, any subsidiary of the Company, Lilly Endowment, Inc., or any employee benefit plan or employee stock plan of the Company or of any subsidiary of the Company) for a number of the outstanding shares of the Company's stock having in the aggregate 30% or more of the general voting power of the Company or (ii) the date of a public announcement by the Company or an Acquiring Person (as hereinafter defined) that an Acquiring Person has become such (the "Stock Acquisition Date"), unless, in the case of either clause (i) or clause (ii) above, the Board extends such day to a later date. In general, under the Rights Agreement an acquiring Person is a person or group of affiliated or associated persons (other than the Company, any subsidiary of the Company, any employee benefit plan or employee stock plan of the Company or of any subsidiary of the Company, Lilly Endowment, Inc., or any person who acquires shares of the Company's stock in connection with a transaction or series of transactions approved in advance by the Board) who has acquired or obtained the right to acquire beneficial ownership of a number of the outstanding shares of the Company's stock having in the aggregate 20% or more of the general voting power of the Company (or which would have such voting power but for the Indiana Control Share Statute).

The Rights are not exercisable until after the date on which the Company's right to redeem has expired. The Rights will expire on July 28, 1998 (the "Expiration Date"), unless earlier redeemed by the Company as described below.

The Preferred Stock will be non-redeemable and will rank on a parity in respect of the preference as to dividends and the distribution of assets with all other classes or series of the Company's preferred stock, unless the terms thereof shall provide otherwise. Each share of Preferred Stock will have a minimum preferential quarterly dividend rate of \$0.05 per share but will be entitled to an aggregate of 100 times the cash and non-cash (payable in kind) dividends and distributions (other than dividends and distributions payable in Common Stock) declared on the Company's Common Stock. In the event of liquidation, the holders of Preferred Stock will be entitled to receive a liquidation payment in an amount equal to the greater of \$100 per share or 100 times the payment made per share of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon. Shares of Preferred Stock will have voting rights only in the event of certain arrearages in dividends, and as required by applicable law. In the event of any merger, consolidation, or other transaction in which shares of Common Stock are exchanged, each share of Preferred Stock will be entitled to receive 100 times the amount received per share of Common Stock. The rights of the Preferred Stock as to dividends and liquidation are protected by antidilution provisions.

The Purchase Price payable and number of shares of Preferred Stock or other securities or property issuable upon exercise of the Rights are subject to adjustment from time to time to prevent dilution.

In the event that, at any time after a Stock Acquisition Date, the Company is acquired in a merger or other business combination transaction (in which any shares of the Company's Common Stock are changed into or exchanged for other securities or assets) or 50% or more of the assets or earning power of the Company and its subsidiaries (taken as a whole) are sold, proper provision shall be made so that each holder of a Right (except as described herein) shall thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the Purchase Price. The holder of any Rights that are, or were, beneficially owned by an Acquiring Person or an affiliate or associate thereof or certain transferees thereof shall not be entitled to the benefit of the adjustment with respect to the number of shares described in this paragraph.

In the event that at any time after a Stock Acquisition Date, (i) the Company is the surviving corporation in a merger or other business combination and its Common Stock remains outstanding and unchanged, (ii) an Acquiring Person engages in one or more self-dealing transactions specified in the Rights Agreement, (iii) a Person becomes the beneficial owner of a number of the outstanding shares of the Company's stock having in the aggregate 25% or more of the general voting power of the Company or (iv) any of certain events specified in the Rights Agreement occurs which results in such Acquiring Person's ownership interest being increased by more than 1%, then, and in each such case, proper provision shall be made so that each holder of a Right (except as described herein) will thereafter have the right to receive, upon payment of the Purchase Price, that number of shares of Common Stock having a market value of two times the Purchase Price. The holder of any Rights that are, or were, beneficially owned by an Acquiring Person or an affiliate or associate thereof or certain transferees thereof which engaged in, or realized the benefit of, an event or transaction or transactions described in this paragraph, shall not be entitled to the benefit of the adjustment with respect to the number of shares described in this paragraph.

Up to and including the tenth business day after a Stock Acquisition Date or such later date as may be determined by the Board of Directors, the Company may redeem the rights in whole, but not in part, at a price of \$.01 per Right, which amount may be adjusted as provided in the Rights Agreement (the "Redemption Price"). Under certain circumstances set forth in the Rights Agreement, the decision to redeem shall require the concurrence of a majority of the Continuing Directors (as defined below). Promptly upon the action of the Board of Directors electing to redeem the Rights, the Company shall make an announcement thereof and, upon such announcement, the

right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

The term "Continuing Directors " means any member of the Board of Directors of the Company who was a member of the Board immediately prior to the time that any Person became an Acquiring Person, or any member of the Board of Directors who becomes a member of the Board subsequent to the time that any Person shall become an Acquiring Person if such person is recommended or approved by a majority of the Continuing Directors then in office, but shall not include an Acquiring Person, or any representative of such Acquiring Person.

Other than those provisions relating to the principal economic terms of the Rights, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company prior to the Distribution Date. From and after the Distribution Date, the provisions of the Rights Agreement may be amended by the Board in order to cure any ambiguity, to make changes which do not adversely affect the interests of holders of Rights, or to shorten or lengthen any time period under the Rights Agreement; provided, however, that the Expiration Date may not be changed, and the time period for redemption may not be lengthened when the Rights are not redeemable.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company with respect to a Right held, including, without limitation, the right to vote or to receive dividends.

A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A dated July 19, 1988. A copy of the Rights Agreement is available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is incorporated in this Summary by reference.

EXHIBIT C

FORM OF
AMENDMENT TO
AMENDED ARTICLES OF INCORPORATION
OF
ELI LILLY AND COMPANY

The Amended Articles of Incorporation of Eli Lilly and Company are hereby amended by the addition of a new Article 14, to read in its entirety as follows:

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

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

(i) The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of April, July, October and January in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) \$0.05 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all

non-cash dividends or other distributions other than a dividend or distribution payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$.62-1/2 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. If on any Quarterly Dividend Payment Date the Corporation's Articles of Incorporation shall limit the amount of dividends which may be paid on the Series A Preferred Stock to an amount less than that provided above, such dividends will accrue and be paid in the maximum permissible amount and the shortfall from the amount provided above shall be a cumulative dividend requirement and be carried forward to subsequent Quarterly Dividend Payment Dates.

(ii) In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the second preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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

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

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

(i) The holders of outstanding Series A Preferred Stock shall be entitled to vote as a class for the election of two (2) directors if the Corporation shall fail for six quarters to pay the dividend payable with respect to such shares pursuant to paragraph (a) hereof. Such limited voting rights may be exercised at the next annual meeting of shareholders following the failure to pay a dividend for the sixth quarter and at each

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

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

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

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

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

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

c. except as permitted by subparagraph d of this paragraph (c) (i), redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

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

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

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

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

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

(e) Upon any voluntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made (i) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided, an aggregate amount equal to (a) \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment or (b) if greater, an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up, disregarding for this purpose the amounts referred to in clause (i) (b) of this paragraph (e). In the event the Corporation shall at any time declare or pay any dividend or make any distribution on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the provision in clause (i) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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

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

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

EXHIBIT 2

July 18, 1988
Immediately
(317) 276-3655

LILLY BOARD DECLARES THIRD-QUARTER DIVIDEND,
ADOPTS SHAREHOLDER RIGHTS PLAN

The Board of Directors of Eli Lilly and Company today declared a third-quarter dividend for 1988 of 57.5 cents a share on outstanding common stock. The dividend is payable September 10, 1988, to shareholders of record at the close of business on August 15, 1988.

This is the same as the previous quarterly rate and brings to \$1.72-
1/2 the total dividends declared for 1988.

The Company also announced that the Board of Directors today adopted a Shareholder Rights Plan. The plan is designed to help ensure that Lilly shareholders receive fair treatment in the event of an unsolicited attempt to acquire control of the Company and to discourage certain abusive takeover techniques being utilized by raiders in the current acquisition environment.

Under the plan, each shareholder of record at the close of business on July 28, 1988, will receive a distribution of one preferred stock purchase right with an exercise price of \$325 for each share of Lilly common stock owned. If the rights become exercisable, they entitle the holder, under certain circumstances to acquire shares in the Company or in the acquiring corporation at a substantial discount.

Richard D. Wood, chairman of the Board, stated that "the plan was not adopted in response to any effort to acquire control of the Company. Rather, it is a precautionary step that will increase the Board's ability to represent effectively the interests of the shareholders in the event of an unsolicited takeover attempt. This plan is not unique. Similar plans have been adopted by a large number of corporations throughout the country."

Details of the plan will be mailed to shareholders.

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EXHIBIT 10.2. 1989 STOCK PLAN, AS AMENDED

1989 LILLY STOCK PLAN
(as amended through October 18, 1993)

The 1989 Lilly Stock Plan ("1989 Plan") authorizes the Compensation Committee ("Committee") to provide officers and other key executive and management employees of Eli Lilly and Company and its subsidiaries ("Company") with certain rights to acquire shares of the Company's common stock. The Company believes that this incentive program will cause those persons to contribute materially to the growth of the Company, thereby benefiting its shareholders.

1. Administration.

The 1989 Plan shall be administered and interpreted by the Committee consisting of not less than three persons appointed by the Board of Directors of the Company from among its members. A person may serve on the Committee only if he is not eligible and has not been eligible to receive a Grant under the 1989 Plan or the 1984 Plan for at least one year before his appointment. The Committee shall determine the fair market value of the Company's common stock ("Lilly Stock") for purposes of the 1989 Plan. The Committee's decisions shall be final and conclusive with respect to the interpretation and administration of the 1989 Plan and any Grant made under it.

2. Grants.

Incentives under the 1989 Plan shall consist of incentive stock options, nonqualified stock options, stock appreciation rights, performance awards, and restricted stock grants (collectively, "Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with this 1989 Plan as the Committee deems appropriate. The Committee shall approve the form and provisions of each Grant. Grants under a particular section of the 1989 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

3. Eligibility for Grants.

Grants may be made to any employee of the Company who is an officer or other key executive, professional, or administrative employee, 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.

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 1989 Plan is 10,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 10,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants. Payment in cash in lieu of shares shall be deemed to be an issuance of the shares.

(b) Recapitalization Adjustment. If any subdivision or combination of shares of Lilly Stock or any stock dividend, capital reorganization, recapitalization, consolidation, or merger with the Company as the surviving corporation occurs after the adoption of the 1989 Plan, 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 Section 4(a). The Committee shall also adjust the number of shares and Option Price in all outstanding Grants made before the event.

5. Stock Options.

The Committee may grant options qualifying as incentive stock options under the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"), and nonqualified options (collectively, "Stock Options"). The following provisions are applicable to Stock Options:

(a) Option Price. The price at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") shall be the fair market value of Lilly Stock on the date of the Grant.

(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 date of the Grant.

(c) Exercise of Option. A Grantee may exercise a Stock Option by delivering a notice of exercise to the Company, either with or without accompanying payment of the Option Price. The notice of exercise, once delivered, shall be irrevocable.

(d) Satisfaction of Option Price. The Grantee shall pay the Option Price in cash, or with the Committee's permission, by delivering 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 shares. The Grantee shall pay the Option Price not later than thirty (30) days after the date of a statement from the Company following exercise setting forth the Option Price, fair market value of Lilly Stock on the exercise date, the number of shares of Lilly Stock that may be delivered in payment of the Option Price, and the amount of withholding tax due, if any. If the Grantee fails to pay the Option Price within the thirty (30) day period, the Committee shall have the right to take whatever action it deems appropriate, including voiding the option exercise. The Company shall not issue or transfer shares of Lilly Stock upon exercise of a Stock Option until the Option Price is fully paid.

(e) Share Withholding. With respect to any nonqualified option, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit 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 electing to have the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

(f) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1989 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. The aggregate fair market value will be determined at the time of grant. An Incentive Stock Option shall not be granted to any Eligible Employee who, at the time of grant, 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.

6. Stock Appreciation Right.

The Committee may grant a Stock Appreciation Right ("SAR") with respect to any Stock Option granted under the 1989 Plan either at the time of grant of the option or thereafter and may also grant an SAR with respect to any outstanding option granted

under a prior plan of the Company ("Prior Stock Option"). The following provisions are applicable to each SAR:

(a) Options to Which Right Relates. Each SAR shall specify the Stock Option or Prior Stock Option to which the right is related, together with the Option Price and number of option shares subject to the SAR at the time of its grant.

(b) Requirement of Employment. An SAR may be exercised only while the Grantee is in the employment of the Company, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(c) Exercise. A Grantee may exercise an SAR in whole or in part by delivering a notice of exercise to the Company. The notice of exercise once given shall be irrevocable. An SAR may be exercised only to the extent that the Stock Option or Prior Stock Option to which it relates is exercisable. If a Grantee exercises an SAR, he agrees to forgo the right to purchase the number of shares under the related Stock Option or Prior Stock Option with respect to which the SAR has been exercised.

(d) Payment and Form of Settlement. If a Grantee exercises an SAR, he shall receive the aggregate of the excess of the fair market value of each share of Lilly Stock with respect to which the SAR is being exercised over the Option Price of each such share. Payment may be made in cash, Lilly Stock at fair market value, or a combination of the two, in the discretion of the Committee. The fair market value shall be determined as of the date of exercise.

(e) Expiration and Termination. Each SAR shall expire on a date determined by the Committee at the time of grant. If a Stock Option or Prior Stock Option is exercised in whole or in part, the SAR related to the shares purchased shall terminate immediately.

7. Performance Awards.

The Committee may grant Performance Awards under which payment shall be made in shares of Lilly Stock ("Performance Shares"), or in cash, if the financial performance of the Company or any subsidiary or division of the Company ("Business Unit") selected by the Committee during the Award Period meets certain financial goals established by the Committee. 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 (4) 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. A Performance Award may not be granted for a given Award Period after one half (1/2) 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, may include earnings per share, return on shareholders' equity, return on assets, net income, divisional income, or any other financial measurement established by the Committee. The Committee shall also establish the method of calculating the amount of payment to be made under a Performance Award if the Performance Goals are met, including the fixing of a maximum payment.

(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

Performance Goals are not met, no payment shall be made under a Performance Award. If the Performance Goals are met or exceeded, the Committee shall determine the number of Performance Shares payable under a Performance Award. The Committee, in its sole discretion, may elect to pay the Performance Award in cash in lieu of issuing or transferring part or all of the Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment. The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash 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 unforeseen events occur during an Award Period which have a substantial effect on the financial performance of the Business Unit and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made.

(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.

8. Restricted Stock Grants.

The Committee may issue or transfer shares of Lilly Stock to a Grantee 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 "Restricted Period," the Restricted Stock Grant terminates and the shares of Lilly Stock must be returned immediately to the Company. However, the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(b) Restrictions on Transfer and Legend on Stock Certificate. 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 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall contain a legend giving appropriate notice of the restrictions in the Grant.

(c) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if all conditions stated in Sections 8(a) and (b) have been met. The Grantee shall then be entitled to have the legend removed from the certificate.

9. Amendment and Termination of the 1989 Plan.

(a) Amendment. The Company's Board of Directors may amend or terminate the 1989 Plan, subject to shareholder approval to the extent necessary for the continued applicability of Rule 16b-3 under the Securities Exchange Act of 1934, but no amendment shall withdraw from the Committee the right to select Grantees under Section 3.

(b) Termination of 1989 Plan. The 1989 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board or unless extended by the Board.

(c) Termination and Amendment of Outstanding Grants. A

termination or amendment of the 1989 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 10(e). The termination of the 1989 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 1989 Plan has terminated, an outstanding Grant may be terminated or amended under Section 10(e) or may be amended by agreement of the Company and the Grantee consistent with the 1989 Plan.

10. General Provisions.

(a) Prohibitions Against Transfer. Only a Grantee or his authorized representative may exercise rights under a Grant. Such persons may not transfer those rights. When a Grantee dies, the personal representative or other person entitled under a Prior Stock Option or a Grant under the 1989 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.

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, stock appreciation right, performance award, or restricted stock grant granted by such corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions required by the 1989 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where possible 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 of which the Company owns directly or indirectly 50% 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 1989 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 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 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. The 1989 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time.

(h) Effective Date of the 1989 Plan. The 1989 Plan shall become effective upon its approval by the Company's shareholders at the annual meeting to be held on April 17,

1989, or any adjournment of the meeting.

EXHIBIT 10.6. ELI LILLY AND COMPANY SENIOR
EXECUTIVE BONUS PLAN, AS AMENDED

ELI LILLY AND COMPANY
SENIOR EXECUTIVE BONUS PLAN
(As Amended Through July 1, 1993)

Section 1. Purpose

The purpose of the Senior Executive Bonus Plan is to recognize certain Senior Executives for contributions to the Company and to provide a financial incentive to continue their efforts toward more effective Company operations by a bonus payment based on Company performance.

Section 2. Definitions

The following words and phrases as used in this Plan shall have the following meanings unless a different meaning is clearly required by the context:

- 2.1. "Board of Directors" means the Board of Directors of Lilly.
- 2.2. "Bonus" means the annual bonus determined under Section 5.
- 2.3. "Committee" means the Compensation Committee of the Board of Directors.
- 2.4. "Company" means Eli Lilly and Company or each subsidiary corporation as the case may be.
- 2.5. "CNI" means, for any year, the consolidated net income of Lilly and its consolidated subsidiaries, after provision for all taxes for such year, as set forth in the "Consolidated Statements of Income" as determined by Lilly and certified by its independent accountants,
 - a. including the effect on net income of the amount included therein as a charge for payments made under this Plan for such year, and
 - b. excluding to the extent the Committee shall deem proper the whole or any part of any extraordinary or unusual gains, losses, charges or credits.
- 2.6. "CNS" means, for any year, the consolidated net sales of Lilly and its consolidated subsidiaries as determined by Lilly and certified by its independent accountants, adjusted to the extent the Committee shall deem proper for the effect on sales of acquisitions or dispositions of businesses during the year.
- 2.7. "Lilly" means Eli Lilly and Company.
- 2.8. "Plan" means the Senior Executive Bonus Plan as set forth herein and as hereafter modified or amended from time to time.
- 2.9. "Senior Executive" means, the Chairman of the Board of Lilly and other key executives of the Company selected by the Committee.

Section 3. Administration

- 3.1. Committee. The Plan shall be administered by the Compensation Committee, the members of which shall be selected by the Board of Directors from among its members. No member of the Committee shall be a salaried employee of the Company.
- 3.2. Powers of Committee. The Committee shall have the right:
 - (i) to select key executives (including members of the Board of Directors who are salaried employees of the Company) for participation in the Plan and to determine the level of participation of each such key executive;
 - (ii) to interpret the terms and provisions of the Plan and

to determine any and all questions arising under the Plan, including, without limitation, the right to remedy possible ambiguities, inconsistencies, or omissions by a general rule or particular decision; and

(iii) to adopt rules consistent with the Plan.

3.3. Finality of Committee Determinations. Determination by the Committee of the amount of the Bonus for any year and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives. The Committee may rely conclusively on determinations by the auditors of the Company for the amounts of CNS and CNI.

3.4. Powers of the Salary Committee. The Salary Committee shall have the right to select key executives (other than executive officers of the Company or members of the Board of Directors who are salaried employees of the Company) for participation in the Plan and to determine the level of participation of each such key executive.

Section 4. Participation in the Plan

4.1. General Rule. Only a Senior Executive may participate in the Plan. A Senior Executive may not receive payment under this Plan attributable to any period of a year for which he is entitled to receive payment under the Contingent Compensation Plan.

4.2. Commencement of Participation. A senior Executive's participation in the Plan will commence on such date the Committee shall determine.

Section 5. Executive Bonus

5.1. Computation of Bonus. The Bonus of each Senior Executive shall be computed as follows:

| Level of Participation | Senior Executive Bonus Formula |
|------------------------|--------------------------------|
| I | .004745% CNS plus .03796% CNI |
| II | .002497% CNS plus .01998% CNI |
| III | .001864% CNS plus .01491% CNI |
| IV | .001218% CNS plus .009746% CNI |
| V | .000836% CNS plus .006688% CNI |
| VI | .000688% CNS plus .005506% CNI |
| VII | .000392% CNS plus .003136% CNI |

5.2. Consideration for Payment. Payment of the Bonus is made in consideration of services rendered by the Senior Executive to the time of payment. If the employment of a Senior Executive shall terminate because of retirement (normal or early), disability or death, the Senior Executive or the personal representative, as the case may be, shall be entitled to a bonus adjusted for that period of the year during which the Senior Executive was an active employee of the Company. If a Senior Executive shall cease to be an employee of the Company before payment of the Bonus for reasons other than retirement, disability or death, the Senior Executive shall receive a Bonus in such amount, if any, as may be determined by the Committee in its sole discretion.

5.3. Time of Payment. Payment of the Bonus will be made before March 1 of the year next following the year for which the Bonus was earned.

5.4. Deferred Pavement. A senior Executive who is eligible to participate in The Lilly Deferred Compensation Plan (the "Deferred Compensation Plan") may elect, on or before January 31, 1978 and on or before each December 31 thereafter, to defer receipt of all or part of the Bonus to be earned respectively, (i) during the last eleven months of 1978 and (ii) during the year ending on December 31, following the year in which the election is made, subject to limitations set forth in the Deferred Compensation Plan. In the event of such

deferral, the Company will credit the account of the Senior Executive maintained pursuant to the Deferred Compensation Plan. Upon crediting such account, all rights of the Senior Executive with respect to the amount of the Bonus deferred will be determined under the Deferred Compensation Plan exclusively.

Section 6. Miscellaneous

- 6.1. No Vested Right. No Senior Executive shall have a vested right to the Bonus or any part thereof until payment is made.
- 6.2. No Employment Rights. No provision of the Plan, or any action taken by the Company, the Board of Directors or the Committee shall give a Senior Executive, or any other person, any right to be retained in the employ of the Company or to continued participation in the Plan.
- 6.3. No Adjustments. After the amount of the Bonus has been determined by the Committee for any year, no adjustments shall be made to reflect any subsequent change in accounting, the effect of federal, state, or municipal taxes later assessed or determined or otherwise.
- 6.4. Non-alienation. Except as provided in Subsection 5.4, no Senior Executive or other person shall have any right or power, by draft, assignment, or otherwise, to mortgage, pledge, or otherwise encumber in advance any payment under the plan; and every attempted draft, assignment, or other disposition thereof shall be absolutely void.

Section 7. Amendment, Suspension, or Termination

The Board of Directors shall have the right, from time to time, to amend, suspend or terminate the Plan. The Committee shall also have the right to amend the Plan, except that the Committee may not amend Subsection 3.1 or this Section 7.

Section 8. Effective Date

The Plan shall become effective July 1, 1977.

EXHIBIT 10.8. LETTER AGREEMENT DATED SEPTEMBER 3, 1993
BETWEEN THE COMPANY AND VAUGHN D. BRYSON

September 3, 1993

Mr. Vaughn D. Bryson
3533 Bay Road, North Drive
Indianapolis, IN 46240

Dear Vaughn:

This letter will confirm our agreement effective as of August 31, 1993, concerning the conditions under which you will retire from employment at Eli Lilly and Company (the "Company" herein).

1. Retirement and Resignation

a. You will retire as an employee of the Company effective August 31, 1993.

b. You will resign from the Board of Directors of the Company effective August 31, 1993.

2. Severance Pay and Benefits

a. Upon signing this agreement you will be paid the amount of \$2,462,073, subject to withholding for any income or employment taxes that the Company determines to be due, which you and I have agreed represents the net present value of (i) your current salary through December 31, 1994; (ii) your Company provided term life insurance through December 31, 1994; (iii) the Company's match (at a level of 80%) of your contribution to the Lilly Savings Plan through December 31, 1994; and (iv) a projected bonus of \$1,500,000 for the calendar years 1993 and 1994.

b. You and the Company have agreed to modification of any of your stock option grants that remain outstanding as of August 31, 1993, to eliminate any limitation on the option exercise period that is related to your retirement. Incentive stock options will convert to non-qualified options, as required by law.

c. You will be reimbursed by the Company for fees you have incurred for lawyers, accountants and consultants incident to the negotiation of this agreement in an amount not to exceed \$150,000.

3. Retirement

a. Beginning January 1, 1995, you will receive a monthly payment for life in the amount of \$60,000 (as may be adjusted in accordance with paragraph 3(c)), subject to applicable withholding taxes that the Company determines to be due, which will be the combination of the following:

(i) Your monthly pension under the Lilly Retirement Plan and the Excess Benefits Plan (the "Plans" herein) which you have agreed to commence receiving effective January 1, 1995; and

(ii) A supplemental monthly payment which will be paid by the Company in an amount equal to the difference between \$60,000 (as may be adjusted in accordance with paragraph 3(c)) and the monthly pension payment as provided in paragraph 3(a)(i).

You agree to complete the appropriate election forms with respect to the pension payments specified in paragraph 3(a)(i) within ninety (90) days prior to January 1, 1995.

b. In the event of your death prior to January 1, 1995, your surviving spouse, Nancy, will receive no payment until January, 1995; but beginning in January, 1995, she will receive for her life a monthly survivor benefit equivalent to 50% of the aggregate of the monthly benefit from the Plans and the supplemental payment from the Company to which you would have been entitled under this agreement had you been alive as of January 1, 1995. In the event you die before Nancy after January 1, 1995, she will receive for her life a monthly survivor benefit equivalent to 50% of the aggregate of the monthly benefit from the Plans and the supplemental payment from the Company that you were receiving at the time of your death. In either event, the adjustment to your monthly pension under the Plans referred to in paragraph 3(c) below will also be applicable to the benefit payable to Nancy.

c. Upon your retirement on August 31, 1993, you will be entitled to all other benefits available to retirees. Your monthly pension under the Plans will be adjusted from time to time for cost-of-living increases in the same manner as is applicable to retirees generally, including any adjustment made after August 31, 1993, and prior to January 1, 1995; the supplemental payment will not be adjusted.

d. The Company will indemnify and defend you from any claim, demand, action or cause of action asserted against you arising out of your employment with, or service as an officer and member of the Board of Directors of, the Company to the same extent as for any former employee, officer and director. The Company will also continue your coverage under the directors' and officers' liability insurance policy to the extent the Company provides such coverage for its former officers and directors.

4. Cooperation

You will cooperate with the Company upon request in responding to or defending any claim, investigation (internal or external), administrative proceeding and lawsuit to the extent reasonably required by the Company, taking into account your other business and personal commitments. You will be reimbursed for any travel expenses or other expenses reasonably incurred in complying with this obligation.

5. Trade Secrets

During your employment by the Company you have had access to confidential information concerning the Company's plans, strategies, products, processes, inventions, customers and suppliers. You have had access also to the Company's trade secrets. You agree not to disclose to anyone outside the Company any such confidential information or trade secret, except (i) in the course of complying with your obligations under paragraph 4 or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative or legislative body (including a committee thereof) with purported or apparent jurisdiction to order you to divulge, disclose or make accessible such information. Confidential information and trade secrets protected by this paragraph do not include information that is or becomes available to the public other than through your breach

of this agreement. You agree that disclosure of any such confidential information or trade secret to persons outside the Company may cause the Company serious and irreparable harm for which monetary damages would be inadequate and difficult to prove. Accordingly, you agree the Company shall be entitled to injunctive relief against any such disclosure or threatened disclosure.

6. Restrictive Covenants

a. During the period prior to January 1, 1997, you will not solicit, induce or encourage, directly or indirectly, on behalf of yourself or another, any person whom you know to be an employee of the Company to terminate his or her employment by the Company. For purposes of this paragraph, "solicit," "induce," or "encourage" shall not include general advertising for personnel to which an employee of the Company responds or discussions with an employee of the Company who has been notified by the Company that his or her employment will be terminated.

b. During the period prior to January 1, 1997, you will not personally solicit, induce or encourage, on behalf of yourself or another, any customer, distributor or supplier of the Company to cease doing business with the Company or to decrease the volume of business being done with the Company. For the purpose of this paragraph 6(b), "personally solicit, induce or encourage" does not include actions by your subordinates.

c. Neither you nor the Company, directly or through anyone acting at your or its direction, will denigrate or disparage the other, or any of the Company's current or former officers, directors or employees, in the media or any other public forum; provided, however, this restraint shall not be applicable to any truthful statement required of either party in any legal proceeding or government or regulatory investigation.

d. You will refrain for a period of ten (10) years from the date of this agreement from soliciting or joining anyone else in soliciting proxies involving the Company with respect to a meeting of its shareholders.

7. Release and Covenant

a. In consideration of the Company's undertakings herein, on behalf of yourself, your heirs, successors and assigns, you hereby release and forever discharge the Company and all other persons, firms and companies, and each of them, from any claim, demand, action or cause of action, which you have or may have on account of or arising out of (a) the circumstances surrounding your resignation from your position as President and Chief Executive Officer of the Company and as a member of its Board of Directors, (b) the termination of your employment by the Company, and (c) your employment by the Company, including without being limited to, claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Rehabilitation Act of 1973, the Americans with Disabilities Act, and any and all other federal, state and local laws, ordinances and regulations prohibiting discrimination in employment on the basis of age, race, color, religion, sex, national origin or physical or mental disability; provided, however, this release does not affect (i) any vested right you may have under an employee benefit plan maintained by the Company; (ii) the Company's obligations under this agreement; (iii) any rights you

may have to indemnification under the articles of incorporation of the Company or under any agreement of the Company; or (iv) any right you may have to obtain contribution in the event of the entry of judgment against you as a result of any act or failure to act for which you and the Company are jointly responsible.

b. You acknowledge you have been represented by an attorney throughout the negotiations leading up to this agreement, you have been advised in writing to consult with your attorney prior to signing this agreement, and you have been given a period of up to twenty-one (21) days within which to consider the agreement before doing so.

c. For a period of seven (7) days after the date of execution of this agreement you may revoke the agreement by giving written notice of your revocation and returning to the Company any sum(s) paid pursuant to the agreement. This agreement shall not become effective or enforceable until the revocation period has expired.

d. You further covenant that you will not initiate any action, claim or proceeding against any of those hereby released for any of the foregoing.

8. Conditions of Company Obligations

In the event of a material breach by you of the covenants in paragraphs 4, 5, 6 and 7(d) above, the Company will have no further obligations to you under this agreement, including without limitation, the payment of the supplemental payment described above in paragraph 3(a)(ii).

9. Announcement

Neither you nor the Company will issue any press release concerning your retirement or resignation from the Board of Directors without the prior written approval of the other, which approval shall not be unreasonably withheld.

10. Representation

The Company represents and warrants that it is fully authorized and empowered to enter into this agreement and that the performance of its obligations under this agreement will not violate any agreement between it and any other person, firm or organization.

11. Miscellaneous Provisions

a. This agreement constitutes the entire understanding between you and the Company concerning its subject matter. You acknowledge that in executing this agreement you are not relying upon any representation or statement made by the Company or any of its officers, employees or agents with regard to the subject matter, basis or effect of this agreement, other than those things set forth in writing in this document and in the employee benefit plan documents relating to the pension and health care plans.

b. This agreement is binding upon and shall inure to the parties hereto and their respective successors, heirs, legal representatives and assigns.

c. This agreement shall be governed by and construed in accordance with the laws of the State of Indiana without reference to principles of conflict of laws.

d. This agreement or any provision thereof may

not be revoked or revised except by an instrument in writing and duly executed by both parties. No waiver by either party of any breach by the other party of any condition or provision contained in this agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by you or the Company, as the case may be.

e. The headings of the paragraphs contained in this agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this agreement.

If the foregoing is in accordance with your understanding and accurately describes your obligations to the Company, please so indicate by signing in the space provided below and returning an executed copy to the undersigned. Thank you.

Sincerely,

ELI LILLY AND COMPANY

s/W. P. Bruen

I, Vaughn D. Bryson, hereby accept and agree to the terms and conditions of the foregoing agreement including but not limited to my commitment to abide by and comply with the covenants and provisions of paragraphs 4, 5, 6 and 7(d).

September 3, 1993

s/Vaughn D. Bryson
By: -----
Vaughn D. Bryson

EXHIBIT 11. COMPUTATION OF EARNINGS PER SHARE ON PRIMARY
AND FULLY DILUTED BASES

Eli Lilly and Company and Subsidiaries

| | Year Ended December 31 | | |
|---|------------------------|-------------------|--------------------|
| | 1993 | 1992 | 1991 |
| (Dollars in millions, except per-share data; shares in thousands) | | | |
| PRIMARY: | | | |
| Net income | \$480.2 | \$ 708.7 | \$1,314.7 |
| Add tax benefit on dividends paid to ESOP | - ----- | - ----- | 9.1 ----- |
| Adjusted net income | \$480.2 ===== | \$ 708.7 ===== | \$1,323.8 ===== |
| Average number of common shares outstanding | 292,673 | 292,593 | 288,976 |
| Add incremental shares: | | | |
| Stock plans and contingent payments | 1,178 | 1,885 | 3,118 |
| Warrants | - ----- | - ----- | 1,813 ----- |
| Adjusted average shares | 293,851 ===== | 294,478 ===== | 293,907 ===== |
| Primary earnings per share | \$ 1.63 | \$ 2.41 | \$ 4.50 |
| FULLY DILUTED: | | | |
| Net income | \$ 480.2 | \$ 708.7 | \$1,314.7 |
| Add incremental net income:- | | | |
| Tax benefit on dividends paid to ESOP | - ----- | - ----- | 9.1 ----- |
| Adjusted net income | \$ 480.2 ===== | \$ 708.7 ===== | \$1,323.8 ===== |
| Average number of common shares outstanding | 292,673 | 292,593 | 288,976 |
| Add incremental shares: | | | |
| Stock plans and contingent payments | 1,616 | 1,885 | 3,449 |
| Warrants | - ----- | - ----- | 1,819 ----- |
| Adjusted average shares | 294,289 ===== | 294,478 ===== | 294,244 ===== |
| Fully diluted earnings per share | \$ 1.63 | \$ 2.41 | \$ 4.50 |

EXHIBIT 12. STATEMENT RE: COMPUTATION OF RATIO OF
EARNINGS TO FIXED CHARGES

Eli Lilly and Company and Subsidiaries

| | Years Ended December 31, | | | | |
|--|--------------------------|-----------|-----------|-----------|-----------|
| | 1993 | 1992 | 1991 | 1990 | 1989 |
| | ---- | ---- | ---- | ---- | ---- |
| Consolidated Pretax Income Before Changes in Accounting Principles | \$701.9 | \$1,182.3 | \$1,879.2 | \$1,599.0 | \$1,329.9 |
| Interest | 96.7 | 109.1 | 88.9 | 93.8 | 57.1 |
| Less Interest Capitalized During the Period | (25.5) | (37.4) | (49.1) | (27.4) | (15.8) |
| Earnings | ===== | ===== | ===== | ===== | ===== |
| Fixed Charges: | | | | | |
| Interest Expense | \$ 96.7 | \$ 109.1 | \$ 88.9 | \$ 93.8 | \$ 57.1 |
| | ===== | ===== | ===== | ===== | ===== |
| Ratio of Earnings to Fixed Charges | 8.0 | 11.5 | 21.6 | 17.8 | 24.0 |
| | ===== | ===== | ===== | ===== | ===== |

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR
ENDED DECEMBER 31, 1993
(portions incorporated by reference in this Form 10-K)

REVIEW OF OPERATIONS

OPERATING RESULTS--1993

Worldwide sales rose 5 percent in 1993, to \$6.5 billion. The factor that contributed most to the increase was a 6 percent rise in unit volume; price contributed a modest 1 percent increase, while exchange rates decreased sales growth by 2 percent.

The company achieved sales increases both in the United States and abroad. Sales in the United States were \$4.0 billion, a 4 percent increase. Sales outside the United States were \$2.5 billion, an increase of 6 percent from the previous year.

Pharmaceutical sales for the year increased approximately 7 percent, to \$4.7 billion, led by the antiulcer drug Axid (registered) and the antidepressant Prozac. Other products contributing to worldwide pharmaceutical sales growth included Humatrope (registered), Humulin (registered), and Vancocin (registered). HCl. Sales also benefited from the first full year of sales of Lorabid, an oral antibiotic, which was launched in September 1992. Ceclor sales declined slightly in 1993, as good sales growth abroad was offset by intense competition from other oral antibiotics in the U.S. Sales of central-nervous-system and diabetic-care products, as therapeutic classes, increased from 1992 levels; however, sales of anti-infectives decreased slightly. U.S. pharmaceutical sales, which were \$2.9 billion in 1993, continue to be negatively affected by increased participation in managed-care programs and by federally mandated rebates to the states on sales to Medicaid recipients. For 1993 these rebates totaled \$156 million, a 44 percent increase over 1992. The company anticipates a decline in the rate of growth of these rebates under the current Medicaid legislation. Pharmaceutical sales outside the U.S. were \$1.8 billion in 1993.

The United States product patent on Ceclor, the company's second largest selling product, expired in December 1992. U.S. Ceclor sales accounted for approximately 8 percent of the company's worldwide sales. The company holds a United States patent on a key intermediate material that remains in force until December 1994, as well as process and product patents in many other countries with various expiration dates. It has been reported that several abbreviated new drug applications for generic formulations of cefaclor have been filed in the United States and regulatory submissions have been made in other countries. To date, the company is not aware of commercially significant sales of generic cefaclor. However, small quantities of a generic formulation are currently being marketed in India. Although the company cannot predict the ultimate effect on Ceclor sales or the company's results of operations, the company believes that the expiration of the U.S. product and intermediate patents will not have a material adverse effect on its near-term consolidated financial position.

The U.S. patent for the cardiovascular agent Dobutrex (registered) expired on October 19, 1993. Prior to the expiration, U.S. sales of Dobutrex accounted for approximately 2 percent of the company's worldwide sales. Generic substitution caused a significant decline in U.S. sales of the product during the fourth quarter of 1993, and the company expects this trend to continue in 1994.

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However, the company does not believe that the patent expiration will have a material adverse effect on its near-term consolidated results of operations.

Medical devices and diagnostic products sales increased approximately 4 percent in 1993, to \$1.3 billion. All companies within the group except Hybritech Incorporated posted sales gains over 1992. During 1993, several of the companies continued to experience strong competition, which caused the rate of sales growth to be lower than 1992 levels. The division's sales benefited from particularly strong growth from Devices for Vascular

Intervention, Inc., and from the resumption of shipments by Physio-Control Corporation of the Lifepak (registered) 10 external defibrillator in May 1993 after a suspension of approximately one year due to regulatory problems. Approval from the U.S. Food and Drug Administration (FDA) to resume shipment of the Lifepak 9 was received in December 1993. Sales of Hybritech products declined due to continued competitive pressures.

Worldwide sales of Elanco Animal Health products increased 3 percent, to \$439 million. Sales in the United States increased 12 percent over 1992. However, this increase was partially offset by a decrease of 4 percent in sales outside the United States due primarily to exchange rate comparisons and the recession in Europe. Strong worldwide sales growth of Micotil (registered) more than offset a decline in sales of Tylan (registered), primarily in Europe.

In the fourth quarter, as a result of a comprehensive review of the company's global operations, the company's board of directors approved several streamlining initiatives. These initiatives included a voluntary early-retirement program. Approximately 2,600 employees worldwide are retiring under the program. The company hopes to eliminate another 1,400 positions over the next several years by restricting its use of temporary and contract workers and consultants and through ongoing normal attrition and strict hiring practices.

In January 1994, following the review of operations, the company announced a series of strategic actions designed to allow it to enhance its core competencies and set the stage for necessary changes to enable the company to deliver more clinical and economic value to its customers worldwide. As part of these actions, the company announced its intent to divest itself of the Medical Devices and Diagnostics (MDD) Division along with a number of initiatives to further streamline its pharmaceutical operations. The final form of the divestiture of the MDD businesses has not been resolved. It will depend on tax, market, and other considerations, including the nature of any offers that the company may receive from prospective purchasers. Current plans call for the creation of a new holding company comprising six of the businesses and the divestiture of the new company through a spin-off to Lilly shareholders, one or more public offerings of the holding company's shares, or a combination of these methods. These six businesses are Advanced Cardiovascular Systems, Inc.; Cardiac Pacemakers, Inc.; Devices for Vascular Intervention, Inc.; Heart Rhythm Technologies, Inc.; IVAC Corporation; and Origin Medsystems, Inc. Lilly intends to sell separately the three other businesses in the division: Hybritech Incorporated; Pacific Biotech, Inc.; and Physio-Control Corporation.

The strategic actions to streamline the pharmaceutical business, together with the early-retirement programs, resulted in 1993 restructuring, special, and other charges of approximately \$1.2 billion before tax and \$856 million after tax (\$2.91 per share). Costs associated with the early-retirement programs were approximately \$535 million before tax. Other actions include consolidation of certain manufacturing and distribution operations and streamlining of various other operations (\$365 million before tax). In addition, anticipated expenses of \$300 million, before tax, were recorded relating to impaired manufacturing assets, write-offs of certain acquired intangibles, and certain patent and

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product liability matters. Of the total charges, approximately \$130 million were paid in cash as of December 31, 1993. Of the remainder, approximately 75 percent will be paid in cash and 25 percent represent noncash charges. The amount to be paid in cash will be funded from operations over an extended period because a significant portion is pension related. The company expects the restructuring actions to result in operating expense savings (salaries and wages, employee benefits, and depreciation and amortization) in the near-term. See Note 2 to the consolidated financial statements for further discussion.

Manufacturing costs, operating expenses, and other income and deductions for 1992 reflected additional expenses, including restructuring and special charges, relating to various strategic actions taken by the company in 1992. Accordingly, year-to-year comparisons are difficult.

Research and development expenses increased 3 percent in 1993. Global

clinical trial expenses more than doubled, compared with 1992, reflecting the movement of several compounds into the later and most costly stages of clinical trials. As part of the company's new strategic initiatives, the company decided in December to refocus its research and development efforts from eight therapeutic areas to five. The company anticipates that research and development expenses will grow at a rate in excess of sales for the next two years, primarily as a result of compounds moving into the more costly stages of clinical research.

Marketing and administrative expenses increased 5 percent in 1993. Marketing costs increased due to a number of factors: continued globalization of the company's products, including the U.S. launch of Lorabid Pediatric; the full-year impact of the 1992 expansion of the pharmaceutical sales forces outside the United States; a realignment of sales forces in the U.S.; and the inclusion of a full year of expenses of Lilly-Beiersdorf G.m.b.H. and Origin Medsystems, Inc., two 1992 acquisitions. Administrative expenses declined in 1993, compared with 1992. This decrease was largely attributable to a number of one-time expenses recognized in 1992 in connection with the 1992 strategic actions and to various cost-containment measures initiated in 1993.

Net other income in 1993 increased from 1992 levels due primarily to the additional charges recognized in connection with the 1992 strategic actions. However, net other income in 1993 was negatively affected by lower interest income on investments.

The effective tax rate for 1993 was 30.0 percent, the same as 1992. The company's effective tax rate was not increased by the Omnibus Budget Reconciliation Act of 1993 (OBRA) because the effect of the corporate rate increase was largely offset by the retroactive restoration of the research tax credit. OBRA is expected to increase the company's effective tax rate in 1994 by one to three percentage points.

(See Graph #1, "Research and Development Expenses", in the Appendix to this Exhibit 13.)

Fundamental changes continued to reshape the traditional patterns of health care delivery in the United States and certain other countries in 1993. Further changes are expected during the next several years. In the United States, managed-care organizations, buying groups, and other large customers of pharmaceuticals account for an increasing portion of total pharmaceutical purchases. These customers are exerting increasing pricing pressures on the pharmaceutical industry and the company. The health-care-reform debate also continued in the United States during 1993. A number of competing health-care-reform bills have been introduced in Congress. The current proposals generally

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would expand access to health care coverage, and several proposals could lead to the establishment of more comprehensive pharmaceutical benefits; however, the Clinton administration's proposal and certain others call for expanded rebates on pharmaceuticals and other forms of government mandates affecting pricing and choice of therapy. It is uncertain when health-care-reform legislation will be adopted or what form it may take. Major changes in health care delivery and pharmaceutical reimbursement policies are also occurring outside the United States, most notably in Germany and Italy, where government health care cost-control measures have adversely affected pharmaceutical industry revenues.

The company is continuing to adapt its operations to the changing market conditions and government cost-containment efforts. It has significantly expanded its efforts to serve its managed-care customers and is working with its evolving customer base to deliver greater clinical and economic value through combinations of products, services, and information. As described above, the company has also made a number of strategic decisions to streamline its operations, reduce its work force, and focus its research and development program on a smaller number of therapeutic areas that hold the greatest promise. Most significantly, the company is refocusing its resources on its core business, the research-based pharmaceutical business. This focus is intended to allow the company to invest its resources in an effort to increase the productivity of its research programs and develop a broad product portfolio, to grow geographically, and to continue developing

the capabilities needed to deliver more clinical and economic value to its customers.

As in 1993, the company has pledged voluntarily to hold the increase in the weighted-average transaction price of its U.S. pharmaceutical products in 1994 to the projected rate of inflation and to limit increases in the prices of individual products to the forecasted increase in the Consumer Price Index for all urban consumers, all items (CPI-U), during the year plus 2 percent. This policy, as in the past, will be contingent upon stable market conditions and governmental policies recognizing, acknowledging, and supporting innovation.

OPERATING RESULTS--1992

Worldwide sales rose 8 percent in 1992, to \$6.2 billion. Unit volume provided a 4 percent increase, while price increases and the impact of exchange rates contributed increases of 3 percent and 1 percent, respectively.

In 1992, the company achieved sales increases both in the United States and abroad. Sales in the United States were \$3.84 billion, a 6 percent increase. Sales outside the United States were \$2.33 billion, a gain of 11 percent from the previous year.

Pharmaceutical sales increased 10 percent, to \$4.5 billion, in 1992. The 1992 sales increase was led by Axid and Prozac. Other products contributing to worldwide pharmaceutical sales growth included Dobutrex, Humatrope, Humulin, and Vancocin HCl. Sales benefited from the U.S. launch of Lorabid as well as the inclusion of the sales of Beiersdorf-Lilly G.m.b.H., in Germany, beginning in May 1992. Sales of anti-infectives and central-nervous-system and diabetic-care products, as therapeutic classes, increased from 1991 levels. Ceclor sales declined slightly in 1992 due to increased global competition from the introduction of several new oral antibiotics and lower incidence of flu in the United States, compared with 1991. In addition, U.S. pharmaceutical sales were also negatively affected by Medicaid rebates. These rebates totaled \$108 million in 1992, an amount nearly double that of 1991.

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Medical devices and diagnostics products sales increased 1 percent in 1992, to \$1.2 billion. All companies within this group except Physio-Control Corporation had sales increases from 1991. However, during 1992, several of the companies experienced increased competition, which reduced the rate of sales growth from 1991. In May 1992, Physio-Control halted production as a consequence of an inspection of its operations by the FDA. Due to the production halt, Physio-Control's sales in 1992 declined \$79 million from 1991.

Worldwide sales of Elanco Animal Health products increased 10 percent, to \$427 million, in 1992. The increase was largely due to the introduction of Micotil. The remaining growth was balanced across the product line.

Manufacturing costs, operating expenses, and other income and deductions for 1992 reflect additional expenses, including restructuring and special charges, relating primarily to various strategic actions taken by the company in the third quarter. Those actions centered around a streamlining of the global manufacturing operations, an aggressive response to regulatory initiatives relating to several of the medical devices companies, and other actions designed to enhance the company's competitiveness. The total impact of those and other actions described below was approximately \$720 million, substantially all of which was before taxes. See Note 2 to the consolidated financial statements for further discussion.

Gross profits for 1992 increased at a lower rate than sales because of certain one-time charges taken as part of the strategic actions discussed above, production and start-up costs associated with new production facilities for Humulin and Lorabid, and costs associated with modifications to existing production facilities to comply with environmental regulations. Cost of sales also increased because of the production halt at Physio-Control. Worldwide cost of sales in 1992 increased to 30.8 percent of sales, from 30 percent in 1991.

Research and development expenses increased 21 percent in 1992. The increase

reflected the company's continued commitment to life-sciences research and development, including alliances with Centocor, Inc., and Oclassen Pharmaceuticals, Inc. During 1992, the company incurred expenses in excess of \$66 million on new external research collaborations.

The 10 percent growth in marketing and administrative expenses was greater than the sales growth rate in 1992. The increase in marketing costs was primarily associated with the continued worldwide introduction of the company's newer products. Also, 1992 expenses reflected an expansion and realignment of the pharmaceutical sales forces. The 1992 growth in administrative expenses was largely attributable to a number of one-time expenses in connection with the previously noted strategic actions, to increased legal expenses, and to the inclusion of the expenses of Origin Medsystems, Inc., which was acquired in February 1992, and of Beiersdorf-Lilly G.m.b.H., in which Lilly acquired a majority interest.

Other income in 1992 decreased significantly from 1991 levels due primarily to reduced net interest income resulting from lower interest rates on investments and higher debt levels. Other income also declined as a result of the company's special charges, including the write-off of certain fixed assets. These declines were offset in part by the gain on the sale of the company's worldwide capsule business.

The effective tax rate for 1992 remained at the 1991 level of 30 percent.

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Effective January 1, 1992, the company adopted two Financial Accounting Standards Board (FAS) pronouncements. The adoption of FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," resulted in a pretax charge of \$269 million. The adoption of FAS 109, "Accounting for Income Taxes," produced a \$49 million benefit to net income. The net-of-tax effect of the accounting changes, a charge of \$118.9 million, has been reflected in the company's results of operations for the year.

Both 1992 net income and earnings per share declined from 1991 levels by 46 percent. The declines were primarily the result of the impacts of the company's strategic business actions on costs and expenses, the cumulative effect of the accounting changes, the growth in Medicaid rebates, the production halt at Physio-Control, and the write-down of Centocor-related investments.

FINANCIAL CONDITION

The company maintained its sound financial position in 1993 despite the impacts of the restructuring and special charges taken in both 1993 and 1992. The cash generated from operations provided the resources to fund capital expenditures, dividends, and acquisitions. In 1993, the company issued additional long-term debt of \$350 million to take advantage of favorable long-term interest rates.

Capital expenditures during 1993 were approximately \$279 million less than in 1992, as work progressed toward completion of new manufacturing facilities, including environmental control systems, and development, research, and administrative facilities. The company expects a continued decline in near-term capital-expenditure requirements. Sufficient liquidity exists to meet these near-term capital-expenditure requirements.

(See Graph #2, "Capital Expenditures", in the Appendix to this Exhibit 13)

The company is a 40 percent partner with The Dow Chemical Company in DowElanco, a global agricultural products joint venture. The company holds a put option, which can be exercised after October 31, 1994, requiring Dow to purchase the company's interest in DowElanco at a fair market value.

The company's strong financial position contributes to its ability to finance growth. Liquidity is substantial as evidenced by the company's ability to generate cash from operations, debt-to-equity ratio, and substantial debt capacity. These factors give the company the ability and flexibility to meet its obligations, to pay dividends, and to continue to invest in growth opportunities. The highest long-term debt rating of AAA for the company was reaffirmed by Standard & Poor's in December 1993; however, the company's long-

term debt rating was lowered to Aa1 from AAA by Moody's in January 1994.

Dividends of \$2.42 per share were paid in 1993, a 10 percent increase from the \$2.20 per share paid in 1992. Dividends of \$2.20 per share were paid in 1992, a 10 percent increase from the \$2.00 per share paid in 1991. The year 1993 was the 109th consecutive year that the company made dividend payments and the 26th consecutive year in which dividends have been increased.

(See Graph #3, "Dividends Per Share", in the Appendix to this Exhibit 13)

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ENVIRONMENTAL AND LEGAL MATTERS

As with other industrial enterprises, the company's operations are subject to increasingly complex and changing federal, state, and local environmental laws and regulations, which will continue to require capital investment and operational expenses. The company also has been designated a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, with respect to approximately 10 sites with which the company had varying degrees of involvement. Further, the company continues remediation of certain of its own properties consistent with current environmental practices. The company has accrued for estimated Superfund costs and remediation of its own properties, 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 those costs, and has also accrued for certain other environmental matters. While it is not feasible to predict the ultimate cost of Superfund liability, remediation of its own sites, or compliance with evolving regulations, the company continues to believe that such costs will not have a material adverse effect on its consolidated financial position.

During 1993, the company continued to be named as a defendant in lawsuits involving Prozac. The number of new case filings in 1993 declined from the 1992 level. In addition, the company has been named in approximately 10 of more than 40 lawsuits filed in various federal courts against a number of U.S. pharmaceutical manufacturers and in some cases wholesalers. The suits in which the company is a defendant generally allege an industrywide agreement to deny favorable pricing on sales to certain retail pharmacies. Some also allege price discrimination. The suits purport to be class actions on behalf of all retail pharmacies in the United States. The suits are in a very early procedural stage. While it is not feasible to predict the outcome of these actions, the company believes they will not have a material adverse effect on its consolidated financial position. For additional information on litigation and environmental matters, see Note 11 to the consolidated financial statements.

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Consolidated Statements of Income
 ELI LILLY AND COMPANY AND SUBSIDIARIES
 (Dollars in millions, except per-share data)

| Year Ended December 31 | 1993 | 1992 | 1991 |
|--|-----------|-----------|-----------|
| Net sales | \$6,452.4 | \$6,167.3 | \$5,725.7 |
| Cost of sales | 1,959.0 | 1,897.0 | 1,717.7 |
| Research and development | 954.6 | 924.9 | 766.9 |
| Marketing and administrative | 1,713.5 | 1,624.2 | 1,472.8 |
| Restructuring and special charges (Note 2) | 1,172.7 | 565.7 | - |
| Other income--net | (49.3) | (26.8) | (110.9) |
| | ----- | ----- | ----- |
| | 5,750.5 | 4,985.0 | 3,846.5 |
| | ----- | ----- | ----- |
| Income before income taxes and cumulative effect of changes in accounting principles | 701.9 | 1,182.3 | 1,879.2 |
| Income taxes (Note 8) | 210.8 | 354.7 | 564.5 |
| | ----- | ----- | ----- |

| | | | |
|---|----------|----------|-----------|
| Income before cumulative effect of changes in accounting principles | 491.1 | 827.6 | 1,314.7 |
| Cumulative effect of changes in accounting principles (net of taxes) (Note 3) | (10.9) | (118.9) | - |
| | ---- | ----- | ----- |
| Net income | \$ 480.2 | \$ 708.7 | \$1,314.7 |
| | ===== | ===== | ===== |
| Earnings per share: | | | |
| Income before cumulative effect of changes in accounting principles | \$1.67 | \$ 2.81 | \$ 4.50 |
| Cumulative effect of accounting changes | (.04) | (.40) | - |
| | ---- | ----- | ----- |
| Net income | \$1.63 | \$2.41 | \$4.50 |
| | ===== | ===== | ===== |

See notes to consolidated financial statements.

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Consolidated Balance Sheets
Eli Lilly and Company and subsidiaries
(Dollars in millions)

| | December 31 | 1993 | 1992 |
|--|-------------|-----------|------|
| ----- | | | |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 539.6 | \$ 432.4 | |
| Short-term investments | 447.5 | 295.9 | |
| Accounts receivable, net of allowances of \$32.3 (1993) and \$35.0 (1992) | 950.1 | 898.6 | |
| Inventories (Note 1) | 1,103.0 | 938.4 | |
| Deferred income taxes (Note 8) | 334.0 | 175.6 | |
| Other current assets | 322.9 | 265.1 | |
| | ----- | ----- | |
| Total current assets | 3,697.1 | 3,006.0 | |
| Other Assets | | | |
| Prepaid retirement (Note 9) | 266.0 | 381.0 | |
| Investments--at cost | 221.7 | 242.5 | |
| Goodwill and other intangibles, net of allowances for amortization of \$289.9 (1993) and \$283.6 (1992) (Note 1) | 405.0 | 460.1 | |
| Sundry | 833.6 | 511.1 | |
| | ----- | ----- | |
| | 1,726.3 | 1,594.7 | |
| Property and Equipment (Note 1) | 4,200.2 | 4,072.1 | |
| | ----- | ----- | |
| | \$9,623.6 | \$8,672.8 | |
| | ===== | ===== | |

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

| | December 31 | 1993 | 1992 |
|--------------------------------------|-------------|----------|------|
| ----- | | | |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities | | | |
| Short-term borrowings (Note 6) | \$ 524.8 | \$ 591.2 | |
| Accounts payable | 329.6 | 323.6 | |

| | | |
|---|-----------|-----------|
| Employee compensation | 328.6 | 272.8 |
| Dividends payable | 183.3 | 175.9 |
| Other liabilities | 1,115.7 | 575.3 |
| Income taxes payable | 446.0 | 459.8 |
| | ----- | ----- |
| Total current liabilities | 2,928.0 | 2,398.6 |
| Other Liabilities | | |
| Long-term debt (Note 6) | 835.2 | 582.3 |
| Deferred income taxes (Note 8) | 127.5 | 169.7 |
| Retiree medical benefit obligation (Note 9) | 183.9 | 137.9 |
| Other noncurrent liabilities | 980.2 | 492.2 |
| | ----- | ----- |
| | 2,126.8 | 1,382.1 |
| Shareholders' Equity (Notes 5 and 7) | | |
| Common stock--no par value | | |
| Authorized shares: 800,000,000 | | |
| Issued shares: 292,807,644 | 183.0 | 183.0 |
| Additional paid-in capital | 294.6 | 307.9 |
| Retained earnings | 4,500.9 | 4,743.1 |
| Deferred costs--ESOP | (242.8) | (263.9) |
| Currency translation adjustments | (163.5) | (70.2) |
| | ----- | ----- |
| | 4,572.2 | 4,899.9 |
| Less cost of common stock in treasury: | | |
| 1993 -- 59,277 shares | | |
| 1992 -- 122,120 shares | 3.4 | 7.8 |
| | ----- | ----- |
| | 4,568.8 | 4,892.1 |
| | ----- | ----- |
| | \$9,623.6 | \$8,672.8 |
| | ===== | ===== |

See notes to consolidated financial statements.

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

| | Year Ended December 31 | 1993 | 1992 | 1991 |
|---|------------------------|----------|----------|-----------|
| ----- | | | | |
| Cash Flows from Operating Activities | | | | |
| Net income | | \$ 480.2 | \$ 708.7 | \$1,314.7 |
| Adjustments to Reconcile Net Income to Cash Flows from Operating Activities | | | | |
| Depreciation and amortization | | 398.3 | 368.1 | 299.5 |
| Change in deferred taxes | | (231.6) | (184.3) | (13.7) |
| Restructuring and special charges--net of payments | | 1,041.3 | 565.7 | - |
| Cumulative effect of changes in accounting principles | | 10.9 | 118.9 | - |
| Other noncash (income)--net | | (53.1) | (16.2) | (8.7) |
| | | ----- | ----- | ----- |
| | | 1,646.0 | 1,560.9 | 1,591.8 |
| Changes in operating assets and liabilities: | | | | |
| Receivables--(increase) decrease | | (32.1) | 28.1 | (122.2) |
| Inventories--increase | | (192.3) | (198.4) | (116.1) |
| Other assets--increase | | (104.5) | (48.8) | (140.3) |
| Accounts payable and other liabilities--increase | | 199.8 | 141.7 | 41.4 |
| | | ----- | ----- | ----- |
| | | (129.1) | (77.4) | (337.2) |
| Net Cash Flows from Operating Activities | | 1,516.9 | 1,483.5 | 1,254.6 |
| Cash Flows from Investing Activities | | | | |
| Additions to property and equipment | | (633.5) | (912.9) | (1,142.4) |
| Disposals of property and equipment | | 5.4 | 10.6 | 28.5 |
| Additions to intangibles and other assets | | (70.1) | (59.6) | (100.9) |

| | | | |
|---|-----------|----------|----------|
| Net proceeds from divestiture | - | 98.9 | - |
| Reductions of investments | 889.3 | 764.2 | 1,301.7 |
| Additions to investments | (1,001.7) | (740.2) | (942.6) |
| Acquisitions | (56.1) | (89.2) | - |
| | ----- | ----- | ----- |
| Net Cash Used for Investing Activities | (866.7) | (928.2) | (855.7) |
| Cash Flows from Financing Activities | | | |
| Dividends paid | (708.4) | (643.7) | (582.7) |
| Warrant exercises | - | - | 955.7 |
| Purchase of common stock and other capital transactions | (25.8) | (68.5) | (69.2) |
| Issuance under stock plans | 19.8 | 26.0 | 39.3 |
| Decrease in short-term borrowings | (152.7) | (104.9) | (713.9) |
| Additions to long-term debt | 383.8 | 205.5 | 152.6 |
| Reductions of long-term debt | (39.8) | (3.0) | (60.0) |
| | ----- | ----- | ----- |
| Net Cash Used for Financing Activities | (523.1) | (588.6) | (278.2) |
| Effect of exchange rate changes on cash | (19.9) | (13.5) | 8.3 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 107.2 | (46.8) | 129.0 |
| Cash and cash equivalents at the beginning of year | 432.4 | 479.2 | 350.2 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 539.6 | \$ 432.4 | \$ 479.2 |
| | ===== | ===== | ===== |

See notes to consolidated financial statements.

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Segment Information

| Industry Data | (Dollars in millions) | 1993 | 1992 | 1991 |
|--------------------------------------|-----------------------|-----------|-----------|-----------|
| ----- | | | | |
| Net sales--to unaffiliated customers | | | | |
| Life-sciences products | | | | |
| Anti-infectives | | \$1,731.4 | \$1,735.9 | \$1,723.8 |
| Central nervous system | | 1,393.6 | 1,290.0 | 1,109.6 |
| Medical devices and diagnostics | | 1,254.0 | 1,204.3 | 1,192.3 |
| Diabetic care | | 687.4 | 641.8 | 583.5 |
| Animal health | | 439.1 | 426.5 | 388.0 |
| All other | | 946.9 | 868.8 | 728.5 |
| | | ----- | ----- | ----- |
| Net sales | | \$6,452.4 | \$6,167.3 | \$5,725.7 |
| | | ===== | ===== | ===== |

Life-sciences products include a broad range of pharmaceuticals, diagnostics, and medical devices used for the treatment of human and animal diseases. The largest category of the products is the anti-infectives, which include Ceclor, Keflex (registered), Kefzol (registered), Lorabid, Nebcin (registered), Tazidime (registered), and Vancocin HCl. Central-nervous-system agents include Prozac and Darvon (registered). Medical devices and diagnostics include intravenous fluid-delivery and control systems, implantable cardiac pacemakers and defibrillators, external cardiac defibrillators and monitors, coronary angioplasty catheter systems, peripheral and coronary atherectomy catheter systems, patient vital-signs measurement and monitoring systems, and diagnostic products that include tests incorporating monoclonal antibodies, of which Tandem (registered) PSA and Tandem Icon (registered) HCG are the largest. Other major groups are diabetic-care products, of which Humulin and Iletin (registered) are the largest, and animal health products that include a nonhormonal cattle feed additive, Rumensin (registered), which improves feed efficiency and growth; Micotil, an antibiotic for bovine respiratory disease; Tylan, an antibiotic for promoting feed efficiency and growth in swine and cattle; anticoccidial agents for use in broilers and layer replacements, the largest of which is Coban (registered); and other products for livestock and poultry. Major products in the all-other category include cardiovascular therapy products, of which Dobutrex is the largest; an antiulcer agent known as Axid; hormone products, the largest of which is Humatrope; and other products, including cancer-therapy and other miscellaneous pharmaceutical

products.

Most of the pharmaceutical products are distributed through wholesalers that serve physicians, dentists, pharmacies, and hospitals. In 1993, one wholesaler accounted for approximately 11 percent of consolidated net sales. The medical devices and diagnostic products are marketed to physicians, hospitals, clinics, and medical laboratories through distributors and on a direct basis. Animal health products are sold to wholesale distributors, retailers, manufacturers, and producers.

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| Geographic Information (Dollars in millions) | 1993 | 1992 | 1991 |
|--|-----------|-----------|-----------|
| ----- | | | |
| Net sales | | | |
| United States | | | |
| Sales to unaffiliated customers | \$3,981.0 | \$3,835.4 | \$3,624.9 |
| Transfers to other geographic areas | 552.3 | 443.6 | 432.2 |
| | ----- | ----- | ----- |
| | 4,533.3 | 4,279.0 | 4,057.1 |
| Europe, Middle East, and Japan | | | |
| Sales to unaffiliated customers | 1,846.3 | 1,786.8 | 1,606.7 |
| Transfers to other geographic areas | 218.6 | 207.2 | 196.9 |
| | ----- | ----- | ----- |
| | 2,064.9 | 1,994.0 | 1,803.6 |
| Other | | | |
| Sales to unaffiliated customers | 625.1 | 545.1 | 494.1 |
| Transfers to other geographic areas | 3.9 | 4.9 | 2.3 |
| | ----- | ----- | ----- |
| | 629.0 | 550.0 | 496.4 |
| Eliminations--transfers between geographic areas | (774.8) | (655.7) | (631.4) |
| | ----- | ----- | ----- |
| | \$6,452.4 | \$6,167.3 | \$5,725.7 |
| | ===== | ===== | ===== |
| Income before income taxes and cumulative effect of changes in accounting principles | | | |
| United States | \$ 457.9 | \$ 716.1 | \$1,299.6 |
| Europe, Middle East, and Japan | 185.0 | 372.7 | 479.8 |
| Other | 75.1 | 97.1 | 100.8 |
| Eliminations and adjustments | (16.1) | (3.6) | (1.0) |
| | ----- | ----- | ----- |
| | \$ 701.9 | \$1,182.3 | \$1,879.2 |
| | ===== | ===== | ===== |
| Total assets | | | |
| United States | \$7,187.8 | \$6,564.8 | \$6,319.0 |
| Europe, Middle East, and Japan | 2,507.1 | 2,215.9 | 2,056.1 |
| Other | 382.5 | 330.3 | 302.9 |
| Eliminations and adjustments | (453.8) | (438.2) | (379.4) |
| | ----- | ----- | ----- |
| | \$9,623.6 | \$8,672.8 | \$8,298.6 |
| | ===== | ===== | ===== |

Transfers between geographic areas are made at prices that, in general, are calculated to reflect a profit attributable to manufacturing operations. Net assets relating to operations outside the United States amounted to approximately \$1,604.3 million at the end of 1993 and \$1,550.8 million at the end of 1992. Remittances to the United States are subject to various regulations of the respective governments as well as to fluctuations in exchange rates.

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Selected Quarterly Data (unaudited)
 ELI LILLY AND COMPANY AND SUBSIDIARIES
 (Dollars in millions, except per-share data)

| | 1993 | | | | 1992 | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Fourth* | Third | Second | First | Fourth* | Third* | Second | First |
| Net sales | \$1,800.8 | \$1,530.6 | \$1,561.0 | \$1,560.0 | \$1,655.4 | \$1,476.5 | \$1,478.3 | \$1,557.1 |
| Cost of sales | 575.5 | 467.4 | 469.5 | 446.6 | 483.8 | 532.5 | 445.6 | 435.1 |
| Operating expenses | 778.1 | 650.1 | 634.8 | 605.1 | 680.2 | 731.8 | 595.2 | 541.9 |
| Restructuring and special charges | 1,172.7 | - | - | - | 46.1 | 519.6 | - | - |
| Other income (loss)-net | (11.9) | 4.5 | 35.2 | 21.5 | (.8) | (78.2) | 49.0 | 56.8 |
| Income (loss) before cumulative effect of changes in accounting principles | (523.6) | 294.4 | 346.8 | 373.5 | 311.2 | (268.5) | 340.2 | 444.7 |
| Cumulative effect of accounting changes | - | - | - | (10.9) | - | - | - | (118.9) |
| Net income (loss) | (523.6) | 294.4 | 346.8 | 362.6 | 311.2 | (268.5) | 340.2 | 325.8 |
| Earnings (loss) per share: | | | | | | | | |
| Income (loss) before cumulative effect of changes in accounting principles | (1.77) | 1.00 | 1.18 | 1.27 | 1.06 | (.91) | 1.16 | 1.51 |
| Net income (loss) | (1.77) | 1.00 | 1.18 | 1.23 | 1.06 | (.91) | 1.16 | 1.10 |
| Dividends paid per share | .605 | .605 | .605 | .605 | .55 | .55 | .55 | .55 |
| Common stock prices: | | | | | | | | |
| High | 60.75 | 50.63 | 52.13 | 62.00 | 65.50 | 72.00 | 74.63 | 87.75 |
| Low | 50.13 | 43.63 | 45.00 | 45.13 | 57.75 | 61.25 | 63.63 | 69.50 |

*Reflects impact of restructuring and special charges. (See Note 2 to consolidated financial statements.)

First-quarter dividends are declared in December of the preceding year. It is the present intention of the board of directors to continue to consider quarterly the payment of a cash dividend, the payment and amount thereof to be dependent on the net earnings, financial condition and requirements of the company, and other relevant considerations.

The company's common stock is listed on the New York, Tokyo, London, and other stock exchanges. The number of shareholders of record as of December 31, 1993, was 59,300.

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Selected Financial Data (unaudited)
 ELI LILLY AND COMPANY AND SUBSIDIARIES
 (Dollars in millions, except per-share data)

| | 1993* | 1992* | 1991 | 1990 | 1989 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| | ---- | ---- | ---- | ---- | ---- |
| Operations | | | | | |
| Net sales | \$6,452.4 | \$6,167.3 | \$5,725.7 | \$5,191.6 | \$4,175.6 |
| Research and development expenses | 954.6 | 924.9 | 766.9 | 702.7 | 605.4 |
| Other operating costs and expenses | 3,672.5 | 3,521.2 | 3,190.5 | 2,949.5 | 2,405.4 |
| Restructuring and special charges | 1,172.7 | 565.7 | - | - | - |

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Other income--net | 49.3 | 26.8 | 110.9 | 59.6 | 165.1 |
| Income before taxes and changes in accounting principles | 701.9 | 1,182.3 | 1,879.2 | 1,599.0 | 1,329.9 |
| Income taxes | 210.8 | 354.7 | 564.5 | 471.7 | 390.4 |
| Cumulative effect of accounting changes | 10.9 | 118.9 | - | - | - |
| Net income | 480.2 | 708.7 | 1,314.7 | 1,127.3 | 939.5 |
| As a percent of sales: | | | | | |
| Net income | 7.4% | 11.5% | 23.0% | 21.7% | 22.5% |
| Research and development | 14.8 | 15.0 | 13.4 | 13.5 | 14.5 |
| Per-share data: | | | | | |
| Before effect of accounting changes | \$1.67 | \$2.81 | \$4.50 | \$ 3.90 | \$3.20 |
| Net income | 1.63 | 2.41 | 4.50 | 3.90 | 3.20 |
| Dividends declared | 2.44 | 2.255 | 2.05 | 1.73 | 1.4225 |
| Dividends paid | 2.42 | 2.20 | 2.00 | 1.64 | 1.35 |
| Average number of shares and share equivalents (thousands) | 294,289 | 294,478 | 294,244 | 289,993 | 294,507 |
| ===== | | | | | |
| Financial Position | | | | | |
| Current assets | \$3,697.1 | \$3,006.0 | \$2,939.3 | \$2,501.3 | \$2,274.4 |
| Current liabilities | 2,928.0 | 2,398.6 | 2,272.0 | 2,817.6 | 1,328.8 |
| Working capital | 769.1 | 607.4 | 667.3 | (316.3) | 945.6 |
| Current ratio | 1.3 | 1.3 | 1.3 | .9 | 1.7 |
| Other assets | \$1,726.3 | \$1,594.7 | \$1,576.8 | \$1,704.8 | \$1,459.0 |
| Property and equipment | 4,200.2 | 4,072.1 | 3,782.5 | 2,936.7 | 2,114.6 |
| Total assets | 9,623.6 | 8,672.8 | 8,298.6 | 7,142.8 | 5,848.0 |
| Long-term debt | 835.2 | 582.3 | 395.5 | 277.0 | 269.5 |
| Deferred income taxes | 127.5 | 169.7 | 415.6 | 351.2 | 300.4 |
| Other noncurrent liabilities | 1,164.1 | 630.1 | 249.4 | 229.5 | 192.2 |
| Shareholders' equity | 4,568.8 | 4,892.1 | 4,966.1 | 3,467.5 | 3,757.1 |
| Long-term debt as a percent of equity | 18.3% | 11.9% | 8.0% | 8.0% | 7.2% |
| ===== | | | | | |
| Supplementary Data | | | | | |
| Return on shareholders' equity | 10.2% | 14.4% | 31.2% | 31.2% | 26.9% |
| Return on assets | 5.2% | 8.3% | 17.2% | 17.5% | 17.0% |
| Number of employees | 32,700** | 32,200 | 30,800 | 29,500 | 27,800 |
| Net sales per employee (thousands) | \$ 197.3 | \$ 191.5 | \$ 185.9 | \$176.0 | \$150.2 |
| Net income per employee (thousands) | 14.7 | 22.0 | 42.7 | 38.2 | 33.8 |
| Capital expenditures | 633.5 | 912.9 | 1,142.4 | 1,007.3 | 554.5 |
| Depreciation and amortization | 398.3 | 368.1 | 299.5 | 247.5 | 229.3 |
| Effective tax rate | 30.0% | 30.0% | 30.0% | 29.5% | 29.4% |
| Number of shareholders | 59,300 | 53,900 | 46,000 | 39,300 | 36,000 |
| ===== | | | | | |

*Reflects impact of restructuring, special charges, and accounting changes. (See Notes 2 and 3 to consolidated financial statements.)

**Does not reflect the impact of the special retirement programs since the retirements were generally effective January 1, 1994. Approximately 2,600 people will be retiring under the programs. (See Note 2 to consolidated financial statements.)

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Notes to Consolidated Financial Statements
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation: The accounts of all wholly owned and majority-owned subsidiaries are included in the consolidated financial statements. All intercompany balances and transactions have been eliminated.

Cash Equivalents: The company considers all highly liquid investments, generally with a maturity of three months or less, to be cash equivalents. The cost of these investments approximates fair value.

Inventories: The company states all its inventories at the lower of cost or market. The company uses the last-in, first-out (LIFO) cost method for a significant portion of its inventories located in the continental United States, or approximately 50 percent of its total inventories. Other inventories are valued by the first-in, first-out (FIFO) method. Inventories at December 31, 1993 and 1992, consisted of the following:

| | 1993 | 1992 |
|-----------------------------|-----------|----------|
| | ---- | ---- |
| Finished products | \$ 272.5 | \$ 272.2 |
| Work in process | 667.7 | 530.9 |
| Raw materials and supplies | 271.5 | 222.2 |
| | ----- | ----- |
| | 1,211.7 | 1,025.3 |
| Less reduction to LIFO cost | 108.7 | 86.9 |
| | ----- | ----- |
| | \$1,103.0 | \$ 938.4 |
| | ===== | ===== |

Intangible Assets: Intangible assets arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from 5 to 40 years, using the straight-line method.

Property and Equipment: Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives. At December 31, 1993 and 1992, property and equipment consisted of the following:

| | 1993 | 1992 |
|----------------------------------|-----------|-----------|
| | ---- | ---- |
| Land | \$ 130.2 | \$ 112.8 |
| Buildings | 1,957.3 | 1,655.4 |
| Equipment | 3,771.7 | 3,344.3 |
| Construction in progress | 707.3 | 1,035.6 |
| | ----- | ----- |
| | 6,566.5 | 6,148.1 |
| Less allowances for depreciation | 2,366.3 | 2,076.0 |
| | ----- | ----- |
| | \$4,200.2 | \$4,072.1 |
| | ===== | ===== |

Approximately \$25.5 million, \$37.4 million, and \$49.1 million of interest costs were capitalized as part of property and equipment in 1993, 1992, and 1991, respectively. The estimated cost to complete significant construction projects in progress at December 31, 1993, approximated \$472 million. Total rental expense for all leases, including contingent rentals (not material), amounted to approximately \$97.0 million for 1993, \$86.3

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million for 1992, and \$75.3 million for 1991. Capital leases included in property and equipment in the consolidated balance sheets and future minimum rental commitments are not material.

Foreign Currency Swaps, Options, and Forward Contracts: The company enters into a variety of forward contracts, options, and swaps in its management of foreign currency exposures and interest rate risk. Realized and unrealized gains and losses on contracts that qualify as designated hedges are deferred. Those contracts that do not qualify as hedges for accounting purposes are marked to market, and the resulting gains and losses are recognized in other income.

Income Taxes: Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable.

Earnings per Share: Earnings per share are calculated on a fully diluted

basis. They are based on the weighted average number of outstanding common shares and common share equivalents (primarily stock options). Primary earnings per share have not been presented because they do not differ significantly from the reported earnings per share computed on a fully diluted basis.

Note 2: Restructuring and Special Charges

In both 1993 and 1992, the company took actions designed to enhance the company's competitiveness in the changing health care environment, reduce expenses, and improve efficiencies. As a result of these actions, the company recognized restructuring and special charges amounting to \$1,172.7 million and \$565.7 million in 1993 and 1992, respectively. Restructuring costs include those amounts that arose as a direct result of management's commitment to revised strategic actions. Special charges represent unusual, generally nonrecurring expense items. Significant components of these charges are summarized as follows (dollars in millions):

| | Restructuring ----- | Special Charges ----- | Total ----- |
|--|------------------------|-----------------------------|--------------------|
| 1993 | | | |
| Work force reductions | \$545.4 | - | \$545.4 |
| Manufacturing consolidations and other closings | 249.9 | - | 249.9 |
| Revised distribution strategies | 71.7 | - | 71.7 |
| Pharmaceutical streamlining | 35.3 | - | 35.3 |
| Intangibles write-downs | 18.7 | \$ 56.5 | 75.2 |
| Asset write-downs, legal accruals, and other | 2.4 | 192.8 | 195.2 |
| | ----- \$923.4 | ----- \$249.3 | ----- \$1,172.7 |
| | ===== | | |

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| | Restructuring ----- | Special Charges ----- | Total ----- |
|--|------------------------|-----------------------------|------------------|
| 1992 | | | |
| Global manufacturing strategy | \$218.9 | - | \$218.9 |
| Provision for redirection-- Medical Devices and Diagnostics Division | 161.3 | - | 161.3 |
| Legal, environmental, and asbestos abatement | - | \$139.4 | 139.4 |
| Research investment expenses | - | 46.1 | 46.1 |
| | ----- \$380.2 | ----- \$185.5 | ----- \$565.7 |
| | ===== | | |

The 1993 restructuring actions consisted principally of early-retirement programs instituted in various countries that resulted in more than 2,600 employee positions being eliminated. The related provision for work force reductions includes cash termination benefits, pension enhancements, and other costs associated with these and other severance programs. In addition, the company took actions to consolidate certain manufacturing operations around the world, close certain European headquarters operations, and discontinue its efforts to develop the imaging and therapeutic product lines at its Hybritech subsidiary. The company also approved plans to implement revised product distribution strategies in certain markets outside the United States and to streamline its core pharmaceutical operations. The company took special charges to write down certain operating assets and acquired intangibles as the result of recent developments in pharmaceutical markets and to provide for certain patent and product liability matters.

The 1992 actions centered around a streamlining of the global manufacturing operations and an aggressive response to regulatory initiatives relating to several of the medical devices and diagnostics

companies. The revised manufacturing strategy was undertaken in response to a comprehensive review of the global business and manufacturing operations. These actions will result in significant changes to the nature and/or location of future manufacturing operations. The charge for the Medical Devices and Diagnostics Division relates principally to the write-down of certain intangible assets and costs associated with responding to regulatory initiatives. Special charges include accruals for an accelerated asbestos abatement program, other environmental and legal matters, and a charge for the write-down of the company's investment in Centocor, Inc., following the suspension of clinical trials of HA-1A (trademark)/Centoxin.

In 1993 and 1992, the company also recognized other charges of approximately \$30 million and \$204 million, respectively, representing miscellaneous unusual items covering a variety of other operational matters. These charges are reflected in the applicable operating expense lines in the statements of income.

Note 3: Accounting Changes

Effective January 1, 1993, the company elected the early adoption of Financial Accounting Standards Board (FAS) 112, "Employers' Accounting for Postemployment Benefits." FAS 112 requires employers to recognize currently the obligation to provide postemployment benefits to former or inactive employees and others. The company's adoption of FAS 112 resulted in a pretax charge of \$17.3 million (\$10.9 million after tax; \$.04 per share) relating primarily to disability benefits. Prior to 1993, the company expensed these obligations when paid.

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In 1992, the company elected the early adoption of two Financial Accounting Standards Board pronouncements. The adoption of FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," resulted in a pretax charge of \$268.9 million (\$167.5 million after tax; \$.57 per share). The adoption of FAS 109, "Accounting for Income Taxes," produced a \$48.6 million benefit to net income (\$.17 per share). The effective date of adoption of both standards was January 1, 1992. The company elected to report the cumulative effect on prior years of the changes as a charge to income in 1992 of \$118.9 million.

Note 4: Acquisitions

In September 1993, IVAC Corporation, a wholly owned subsidiary, completed the acquisition of certain of the assets of the MiniMed III product line, a three-channel infusion pump system, from Siemens Infusion Systems, Ltd. The purchase price was approximately \$38 million, which includes guaranteed minimum royalties payable annually from 1996 through 1999. Under provisions of the acquisition agreement, if the royalties are in excess of the guaranteed minimums, IVAC will incur additional consideration, which will be accounted for as goodwill and amortized using the straight-line method.

In 1992, the company acquired Origin Medsystems, Inc. (OMI), a company specializing in devices for use in laparoscopic surgery. The purchase price, including subsequent contingent payments earned through December 31, 1993, totaled \$66 million. Depending on the annual performance of OMI and other conditions over the period ending December 31, 1997, additional cash up to \$165 million may be paid to holders of OMI common stock. Such additional consideration would be accounted for as goodwill. Goodwill recognized in the acquisition is being amortized over 15 years using the straight-line method.

Note 5: Stock Plans

Stock options and performance awards have been granted to officers and other executive and key employees. Stock options are granted at prices equal to 100 percent of the fair market value at the dates of grant.

In April 1993, the company announced the GlobalShares program, under which essentially all employees were given an option to buy 100 shares of stock. Options to purchase approximately 3 million shares were granted under the program.

Stock-option activity during 1993 and 1992 is summarized below:

| | Number of Shares | |
|----------------------------|------------------|-----------|
| | 1993 | 1992 |
| | ---- | ---- |
| Unexercised at January 1 | 8,359,206 | 8,065,473 |
| Granted | 6,964,325 | 1,227,300 |
| Exercised | (671,038) | (895,113) |
| Terminated | (200,675) | (38,454) |
| | ----- | ----- |
| Unexercised at December 31 | 14,451,818 | 8,359,206 |
| | ===== | ===== |
| Exercisable at December 31 | 5,617,344 | 4,883,569 |
| | ===== | ===== |

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The per-share price range of unexercised options at December 31, 1993 and 1992, was \$9.14 to \$81.88 and \$9.00 to \$81.88, respectively. Options were exercised at prices ranging from \$9.00 to \$47.06 in 1993 (\$9.14 to \$81.88 in 1992). At December 31, 1993, additional options, performance awards, stock appreciation rights, or restricted stock grants may be granted under the Lilly Stock Plan for not more than 145,595 shares (1992--4,147,202 shares).

Note 6: Borrowings

Long-term debt at December 31, 1993 and 1992, consisted of the following:

| | 1993 | 1992 |
|--|---------|---------|
| | ---- | ---- |
| 8.18 percent ESOP debentures (due in 2006) | \$159.1 | \$175.0 |
| 4.00 to 8.06 percent medium-term notes (due 1994-1999) | 225.8 | 200.8 |
| 6.25 percent notes (due in 2003) | 200.0 | - |
| 6.75 percent notes (due in 1999) | 100.0 | 100.0 |
| 5.5 percent Eurodollar bonds (due in 1998) | 150.0 | - |
| 7 percent bonds sold through Swiss banks (due in 1996) | 61.9 | 60.7 |
| Other, including capitalized leases | 42.2 | 72.2 |
| | ----- | ----- |
| | 939.0 | 608.7 |
| Less current portion | 103.8 | 26.4 |
| | ----- | ----- |
| | \$835.2 | \$582.3 |
| | ===== | ===== |

The 8.18 percent Employee Stock Ownership Plan (ESOP) debentures are obligations of the ESOP but are shown on the consolidated balance sheet because they are guaranteed by the company. The principal and interest on the debt will be funded by contributions from the company and by dividends received on certain shares held by the ESOP. Because of the amortizing feature of the ESOP debt, bondholders will receive both interest and principal payments each quarter.

During 1991, the company entered into a currency swap related to \$50 million of the medium-term notes, lowering the effective interest rate on these notes to approximately 7 percent.

The 7 percent bonds sold through Swiss banks have an effective rate of 9 percent. These bonds were called at their carrying value in January 1994. The aggregate amounts of maturities on long-term debt for the next five years are as follows: 1994, \$103.8 million; 1995, \$43.0 million; 1996, \$100.3 million; 1997, \$79.1 million; and 1998, \$164.7 million.

At December 31, 1993, short-term borrowings included \$346.4 million of commercial paper and \$74.6 million of notes payable to banks. At December 31, 1992, commercial paper and notes payable to banks totaled \$416.3 million and \$148.5 million, respectively. Interest expense as reported in the financial statements was \$71.2 million, \$71.7 million, and \$39.8 million in 1993, 1992, and 1991, respectively. Cash payments of interest

on all borrowings totaled \$63.7 million, \$72.6 million, and \$53.1 million in 1993, 1992, and 1991, respectively.

At December 31, 1993, unused committed lines of credit approximated \$600 million. Compensating balances and commitment fees are not material, and there are no significant conditions under which the lines may be withdrawn.

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Note 7: Shareholders' Equity

Changes in the components of shareholders' equity were as follows:

| | Additional Paid-in Capital ----- | Retained Earnings ----- | Deferred Costs- ESOP ----- | Common Stock in Treasury ----- Shares Amount ----- | |
|---|---|-------------------------------|-------------------------------------|--|-----------|
| Balance at January 1, 1991 | - | \$4,548.7 | \$(109.9) | 15,743,256 | \$1,177.5 |
| Net income | | 1,314.7 | | | |
| Cash dividends declared per share: \$2.05 | | (599.9) | | | |
| Purchase for treasury | | | | 1,170,000 | 89.7 |
| Exercise of warrants | \$370.8 | (560.5) | | (15,231,234) | (1,139.2) |
| Issuance of stock under employee stock plans | (39.8) | (10.8) | | (1,496,064) | (113.4) |
| ESOP transactions | 9.1 | | (176.3) | | |
| Other | | .8 | | (993) | (.1) |
| Balance at Dec. 31, 1991 | 340.1 | 4,693.0 | (286.2) | 184,965 | 14.5 |
| Net income | | 708.7 | | | |
| Cash dividends declared per share: \$2.255 | | (658.6) | | | |
| Purchase for treasury | | | | 970,000 | 72.5 |
| Issuance of stock under employee stock plans | (35.2) | | | (1,021,375) | (78.3) |
| ESOP transactions | 2.9 | | 22.3 | | |
| Other | .1 | | | (11,470) | (.9) |
| Balance at Dec. 31, 1992 | 307.9 | 4,743.1 | (263.9) | 122,120 | 7.8 |
| Net income | | 480.2 | | | |
| Cash dividends declared per share: \$2.44 | | (715.7) | | | |
| Purchase for treasury | | | | 550,000 | 29.8 |
| Issuance of stock under employee stock plans | (16.3) | | | (585,103) | (32.5) |
| ESOP transactions | 3.6 | | 21.1 | | |
| Other | (.6) | (6.7) | | (27,740) | (1.7) |
| Balance at Dec. 31, 1993 | \$294.6 | \$4,500.9 | \$(242.8) | 59,277 | \$3.4 |

The company has 292,807,644 issued shares of common stock without par value. In addition, the company has 5,000,000 authorized and unissued shares of preferred stock without par value.

In 1989, the company established an Employee Stock Ownership Plan (ESOP) as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from the company to purchase 2,200,000 shares of common stock from the treasury for \$129.8 million. In September 1991, the ESOP issued \$200 million of third-party debt, repayment of which was guaranteed by the company (see Note 6). The proceeds were used to purchase shares of the company's common stock on the open market. Shares of common stock held by the ESOP will be allocated to participating employees annually through 2006 as part of the company's savings plan contribution. The cost of shares allocated each period is recognized as expense on a first-in, first-out basis.

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Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made to shareholders' equity rather than to income. Following is an analysis of currency translation adjustments reflected in shareholders' equity:

| | 1993 ---- | 1992 ---- | 1991 ---- |
|--|--------------|--------------|--------------|
| Balance (negative amount) at January 1 | \$ (70.2) | \$ 50.7 | \$ 28.6 |
| Translation adjustments and gains (losses) from intercompany transactions | (93.3) | (121.0) | 17.4 |
| Allocated income taxes | - | .1 | 4.7 |
| | ----- | ----- | ----- |
| Balance (negative amount) at December 31 | \$ (163.5) | \$ (70.2) | \$ 50.7 |
| | ===== | ===== | ===== |

In 1988, the company adopted a Shareholder Rights Plan. Under the terms of the plan, all shareholders of common stock received for each share owned a preferred stock purchase right entitling them to purchase from the company one two-hundredth of a share of Series A Participating Preferred Stock at an exercise price of \$162.50. The rights are not exercisable until after the date on which the company's right to redeem has expired. The company may redeem the rights for \$.005 per right up to and including the 10th business day after the date of a public announcement that a person (the "Acquiring Person") has acquired ownership of stock having 20 percent or more of the company's general voting power (the "Stock Acquisition Date").

The plan provides that, if the company is acquired in a business combination transaction at any time after a Stock Acquisition Date, generally each holder of a right will be entitled to purchase at the exercise price a number of the acquiring company's shares having a market value of twice the exercise price. The plan also provides that in the event of certain other business combinations, certain self-dealing transactions, or the acquisition by a person of stock having 25 percent or more of the company's general voting power, generally each holder of a right will be entitled to purchase at the exercise price a number of shares of the company's common stock having a market value of twice the exercise price. Any rights beneficially owned by an Acquiring Person shall not be entitled to the benefit of the adjustments with respect to the number of shares described above. The rights will expire on July 28, 1998, unless redeemed earlier by the company.

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Note 8: Income Taxes

Following is the composition of income taxes. The 1993 and 1992 amounts reflect use of the liability method under FAS 109, while the 1991 amounts reflect accounting using the deferred method, which was required under the previous rules.

| | 1993 ---- | 1992 ---- | 1991 ---- |
|--------------|--------------|--------------|--------------|
| Current: | | | |
| Federal | \$329.8 | \$385.7 | \$330.1 |
| Foreign | 80.5 | 88.7 | 104.2 |
| State | 42.5 | 55.4 | 87.3 |
| | ----- | ----- | ----- |
| | 452.8 | 529.8 | 521.6 |
| Deferred: | | | |
| Federal | (112.7) | (124.1) | 43.4 |
| Foreign | (89.5) | (35.1) | (5.5) |
| State | (39.8) | (15.9) | 5.0 |
| | ----- | ----- | --- |
| | (242.0) | (175.1) | 42.9 |
| | ----- | ----- | ----- |
| Income taxes | \$210.8 | \$354.7 | \$564.5 |
| | ===== | ===== | ===== |

1991 deferred income tax provision:

| | |
|-------------------------------------|---------|
| Accelerated depreciation | \$ 18.6 |
| Employee benefit plans | 32.8 |
| Vacation liability | (3.5) |
| Other timing differences | (5.0) |
| | ---- |
| Total deferred income tax provision | \$ 42.9 |
| | ===== |

At December 31, 1993, the company had net operating loss carryforwards for income tax purposes of \$294 million, of which \$8 million will expire within 5 years. The majority of the remaining carryforwards do not expire.

Significant components of the company's deferred tax assets and liabilities as of December 31 are as follows:

| | 1993 | 1992 |
|--|---------|---------|
| | ---- | ---- |
| Deferred tax assets: | | |
| Restructuring and special charges--other | \$361.2 | \$154.3 |
| Compensation and benefits | 179.0 | 149.0 |
| Inventory | 103.1 | 96.9 |
| Litigation, environmental and asbestos | 99.2 | 93.7 |
| Net operating losses of subsidiaries | 59.1 | 4.5 |
| Other | 179.8 | 123.1 |
| | ----- | ----- |
| | 981.4 | 651.5 |
| | | |
| Valuation allowances | (104.0) | (20.4) |
| | ----- | ----- |
| Total deferred tax assets | 877.4 | 631.1 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Property and equipment | (435.6) | (345.7) |
| Prepaid employee benefits | (122.9) | (208.2) |
| Other | (52.8) | (53.1) |
| | ----- | ----- |
| Total deferred tax liabilities | (611.3) | (607.0) |
| | ----- | ----- |
| Deferred tax assets--net | \$266.1 | \$ 24.1 |
| | ===== | ===== |

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Unremitted earnings of foreign subsidiaries that have been, or are intended to be, permanently reinvested for continued use in foreign operations and which, if distributed, would result in taxes at approximately the U.S. statutory rate, aggregated \$976 million at December 31, 1993 (\$788 million at December 31, 1992). Cash payments of taxes totaled \$455 million, \$484 million, and \$489 million in 1993, 1992, and 1991, respectively.

Following is a reconciliation of the effective income tax rate:

| | 1993 | 1992 | 1991 |
|--|--------|-------|-------|
| | ---- | ---- | ---- |
| United States federal statutory tax rate | 35.0% | 34.0% | 34.0% |
| Add (deduct): | | | |
| State taxes, net of federal tax benefit | .3 | 2.2 | 3.2 |
| Tax savings from operations in Puerto Rico | (10.0) | (7.5) | (4.7) |
| Research tax credit | (2.4) | (.3) | (.7) |
| Effect of international operations | 1.7 | (.8) | (2.4) |
| Nondeductible impact of restructuring | 2.8 | 1.8 | - |
| Sundry | 2.6 | .6 | .6 |
| | ----- | ----- | ----- |
| Effective income tax rate | 30.0% | 30.0% | 30.0% |
| | ===== | ===== | ===== |

Note 9: Retirement Benefits

Pension Plans:

The company has noncontributory defined benefit retirement plans that cover substantially all United States employees and a majority of employees in other countries. Benefits under the domestic plans are calculated by using one of several formulas. These formulas are based on a combination of the following: (1) years of service, (2) final average earnings, (3) primary social security benefit, and (4) age. The benefits for the company's plans in countries other than the United States are based on years of service and compensation.

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Generally, pension costs accrued are funded. Plan assets consist primarily of equity and fixed income instruments.

Net pension expense for the company's retirement plans included the following components:

| | 1993 | 1992 | 1991 |
|--|---------|---------|---------|
| | ---- | ---- | ---- |
| Service cost--benefits earned during the year | \$ 65.5 | \$ 69.4 | \$ 58.8 |
| Interest cost on projected benefit obligations | 129.0 | 121.5 | 119.7 |
| Actual return on assets | (283.3) | (197.2) | (246.2) |
| Net amortization and deferral | 91.6 | 18.1 | 78.3 |
| | ----- | ----- | ---- |
| Net annual pension cost | \$ 2.8 | \$ 11.8 | \$ 10.6 |
| | ===== | ===== | ===== |

In addition to the net pension cost above, the 1993 restructuring charges include curtailment losses and special termination costs resulting from the early-retirement programs of \$133.3 million and \$113.4 million, respectively.

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The funded status and amounts recognized in the consolidated balance sheets for the company's defined benefit retirement plans at December 31 were as follows:

| | Plans in Which Assets Exceed Accumulated Benefits | | Plan in Which Accumulated Benefits Exceed Assets | |
|--|---|-----------|--|-----------|
| | 1993 | 1992 | 1993 | 1992 |
| | ---- | ---- | ---- | ---- |
| Plan assets at fair value | \$2,033.8 | \$1,806.9 | \$ 0.0 | \$ 0.0 |
| Actuarial present value of benefit obligations | | | | |
| Vested benefits | 1,532.6 | 1,097.1 | 111.4 | 29.4 |
| Nonvested benefits | 149.0 | 108.6 | 1.6 | 2.5 |
| | ----- | ----- | ----- | ---- |
| Accumulated benefit obligation | 1,681.6 | 1,205.7 | 113.0 | 31.9 |
| Effect of projected future salary increases | 395.8 | 367.6 | 4.0 | 7.2 |
| | ----- | ----- | ----- | ---- |
| Projected benefit obligation | 2,077.4 | 1,573.3 | 117.0 | 39.1 |
| | ----- | ----- | ----- | ---- |
| Funded status | (43.6) | 233.6 | (117.0) | (39.1) |
| Unrecognized net loss | 174.1 | 119.3 | 15.6 | 13.7 |
| Unrecognized prior service cost | 128.0 | 25.6 | 9.1 | 5.2 |
| Unrecognized net obligation at January 1, 1986 | 3.8 | 4.1 | 2.8 | 3.4 |
| Additional minimum liability | 0.0 | 0.0 | (23.5) | (9.5) |
| | ----- | ----- | ----- | ---- |
| Prepaid (accrued) pension cost | \$ 262.3 | \$382.6 | \$ (113.0) | \$ (26.3) |

=====

The assumptions used to develop net periodic pension expense and the actuarial present value of projected benefit obligations are shown below:

| (percents) | 1993 | 1992 | 1991 |
|---|---------|---------|---------|
| | ---- | ---- | ---- |
| Weighted-average discount rate | 7.6 | 8.7 | 9.2 |
| Rate of increase in future compensation levels | 4.5-9.5 | 6.0-9.5 | 5.5-9.5 |
| Weighted-average expected long-term rate of return on plan assets | 11.0 | 11.0 | 11.0 |

The reduction in the discount rate at December 31, 1993 increased the projected benefit obligation by approximately \$210.4 million.

The company has defined contribution savings plans that cover its eligible employees worldwide. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions and the level of company match. Expense under the plans totaled \$32.9 million, \$24.1 million, and \$28.6 million for the years 1993, 1992, and 1991, respectively.

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Retiree Health Benefits:

The company's noncontributory defined benefit postretirement plans provide health benefits for the majority of the United States retirees and their eligible dependents. Certain of the company's non-U.S. subsidiaries have similar plans for retirees. Eligibility for these benefits is based upon retirement from the company. Effective October 1, 1992, the plan was modified such that the start date of an eligible employee's credited service period begins when the combination of an employee's age and years of service equals 60.

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Plan assets consist primarily of equity and fixed income instruments.

Net postretirement benefit expense for the company included the following components:

| | 1993 | 1992 |
|---|---------|---------|
| | ---- | ---- |
| Service cost--benefits earned during the year | \$ 10.7 | \$ 7.2 |
| Interest cost on accumulated postretirement benefit obligations | 19.8 | 21.8 |
| Actual return on assets | (11.2) | (4.6) |
| Net amortization and deferral | (10.2) | (11.0) |
| | ----- | ----- |
| Net periodic postretirement benefit cost | \$ 9.1 | \$ 13.4 |
| | ===== | ===== |

Prior to 1992, the annual expense associated with these benefits was recognized when incurred. The expense of these benefits was \$13.4 million in 1991.

The funded status and amounts recognized in the consolidated balance sheet for the company's defined benefit postretirement plans at December 31 were as follows:

| | 1993 | 1992 |
|--|---------|---------|
| | ---- | ---- |
| Accumulated postretirement benefit obligation: | | |
| Retirees | \$217.8 | \$131.5 |
| Fully eligible active plan participants | 61.0 | 45.8 |
| Other active plan participants | 75.7 | 56.6 |
| | ----- | ----- |
| | 354.5 | 233.9 |

| | | |
|---|---------|---------|
| Plan assets at fair value | 142.6 | 119.3 |
| | ----- | ----- |
| Accumulated postretirement benefit obligation | | |
| in excess of plan assets | 211.9 | 114.6 |
| Unrecognized benefit of plan amendment | 37.6 | 46.6 |
| Unrecognized net loss | (66.5) | (18.9) |
| | ----- | ----- |
| Accrued postretirement benefit cost | \$183.0 | \$142.3 |
| | ===== | ===== |

In connection with the company's early-retirement programs, restructuring charges include curtailment and termination costs relating to these plans of \$52.4 million and \$7.0 million, respectively.

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The assumptions used to develop the net postretirement benefit expense and the present value of benefit obligations are shown below:

| | (percents) | 1993 | 1992 |
|--|------------|-------|-------|
| | | ----- | ----- |
| Weighted-average discount rate | | 7.5 | 8.5 |
| Expected long-term rate of return | | 11.0 | 11.0 |
| Health care cost trend rate for participants | | | |
| Under age 65 | | 8.0 | 8.0 |
| Over age 65 | | 6.0 | 6.0 |

If these trend rates were to be increased by 1 percentage point each year, the December 31, 1993, accumulated postretirement benefit obligation would increase by 12 percent and the aggregate of the service and interest cost components of 1993 annual expense would increase by 20 percent. The reduction in the discount rate at December 31, 1993, increased the accumulated postretirement benefit obligation by approximately \$30.0 million.

Note 10: Financial Instruments

Fair Value of Financial Instruments and Off-Balance-Sheet Risk: The methods and assumptions used to estimate the fair value of the following classes of financial instruments were:

Short-Term and Long-Term Debt: The carrying amount of the company's short-term borrowings approximates its fair value. The fair values of the company's long-term debt, including the current portion, are estimated using discounted cash flow analyses, based on the company's current incremental borrowing rates for similar types of borrowing arrangements. A significant portion of long-term debt consists of noncallable notes and bonds.

Investments: The fair values for marketable debt and equity securities are based on quoted market prices. The fair values of nonmarketable equity securities, which represent either equity investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value information provided by these ventures. The fair value of nonmarketable debt securities is based on quoted market prices of similar securities.

The company is a limited partner in certain investments for which the determination of fair value is not practicable. The carrying value of such investments is \$73.6 million as of December 31, 1993.

Risk-Management Instruments: The fair values of the company's foreign exchange and interest rate risk-management instruments (forwards, options, and swaps) are estimated, based on quoted market prices of comparable contracts.

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The carrying amounts and fair values of the company's outstanding financial instruments at December 31 were as follows:

| | 1993 | | 1992 | |
|-----------------------------|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt | \$928.7 | \$964.5 | \$596.9 | \$620.4 |
| Short-term investments | 447.5 | 460.0 | 295.9 | 300.6 |
| Noncurrent investments | | | | |
| Marketable equity | 63.0 | 69.8 | 80.0 | 98.4 |
| Debt securities | 49.8 | 49.2 | 124.3 | 125.9 |
| Nonmarketable equity | 35.3 | 36.5 | 38.2 | 40.5 |
| Risk-management instruments | 12.0 | 5.4 | 2.8 | .1 |

Off-Balance-Sheet Risk: The company enters into forward exchange contracts, option contracts, and foreign currency swaps to hedge foreign currency transactions on a continuing basis for periods consistent with its foreign currency exposures. The effect of this practice is to reduce the impact of foreign exchange rate movements on the company's operating results. The company's hedging activities do not create exchange rate risk because gains and losses on these contracts generally offset losses and gains on the assets, liabilities, and transactions being hedged. In addition, the company enters into interest rate swaps to manage its interest rate risk.

At December 31, the stated, or notional, amounts of the company's outstanding off-balance-sheet financial instruments were as follows:

| | 1993 | 1992 |
|---------------------------------|---------|---------|
| Forward exchange contracts | \$790.7 | \$458.6 |
| Foreign currency options issued | - | 40.0 |
| Currency swaps | 39.2 | 94.1 |
| Interest rate swaps | 225.0 | 100.0 |

Of the company's forward exchange contracts outstanding at December 31, 1993 and 1992, those which were denominated in European currencies amounted to 85 percent and 95 percent, respectively. The forward exchange contracts generally have maturities that do not exceed 12 months and require the company to exchange currencies at rates agreed to at inception of the contracts upon maturity. The foreign currency options represent one part of an overall strategy designed to hedge certain foreign currency exposures.

Concentrations of Credit Risk: Financial instruments that potentially subject the company to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-sciences products account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is limited due to the large number of wholesalers and their geographic dispersion.

The company places substantially all its interest-bearing investments with major financial institutions and, by policy, limits the amount of credit exposure to any one financial institution.

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Note 11: Contingencies

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac. The company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the company has accrued for certain future anticipated product liability claims to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending

and disposing of these suits are covered by insurance. The company's estimate of insurance recoveries is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

The company is a party to various patent litigation matters involving Humatrope, Humulin, bovine somatotropin, and various products within the Medical Devices and Diagnostics Division. Based upon historical and industry data, the company has accrued for the anticipated cost of resolution of the claims.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to certain sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The company also continues remediation of certain of its own sites. The company has accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to those costs. The company has reserved its right to pursue claims for insurance with respect to certain environmental liabilities. However, because of uncertainties with respect to the timing and ultimate realization of those claims, the company has not recorded any environmental insurance recoveries.

The product, patent, and environmental liabilities have been reflected in the company's consolidated balance sheet at a gross amount of approximately \$505 million. Estimated insurance recoverables of approximately \$185 million appear as assets in the consolidated balance sheet.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against the company, or the ultimate cost of environmental matters, the company continues to believe the costs associated with all such matters will not have a material adverse effect on its consolidated financial position.

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Note 12: Subsequent Event

In January 1994, the company announced that it intends to divest itself of the Medical Devices and Diagnostics (MDD) Division, a global high technology organization of nine companies. The final form of the divestiture will depend on tax, market, and other considerations including the nature of any offers that the company may receive. Under current plans, the company expects to divest itself of six businesses in the MDD division through the spin-off to shareholders of a new medical-devices holding company, through one or more public offerings of the holding company's shares, or through a combination of these methods. These six businesses include Advanced Cardiovascular Systems, Inc.; Cardiac Pacemakers, Inc.; Devices for Vascular Intervention, Inc.; Heart Rhythm Technologies, Inc.; IVAC Corporation; and Origin Medsystems, Inc. The company intends to sell separately the MDD division's three other businesses: Hybritech Incorporated; Pacific Biotech, Inc.; and Physio-Control Corporation.

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Report of Independent Auditors
Board of Directors and Shareholders,
Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing

standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, in 1992 the company changed its methods of accounting for income taxes and postretirement health benefits.

ERNST & YOUNG

Indianapolis, Indiana
February 1, 1994

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Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 1993

The portions of the Company's 1993 Annual Report to Shareholders that are contained in this Exhibit 13 include, in their original paper form, three bar graphs. The information contained in those graphs is set forth below in tabular form. The captions of the graphs are also set forth below.

Graph #1 -- Research and Development (R&D) Expenses

(\$ millions)

| Year | Amount |
|--------|---------|
| - ---- | ----- |
| 1989 | \$605.4 |
| 1990 | 702.7 |
| 1991 | 766.9 |
| 1992 | 924.9 |
| 1993 | 954.6 |

Caption: In 1993, 15 percent of each sales dollar was devoted to R&D spending. The company's commitment to a strong R&D effort resulted in global clinical trial spending more than doubling in 1993. As a result of these efforts, the company now has approximately 15 compounds in Phase II or Phase III clinical trials.

Graph #2 -- Capital Expenditures

(\$ millions)

| Year | Amount |
|--------|----------|
| - ---- | ----- |
| 1989 | \$ 554.5 |
| 1990 | 1,007.3 |
| 1991 | 1,142.4 |
| 1992 | 912.9 |
| 1993 | 633.5 |

Caption: Capital expenditures during 1993 were \$279 million less than the 1992 level and were at their lowest level in four years. Major research, administrative, and manufacturing projects continued to progress toward completion. It is expected that the near-term capital expenditure requirements will be below the 1993 level.

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Appendix to Exhibit 13 Continued

Graph #3 -- Dividends per Share

(\$ millions)

| Year | Amount |
|-----------|-----------|
| - - - - - | - - - - - |
| 1989 | \$1.35 |
| 1990 | 1.64 |
| 1991 | 2.00 |
| 1992 | 2.20 |
| 1993 | 2.42 |

Caption: Dividends of \$2.42 per share were paid in 1993, which was a 10 percent increase over 1992. The company also declared a first-quarter 1994 dividend of \$.625 per share which represents a 3.3 percent increase over 1993. Nineteen ninety-three was the 26th consecutive year in which dividends increased.

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EXHIBIT 21. LIST OF SUBSIDIARIES AND AFFILIATES

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1993.

| | State or Jurisdiction of Incorporation or Organization ----- | % Owned ----- |
|--|---|---------------------|
| ELI LILLY AND COMPANY (1) | Indiana | |
| Eli Lilly International Corporation | Indiana | 100 |
| Eli Lilly Int'l. Corp.-Branch: | England | 100 |
| Eli Lilly Int'l. Corp.-Branch: | Poland | 100 |
| Eli Lilly Iran, S.A. | Iran | 100 |
| ELCO Insurance Company, Ltd. | Bermuda | 100 |
| Eli Lilly Interamerica, Inc. | Indiana | 100 |
| Eli Lilly Interamerica, Inc.-Branch: | Argentina | 100 |
| Eli Lilly Interamerica, Inc.-Branch: | Columbia | 100 |
| Eli Lilly Interamerica, Inc.-Branch: | Peru | 100 |
| Eli Lilly Interamerica, Inc.-Branch: | Dominican Republic | 100 |
| Elanco Quimica Limitada | Brazil | 100 |
| Eli Lilly do Brasil Limitada | Brazil | 100 |
| Darilor Sociedad Anonima | Uruguay | 100 |
| Beimirco Sociedad Anonima | Uruguay | 100 |
| STC Pharmaceuticals, Inc. | Indiana | 100 |
| Eli Lilly de Centro America, S.A. | Guatemala | 100 |
| Eli Lilly y Compania de Mexico, S.A. de C.V. | Mexico | 100 |
| Dista Mexicana, S.A. de C.V. | Mexico | 100 |
| Advanced Cardiovascular Systems, Inc. | California | 100 |
| Cardiac Pacemakers, Inc. | Minnesota | 100 |
| CPI del Caribe, Ltd. | Minnesota | 100 |
| Devices for Vascular Intervention, Inc. | California | 100 |
| EPCO, Inc. | Indiana | 100 |
| DowElanco* | Indiana | 40 |
| Heart Rhythm Technologies, Inc. | California | 100 |
| Hybritech, Incorporated | California | 100 |
| Hybritech International, Inc. | California | 100 |
| Hybritech Europe, S.A. | Belgium | 100 |
| Hybritech Clinical, Inc. | California | 100 |
| Hybrigenetics Cancer Research, Inc. | California | 100 |
| Hybritech G.m.b.H. | Germany | 100 |
| Hybritech International Sales Corp. | California | 100 |
| IVAC Corporation | Delaware | 100 |
| MIS Scandinavia AB | Sweden | 100 |
| Origin Medsystems, Inc. | Delaware | 100 |
| Pacific Biotech, Inc. | California | 100 |
| Physio-Control Corporation | Delaware | 100 |
| Eli Lilly Industries, Inc. | Delaware | 100 |
| Eli Lilly and Company (Taiwan), Inc. | Taiwan | 100 |
| CBI Uniforms, Inc.* | Delaware | 50 |
| ELCO Management Corporation | Delaware | 100 |
| ELCO MANAGEMENT CORPORATION | Delaware | 100 |
| Eli Lilly Australia Pty. Limited | Australia | 100 |
| Eli Lilly Australia Custodian Pty. Limited | Bermuda | 100 |
| Eli Lilly and Company (N.Z.) Limited | New Zealand | 100 |
| Eli Lilly (NZ) Staff Benefits Custodian Ltd. | New Zealand | 100 |
| Eli Lilly Canada, Inc. | Canada | 100 |
| ELCO Dominicana, S.A. | Dominican Rep. | 100 |
| ELCO International Sales Corporation | Virgin Islands | |

| | | |
|--|----------------------|-------|
| | -US Possess. | 100 |
| Eli Lilly Group Limited | England | 100 |
| Lilly Industries Limited | England | 100 |
| Dista Products Limited | England | 100 |
| Eli Lilly and Company Limited | England | 100 |
| Lilly Research Centre Limited | England | 100 |
| Elanco Products Limited | England | 100 |
| Creative Packaging Limited | England | 100 |
| Greenfield Pharmaceuticals Limited | England | 100 |
| Lilly Medical Instruments Limited | England | 100 |
| Welmed Limited | England | 100 |
| Eli Lilly Group Pension Trustees Limited | England | 100 |
| Lilly Deutschland G.m.b.H. | Germany | 100 |
| Eli Lilly (Suisse) S.A. & Co. KG | Germany | 100 |
| Beiersdorf-Lilly G.m.b.H. | Germany | 51 |
| Lilly Medizintechnik G.m.b.H. | Germany | 100 |
| Danimed G.m.b.H. & Co. KG | Germany | 49 |
| Eli Lilly & Co. (Ireland) Limited | Ireland | 100 |
| Eli Lilly Overseas Finance N.V. | Netherlands Antilles | 100 |
| Eli Lilly Overseas Finance II N.V. | Netherlands Antilles | 100 |
| Eli Lilly Asia, Inc. | Delaware | 100 |
| Eli Lilly Asia, Inc. - Branch | Hong Kong | 100 |
| Eli Lilly Asia, Inc. - Branch | Korea | 100 |
| Eli Lilly Asia, Inc. - Branch | Thailand | 100 |
| Eli Lilly S.A. | Switzerland | 100 |
| ELI LILLY S.A. | Switzerland | 100 |
| Branch | Ireland | 100 |
| Eli Lilly Export S.A. | Switzerland | 100 |
| Puerto Rico - Branch | Puerto Rico | 100 |
| Regional Office | Singapore | 100 |
| GEMS Services, S.A. | Belgium | 100 |
| T. P. Eli Lilly and Elanco D.O.O. | Yugoslavia | 100 |
| Elanco Trustees Limited | England | 100 |
| DowElanco, B.V. * | Netherlands | 40 |
| Eli Lilly (Suisse) S.A. | Switzerland | 100 |
| Eli Lilly (Suisse) S.A. - Branch | Iran | 100 |
| Oldfields Financial Management S.A. | Switzerland | 100 |
| Elanco Industrial, S.A. | Spain | 100 |
| Eli Lilly Nederland B.V. | Netherlands | 100 |
| Eli Lilly & Elanco Ges.m.b.H. | Austria | 100 |
| Czech Branch | Czech Republic | 100 |
| Romanian Branch | Romania | 100 |
| Russian Branch | Russia | 100 |
| Ukraine Branch | Ukraine | 100 |
| Bulgarian Branch | Bulgaria | 100 |
| Slovakian Branch | Slovakia | 100 |
| Slovenian Branch | Slovenia | 100 |
| Eli Lilly Ges.m.b.H. | Austria | 100 |
| Lilly Mont-Saint-Guibert Development Centre | Belgium | 100 |
| Lilly-MDD Mont-Saint-Guibert Headquarters S.A. | Belgium | 100 |
| MDD European Development Centre S.A. | Belgium | 100 |
| Eli Lilly Benelux, S.A. | Belgium | 100 |
| Eli Lilly Denmark A/S | Denmark | 100 |
| OY Eli Lilly Finland Ab | Finland | 100 |
| Lilly France S.A. | France | 100 |
| Elsa France, S.A. | France | 100 |
| BCR & Lilly Co., Ltd. | Hungary | 49 |
| Lilly Hungaria KFT | Hungary | 100 |
| Eli Lilly (Philippines), Incorporated | Philippines | 100 |
| Eli Lilly Ranbaxy Limited * | India | 50<51 |
| Dista Italia S.r.l. | Italy | 100 |
| Eli Lilly Italia S.p.A. | Italy | 100 |
| Eli Lilly Japan K.K. | Japan | 100 |
| Daewoong Lilly Pharmaceutical Co., Ltd. | Korea | 50 |
| Eli Lilly Malaysia Sdn Bhd. | Malaysia | 100 |
| ELCO Production Services B.V. | Netherlands | 100 |

| | | |
|---|----------|-----|
| Eli Lilly Norway A.S. | Norway | 100 |
| Eli Lilly-Gohar (Private) Limited * | Pakistan | 30 |
| Eli Lilly Poland Sp.z.o.o. (Ltd.) | Poland | 100 |
| Dista-Produtos Quimicos & Farmaceuticos, LD | Portugal | 100 |
| Lilly-Farma, Produtos Farmaceuticos, Lda. | Portugal | 100 |
| ELVA Joint Laboratory * | Russia | 50 |

ELI LILLY S.A.

| | | |
|---|--------------|-------|
| Eli Lilly Nederland B.V. (Cont'd) | Netherlands | 100 |
| Eli Lilly (S.A.) (Proprietary) Limited | South Africa | 100 |
| Elancovet, S.A. | Spain | 50<51 |
| Derly, S.A. | Spain | 50<51 |
| Dista, S.A. | Spain | 50<51 |
| Lilly, S.A. | Spain | 50<51 |
| Elmedin, S.A. | Spain | 50<51 |
| Elquiber, S.A. | Spain | 50<51 |
| Geserco, S.A. | Spain | 50<51 |
| Hybritech, S.A. | Spain | 50<51 |
| Valquimica, S.A. | Spain | 50<51 |
| Eli Lilly Sweden AB | Sweden | 100 |
| Lilly Mustafa Nevzat Saglik | | |
| Urunleri ve llac Tic | Turkey | 90 |
| Eli Lilly y Compania de Venezuela, S.A. | Venezuela | 100 |

(1) All of the companies listed, except those that are asterisked, are included in the consolidated financial statements.

* Not Consolidated.

EXHIBIT 23. CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Eli Lilly and Company of our report dated February 1, 1994, included in the 1993 Annual Report to Shareholders of Eli Lilly and Company.

Our audits also included the financial statement schedules of Eli Lilly and Company listed in Item 14(a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in Registration Statement Number 33-29482 on Form S-8 dated June 23, 1989, in Registration Statement Number 33-37341 on Form S-8 dated October 17, 1990, in Registration Statement Number 33-38347 on Form S-3 dated December 20, 1990, in Registration Statement Number 33-56208 on Form S-3 dated December 23, 1992, in Registration Statement Number 33-58466 on Form S-8 dated February 17, 1993 and in Registration Statement Number 33-50783 on Form S-8 dated October 27, 1993 of our report dated February 1, 1994 with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedules included in this Annual Report (Form 10-K) of Eli Lilly and Company.

ERNST & YOUNG

Indianapolis, Indiana
March 18, 1994

EXHIBIT 99. REPORT TO HOLDERS OF ELI LILLY AND COMPANY
CONTINGENT PAYMENT OBLIGATION UNITS

In 1993, sales of Hybritech Incorporated, including royalties, decreased to \$149.0 million. Sales (restated to include Pacific Biotech, Inc.) in 1992 were \$172.9 million, essentially the same as 1991.

Product sales declined in 1993 due primarily to lower unit volume and unfavorable exchange rate comparisons. Sales of the company's largest selling product, Tandem (Registered) PSA, a prostate cancer test, were down when compared to 1992 due to competition.

Hybritech's gross profits declined 19 percent, to \$73.2 million in 1993, compared with \$90.7 million and \$104.6 million in 1992 and 1991, respectively. The gross-profit decline in 1993 was largely the result of lower sales, higher costs, and the impact of the company's fourth quarter restructuring.

Beginning in 1993, Hybritech combined certain operations with Pacific Biotech, Inc. (PBI), another wholly owned subsidiary of Eli Lilly and Company; therefore, 1992 and 1991 sales and gross margin have been restated to include the impact of PBI in the CPU calculation.

Under the terms of the Contingent Payment Obligation Unit, payments are earned if the sum of 6 percent of sales and 20 percent of gross profits exceeds the annual deductible. The annual deductible was originally set in 1986 at \$11 million and increases at a compounded rate of 35 percent per year thereafter. The deductibles through 1995 are as follows:

(Dollars in millions)

| 1991 | 1992 | 1993 | 1994 | 1995 |
|--------|--------|--------|---------|---------|
| \$49.3 | \$66.6 | \$89.9 | \$121.4 | \$163.8 |

In accordance with the formula, no payment was earned in 1993.

Tandem (Registered) (dual monoclonal sandwich assay kits, Hybritech)