

**Form 10-Q**

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

FOR THE QUARTER ENDED JUNE 30, 2001

COMMISSION FILE NUMBER 001-6351

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

INDIANA  
(State or other jurisdiction  
of incorporation or organization)

35-0470950  
(I.R.S. Employer  
Identification No.)

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

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

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

Yes  
No

The number of shares of common stock outstanding as of July 31, 2001:

<u>Class</u>	<u>Number of Shares Outstanding</u>
Common	1,124,010,516

**PART I. FINANCIAL INFORMATION**

*Item 1. Financial Statements*

CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>(Dollars in millions except per-share data)</b>			
Net sales	\$ 3,033.5	\$ 2,621.5	\$ 5,839.2	\$ 5,072.6
Cost of sales	522.2	491.7	1,044.5	1,000.4
Research and development	563.7	508.8	1,079.2	967.3
Marketing and administrative	899.9	795.4	1,668.8	1,483.7
Interest expense	40.4	45.5	81.8	92.3
Other (income) expense - net	(53.8)	(74.0)	(130.6)	(347.7)
	1,972.4	1,767.4	3,743.7	3,196.0
Income before income taxes	1,061.1	854.1	2,095.5	1,876.6
Income taxes	233.4	187.9	461.0	364.9
Net income	\$ 827.7	\$ 666.2	\$ 1,634.5	\$ 1,511.7
Earnings per share - basic	\$ .77	\$ .62	\$ 1.52	\$ 1.40
Earnings per share - diluted	\$ .76	\$ .61	\$ 1.50	\$ 1.38
Dividends paid per share	\$ .28	\$ .26	\$ .56	\$ .52

CONSOLIDATED CONDENSED BALANCE SHEETS

ELI LILLY AND COMPANY AND SUBSIDIARIES

	June 30, 2001	December 31, 2000
<b>(Dollars in millions)</b>		
(Unaudited)		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,971.8	\$ 4,114.9
Short-term investments	527.1	503.3
Accounts receivable, net of allowances for doubtful amounts of \$107.2 (2001) and \$115.3 (2000)	1,521.8	1,630.7
Other receivables	254.5	335.4
Inventories	956.8	883.1
Deferred income taxes	199.0	269.5
Prepaid expenses	433.5	206.1
<b>TOTAL CURRENT ASSETS</b>	<b>6,864.5</b>	<b>7,943.0</b>
<b>OTHER ASSETS</b>		
Prepaid retirement	1,045.8	1,032.5
Investments	2,230.5	395.7
Sundry	1,249.4	1,143.0
	4,525.7	2,571.2
<b>PROPERTY AND EQUIPMENT</b>		
Land, buildings, equipment, and construction-in-progress	7,918.6	7,784.7
Less allowances for depreciation	(3,675.3)	(3,608.1)
	4,243.3	4,176.6
	<b>\$ 15,633.5</b>	<b>\$ 14,690.8</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$ 430.0	\$ 184.3
Accounts payable	477.5	661.9
Employee compensation	286.2	468.3
Dividends payable	314.8	315.4
Income taxes payable	2,204.2	2,200.2
Other liabilities	1,240.2	1,130.6
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,952.9</b>	<b>4,960.7</b>
LONG-TERM DEBT	2,898.4	2,633.7
DEFERRED INCOME TAXES	90.7	91.6
RETIREE MEDICAL BENEFIT OBLIGATION	84.8	83.3
OTHER NONCURRENT LIABILITIES	843.3	874.6
	3,917.2	3,683.2
<b>COMMITMENTS AND CONTINGENCIES</b>		
	—	—
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	703.3	704.4
Additional paid-in capital	2,610.0	2,610.0
Retained earnings	7,057.6	6,223.2
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(128.5)	(135.0)
Accumulated other comprehensive loss	(735.2)	(611.2)
	6,872.2	6,156.4
Less cost of common stock in treasury	108.8	109.5
	6,763.4	6,046.9
	<b>\$ 15,633.5</b>	<b>\$ 14,690.8</b>

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Six Months Ended June 30,	
	2001	2000
	(Dollars in millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,634.5	\$ 1,511.7
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(513.2)	(182.8)
Depreciation and amortization	247.8	237.4
Change in deferred taxes	158.0	87.7
Gain related to sale of Kinetra, net of tax	—	(214.4)
Other, net	20.5	15.7
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,547.6</b>	<b>1,455.3</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of property and equipment	(342.6)	(276.0)
Purchase of investments	(1,852.5)	(726.8)
Proceeds from sale of investments	4.9	497.5
Other, net	(50.0)	(66.1)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(2,240.2)</b>	<b>(571.4)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(603.3)	(563.3)
Purchase of common stock and other capital transactions	(362.9)	(502.4)
Issuances under stock plans	85.4	76.4
Net change in short-term borrowings	247.3	(186.8)
Net change in long-term debt	268.2	(14.0)
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<b>(365.3)</b>	<b>(1,190.1)</b>
Effect of exchange rate changes on cash and cash equivalents	(85.2)	(23.7)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,143.1)</b>	<b>(329.9)</b>
Cash and cash equivalents at January 1	4,114.9	3,700.4
<b>CASH AND CASH EQUIVALENTS AT JUNE 30</b>	<b>\$ 2,971.8</b>	<b>\$ 3,370.5</b>

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(Dollars in millions)			
Net income	\$ 827.7	\$ 666.2	\$ 1,634.5	\$ 1,511.7
Other comprehensive loss <sup>1</sup>	(26.1)	(58.5)	(124.0)	(146.7)
<b>Comprehensive income</b>	<b>\$ 801.6</b>	<b>\$ 607.7</b>	<b>\$ 1,510.5</b>	<b>\$ 1,365.0</b>

<sup>1</sup> The significant component of other comprehensive loss was a loss of \$33.4 million and \$125.1 million from foreign currency translation adjustments for the three months and six months ended June 30, 2001, respectively, as compared to a loss of \$50.6 million and \$120.5 million for the three months and six months ended June 30, 2000, respectively.

See Notes to Consolidated Condensed Financial Statements.

## SEGMENT INFORMATION

The company operates in one significant business segment - pharmaceutical products. Operations of the animal health business are not material and share many of the same economic characteristics as pharmaceutical products. The company's business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business was \$45 million and \$35 million, respectively, for the three months ended June 30, 2001 and 2000 and \$95 million and \$80 million, respectively, for the six months ended June 30, 2001 and 2000.

## SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the three months and six months of 2001 and 2000 were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
(Dollars in millions)				
Net sales - to unaffiliated customers				
Neurosciences	\$1,492.6	\$1,236.4	\$2,813.9	\$2,340.6
Endocrinology	807.7	648.7	1,513.9	1,224.0
Anti-infectives	187.2	221.6	388.2	454.2
Oncology	164.6	114.1	342.4	255.3
Animal health	156.2	151.3	320.3	306.7
Cardiovascular	147.0	149.0	292.4	307.0
Gastrointestinal	70.2	85.6	146.0	153.5
Other pharmaceuticals	8.0	14.8	22.1	31.3
Net sales	\$3,033.5	\$2,621.5	\$5,839.2	\$5,072.6

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### BASIS OF PRESENTATION

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

### CONTINGENCIES

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), each submitted an Abbreviated New Drug Application (ANDA) seeking U.S. Food and Drug Administration (FDA) approval to market generic forms of Prozac® before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that the challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a \$4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company filed a petition requesting a rehearing by the Court of Appeals. On May 30, 2001, the Court of Appeals accepted the company's request for a rehearing and vacated the August 9, 2000 decision, but simultaneously issued a new decision on rehearing that also found the 2003 patent invalid based on different legal reasoning. On July 18, 2001, the Court of Appeals denied the company's request to rehear the second decision. The company intends to seek review of the decision by the U.S. Supreme Court.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac in various dosage forms, challenging one or both of the patents. These companies include Alphapharm Pty. Ltd. (Alphapharm); Teva Pharmaceuticals USA (Teva); companies affiliated with Dr. Reddy's Laboratories Ltd., including Cheminor Drugs, Ltd. (Reddy); Zenith Goldline Pharmaceuticals, Inc. (Zenith); Novex Pharma, a division of Apotex, Inc.; Carlsbad Technology, Inc.; and Mallinckrodt, Inc. The company filed lawsuits in federal district court in Indianapolis seeking rulings that all these challenges to the patent(s) are without merit. On July 26, 2001, the District Court entered judgment against Lilly in all these cases based on the second decision of the Court of Appeals.

Assuming the Prozac patent ruling is not overturned by the Supreme Court, the company expects a very substantial decline in Prozac sales in the U.S. in the 12 months following the entry of generic fluoxetine in the U.S. market, which began in early August 2001. Prozac sales in the U.S. have historically represented a significant portion of the company's overall sales, accounting for approximately 19 percent of the company's consolidated worldwide sales in the second quarter of 2001. The company believes that the Prozac patent litigation will not have a material adverse effect on the company's consolidated financial position or liquidity.

In February 2001, the company was notified that Zenith had submitted an ANDA seeking permission to market a generic version of Zyprexa® in various dosage forms, prior to the expiration of the company's U.S. patents for the product, alleging that the patents are invalid or not infringed. On April 2, 2001, the company filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, the company was notified that Reddy had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, the company filed suit against Reddy in federal district court in Indianapolis seeking a ruling that Reddy's patent challenge is without merit. On July 11, 2001, Reddy filed a parallel suit against the company in federal district court in Newark, New Jersey. The company believes that the generic manufacturers' patent claims are without merit and expects to

prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the company will prevail. An unfavorable outcome could have a material adverse impact on the company's consolidated results of operations, liquidity, and financial position.

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol (DES) and Prozac. The company has accrued for its estimated exposure with respect to all current product liability claims. In addition, the company has accrued for certain claims incurred, but not filed, 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 recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to fewer than 10 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 payment of those costs. The company has reached a settlement with its primary liability insurance carrier and certain excess carriers providing for coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately \$151.2 million at June 30, 2001. Estimated insurance recoverables of approximately \$63.2 million at June 30, 2001 have been reflected as assets in the consolidated balance sheet.

The company is nearing completion of a routine examination by the Internal Revenue Service (IRS) for tax years 1996 and 1997. Discussions between the company and the IRS are currently underway related to one remaining issue.

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

#### EARNINGS PER SHARE

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

#### SHAREHOLDERS' EQUITY

The company announced a \$3 billion share repurchase program in 2000. Approximately 4.7 million shares were repurchased during the first six months of 2001, at a cost of approximately \$371.0 million. In connection with the share repurchase program, the company has entered into agreements to purchase shares of the company's stock. The company has agreements to purchase up to approximately 4.6 million shares of company stock from an independent third party at various times through December 2003, at prices ranging from \$76 to \$100 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. In addition, as of June 30, 2001, written equity put options, purchased call options and other derivative contracts, which provide for purchase of a total of approximately 4.6 million shares, remain outstanding at prices ranging from \$74 to \$90 per share with expiration dates ranging from December 2001 to November 2002. If the options are exercised, the contracts allow the company, at its discretion, to repurchase the shares for cash or deliver to the holder cash or shares for the difference between the contractual exercise price and the market price of the company's stock. The company's objective with the above agreements is to reduce the average price of repurchased shares.

#### ACCOUNTING CHANGES

The company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. The statement requires the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge ineffectiveness, the amount by which the change in the value of a hedge does not exactly offset the change in the value of the hedged item, will be immediately recognized in earnings. The adoption of Statement 133 on January 1, 2001, did not have a material effect on the consolidated results of operations or financial position of the company, as it increased other income by less than \$1 million and decreased other comprehensive income by approximately \$15 million.

#### IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENT

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement applies to all acquired intangible assets. Goodwill and other identifiable intangible assets with an indefinite useful life will not be amortized, but are required to be tested for impairment at least annually. Goodwill is required to be tested for impairment on an interim basis if an event occurs or circumstances change that could trigger an impairment. Identifiable intangible assets will be amortized when their useful life is determined to no longer be indefinite. The company will adopt this statement on January 1, 2002. Currently, the company does not expect this statement will have a material impact on its financial position or its results of operations.

#### DERIVATIVE FINANCIAL INSTRUMENTS

The company's derivative activities are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As derivative contracts are initiated, the company designates the instruments individually as either a fair value hedge or a cash flow hedge. Management reviews the correlation and effectiveness of its derivatives on a periodic basis.

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

The company enters into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally the Japanese yen and the euro). Generally, foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from subsidiary foreign currency balances. These contracts are recorded at fair value with the gain or loss recognized in current earnings. The purchased option contracts are used to hedge anticipated foreign currency transactions, primarily intercompany inventory activities expected to occur within the next year. These contracts are designated as cash flow hedges of those future transactions and the impact on earnings is included in cost of

sales. The company may enter into foreign currency forward contracts and currency swaps as fair value hedges of firm commitments. Forward and option contracts generally have maturities not exceeding 12 months.

In the normal course of business, operations of the company are exposed to fluctuations in interest rates. These fluctuations can vary the costs of financing, investing, and operating. The company addresses a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact on earnings of fluctuations in interest rates. The company's primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, the company strives to achieve an acceptable balance between fixed and floating rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance. Interest rate swaps or collars that convert the company's fixed-rate debt or investments to a floating-rate are designated as fair value hedges of the underlying debt. Interest rate swaps or collars that convert floating-rate debt or investments to a fixed-rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements.

During the three and six months ended June 30, 2001, net losses related to ineffectiveness and net losses related to the portion of fair value and cash flow hedging instruments excluded from the assessment of effectiveness, were not material.

At June 30, 2001, the amount reflected in accumulated other comprehensive loss related to derivative financial instruments is not material. The company expects to reclassify approximately \$33 million of net gains on cash flow hedges from accumulated other comprehensive loss to earnings during the next twelve months.

## UNUSUAL ITEMS

During the first quarter of 2000, the company sold its interest in Kinetra LLC, a joint venture between the company and EDS, to WebMD Corporation (WebMD) in exchange for shares of WebMD common stock. A gain of \$214.4 million was recognized on the combined effect of the transaction and the subsequent sale of the majority of those shares of WebMD stock. The gain is included in other income in the consolidated condensed statement of income.

During the fourth quarter of 1999, the company realized an estimated \$91 million of sales as a result of year-2000-related wholesaler buying that normally would have been realized during the first quarter of 2000.

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

## OPERATING RESULTS

Net income was \$827.7 million, or \$.76 per share, for the second quarter of 2001, compared with \$666.2 million, or \$.61 per share, for the second quarter of 2000, representing increases in earnings and earnings per share of 24 percent and 25 percent, respectively. Reported net income was \$1.63 billion, or \$1.50 per share, for the first six months of 2001, compared with \$1.51 billion, or \$1.38 per share, for the first six months of 2000. Comparisons between the six month periods are made difficult by the impact of two unusual items that are reflected in the company's operating results in the first quarter of 2000. Excluding these unusual items, which are discussed further below, net income for the six month period of 2000, would have been \$1.36 billion, or \$1.24 per share. Net income and earnings per share for the first six months of 2001 increased 20 and 21 percent, respectively from these adjusted results. Net income for the second quarter and six month period was favorably affected by increased sales, improved gross margins, increased interest income, and operating expenses (as defined below) growing at a lesser rate than sales. Earnings per share for the second quarter and six month period of 2001 benefited slightly from a lower number of shares outstanding resulting from the company's share repurchase programs.

As noted above, two unusual items are reflected in the company's operating results for the first quarter of 2000. These transactions are summarized as follows (see "Unusual Items" in the Notes to Consolidated Condensed Financial Statements for additional information):

- The company recognized a gain of \$214.4 million on the sale of its interest in Kinetra LLC to WebMD and the subsequent sale of WebMD stock, which increased earnings per share by approximately \$.20 in the first quarter of 2000.
- The company realized an estimated \$91 million of sales as a result of year-2000-related wholesaler buying during the fourth quarter of 1999 that normally would have been realized in the first quarter of 2000, which decreased earnings per share by approximately \$.06 in the first quarter of 2000.

The company's sales for the second quarter of 2001 increased 16 percent, to \$3.03 billion, compared with the second quarter of 2000. Sales growth was led by Zyprexa, diabetes care products, Evista®, and Gemzar®, partially offset by lower sales of anti-infectives. Sales in the U.S. increased 22 percent, to \$2.02 billion, for the second quarter of 2001, compared with the second quarter of 2000. Sales outside the U.S. increased 5 percent, to \$1.01 billion, for the second quarter of 2001, compared with the second quarter of 2000. Worldwide sales for the second quarter reflected volume growth of 17 percent and a 2 percent increase in global selling prices, partially offset by an unfavorable exchange rate impact of 3 percent.

The company's reported sales for the first six months of 2001 increased 15 percent, to \$5.84 billion, compared with the first six months of 2000. Adjusting for the impact of year-2000-related wholesaler buying, worldwide sales increased 13 percent. Sales growth was led by Zyprexa, diabetes care products, Evista, and Gemzar, partially offset by lower sales of anti-infectives. Reported sales in the U.S. increased 21 percent, to \$3.82 billion, for the six month period of 2001 compared with the six month period of 2000. Reported sales outside the U.S. increased 6 percent, to \$2.02 billion, for the six month period of 2001, compared with the six month period of 2000. Worldwide sales reflected volume growth of 16 percent and a 1 percent increase in global selling prices, partially offset by an unfavorable exchange rate impact of 2 percent.

Zyprexa had worldwide sales of \$736.6 million and \$1.34 billion for the second quarter and six month period of 2001, respectively, representing increases of 34 percent and 36 percent, compared with the same periods of 2000. During the second quarter of 2001, Zyprexa was launched in Japan, the second largest antipsychotic market in terms of days of therapy. U.S. sales increased 32 percent, to \$523.2 million, for the quarter and 40 percent, to \$973.9 million, for the six month period. Sales outside the U.S. increased 38 percent, to \$213.4 million, for the quarter and 28 percent, to \$399.8 million, for the six month period. Adjusting for year-2000-related sales, worldwide Zyprexa sales grew by 34 percent for the first six months of 2001.

Prozac and Sarafem™ had combined reported worldwide sales of \$692.4 million and \$1.32 billion for the second quarter and six month period of 2001, respectively, representing increases of 10 percent and 7 percent, compared with the same periods of 2000. Sarafem, launched in the U.S. in August 2000 for the treatment of premenstrual dysphoric disorder (PMDD), had sales of \$20.6 million and \$33.5 million in the second quarter and first six months of 2001. Prozac and Sarafem combined sales in the U.S. increased 12 percent, to \$605.7 million, for the quarter and 9 percent, to \$1.15 billion, for the six month period. Prozac sales outside the U.S. decreased 1 percent, to \$86.7 million, for the quarter and 4 percent, to \$168.1 million, for the six month period, primarily due to continuing generic competition. Adjusting for year-2000-related sales, worldwide Prozac and Sarafem combined sales grew by 6 percent for the six month period. Reference is made to the discussion of the Prozac patent litigation under Part II, Item 1 of this Form 10-Q. Generic forms of fluoxetine were launched in the U.S. in early August 2001. For additional information on the expected financial impact of the entry of generic fluoxetine, see the "Financial Expectations" section below.

Diabetes care worldwide revenues, composed primarily of Humulin®, Humalog®, and Actos®, were \$561.9 million and \$1.04 billion for the quarter and six month period of 2001, respectively, representing increases of 28 percent and 24 percent compared with the same periods of 2000. Diabetes care revenues in the U.S. increased 39 percent, to \$368.9 million, for the quarter and 33 percent, to \$672.3 million, for the six month period. Sales outside the U.S. increased 10 percent, to \$193.0 million, for the quarter and 9 percent, to \$372.5 million, for the six month period. Worldwide Humulin sales of \$264.7 million and \$538.2 million remained flat for the quarter and six month period due to the continued shift by patients to Humalog and Humalog mix products and to increased competition. Worldwide Humalog sales of \$145.6 million for the quarter and \$270.8 million for the six month period increased 90 percent and 82 percent, respectively. Sales of Humalog for the quarter and six month period benefited

from the U.S. launch of Humalog Mix75/25® Pen in March of 2000. The company received service revenues of \$134.7 million and \$198.7 million, respectively, for the second quarter and six month period of 2001 representing increases of 79 percent and 69 percent relating to sales of Actos. Actos sales for the second quarter benefited in part from U.S. wholesaler stocking. Actos is manufactured and sold in the U.S. by Takeda Chemical Industries, Ltd., and is copromoted by Takeda and the company. Adjusting for year-2000-related sales, worldwide diabetes care revenues grew by 20 percent for the six month period.

Gemzar had worldwide sales of \$160.9 million and \$334.9 million for the second quarter and six month period of 2001, respectively, representing increases of 49 and 37 percent, compared with the same periods of 2000. Sales in the U.S. increased 81 percent, to \$88.9 million, for the quarter and 49 percent, to \$190.3 million, for the six month period. This growth rate benefited in part from wholesaler buying patterns in the second quarter of 2001 and 2000. Sales outside the U.S. increased 22 percent, to \$72.0 million, for the quarter and 25 percent, to \$144.6 million, for the six month period. Adjusting for year-2000-related sales, worldwide Gemzar sales grew by 36 percent for the six month period.

Evista had worldwide sales of \$167.0 million and \$316.0 million for the second quarter and six month period of 2001, respectively, representing increases of 25 percent and 35 percent, compared with the same periods of 2000. Evista was launched in a number of European countries during the second quarter of 2000 as a treatment for postmenopausal osteoporosis. U.S. sales increased 19 percent, to \$133.0 million, for the quarter and 30 percent, to \$253.2 million, for the six month period. Sales outside the U.S. increased 56 percent, to \$34.0 million, for the quarter and 61 percent, to \$62.8 million, for the six month period. Adjusting for year-2000-related sales, worldwide Evista sales grew by 34 percent for the six month period.

ReoPro® had worldwide sales of \$110.1 million and \$220.8 million, for the second quarter and six month period of 2001, respectively, representing increases of 5 percent and 3 percent compared with the same periods of 2000. Relative to the fourth quarter of 2000, sales have improved following the release of the Merck-sponsored TARGET data which showed that ReoPro was superior to Aggrastat®\* in reducing the risk of death, myocardial infarction, and urgent intervention based on 30-day data.

Anti-infectives had worldwide sales of \$187.2 million and \$388.2 million, for the second quarter and six month period of 2001, respectively, representing decreases of 16 percent and 15 percent, compared with the same periods of 2000. Lower sales of anti-infectives for both periods were due to continuing competitive pressures. Sales in the U.S. decreased 15 percent and 38 percent for the quarter and six month period, respectively. Sales outside the U.S. decreased 16 percent for the quarter and decreased 8 percent for the six month period. Cefaclor and Keflex® accounted for the majority of the decline in anti-infective sales.

\* Aggrastat® is a registered trademark of Merck and Co., Inc.

For the second quarter of 2001, gross margins improved to 82.8 percent, compared with 81.2 percent for the second quarter of 2000. For the six month period of 2001, gross margins improved to 82.1 percent, compared with 80.3 percent for the six month period of 2000. During the quarter and six month period, higher margin products such as Zyprexa, Gemzar, Evista, and diabetes care products experienced strong growth, while lower margin products, such as anti-infectives, declined.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 12 percent for both the second quarter and six month period of 2001. Investment in research and development increased 11 percent, to \$563.7 million, for the second quarter and 12 percent, to \$1.08 billion, for the six month period as the company continued to invest in its internal pipeline and external research collaborations. Marketing and administrative expenses increased 13 percent from the second quarter of 2000 and 12 percent from the six month period of 2000 primarily due to worldwide sales force expansion in support of the company's growth products and upcoming product launches offset, in part, by a decline in administrative expenses. The increase in operating expenses was partially diminished by lower incentive-based compensation expense.

Net other income for the second quarter of 2001 decreased \$20.2 million, to \$53.8 million. Net other income for the six month period of 2001 decreased \$3.7 million, to \$130.6 million, excluding the first quarter 2000 gain on the sale of Kinetra LLC.

For both the second quarters of 2001 and 2000, the effective tax rate was 22.0 percent. The effective tax rate for the six month period of 2001 was 22.0 percent compared with 19.4 percent for the six month period of 2000. Excluding the impact of the unusual items discussed previously, the effective tax rate would have been 22.0 percent for the six month period ended June 30, 2000.

## FINANCIAL CONDITION

As of June 30, 2001, cash, cash equivalents and short-term investments totaled \$3.50 billion as compared with \$4.62 billion at December 31, 2000. Investments as of June 30, 2001 totaled \$2.23 billion compared to \$395.7 million at December 31, 2000. Cash flow from operations of \$1.55 billion and net cash from issuance of debt of \$515.5 million as described further below were offset by purchase of long-term investments of \$1.85 billion, dividends paid of \$603.3 million, shares repurchased and other capital transactions of \$362.9 million, and net capital expenditures of \$342.6 million. The shares were repurchased pursuant to the company's previously announced \$3 billion share repurchase program. The company has now completed roughly half of that program.

Total debt at June 30, 2001, was \$3.33 billion, an increase of \$510.4 million from December 31, 2000, primarily due to the issuance of \$250 million of 4.25% one-year resettable notes in March 2001 and \$250 million of 30-year debt in May 2001. In July 2001, the company issued \$400 million of 5.5% notes due July 15, 2006.

The company believes that cash generated from operations in 2001, along with available cash and cash equivalents and debt issued to date, will be sufficient to fund essentially all of the 2001 operating needs, including debt service, capital expenditures, share repurchases, and dividends.

## EURO CONVERSION

On January 1, 1999, 11 European nations adopted a common currency, the euro, and formed the European Economic and Monetary Union (EMU). For a three-year transition period, both the euro and individual participants' currencies will remain in circulation. After July 1, 2002, at the latest, the euro will be the sole legal tender for EMU countries. Greece has joined the original 11 countries adopting the euro in 2002. The adoption of the euro affects a multitude of financial systems and business applications as the commerce of these nations is transacted in the euro and the existing national currency.

The company has created the capability to transact in both the euro and the legacy currency and has converted the underlying information systems within the EMU countries from the legacy currencies to the euro. The company will continue to address euro-related issues and their impact on information systems, currency exchange rate risk, taxation, contracts, competition, and pricing. Action plans currently being implemented are expected to result in compliance with all laws and regulations; however, there can be no certainty that such plans will be successfully implemented or that external factors will not have an adverse effect on the company's operations. Any costs of compliance associated with the adoption of the euro are expensed as incurred and the company does not expect these costs to be material to its results of operations, financial condition, or liquidity.

## OTHER MATTERS

As a result of observations noted by the FDA in two recent Lilly plant inspections, one of which resulted in a warning letter from the agency, the company is in the process of implementing comprehensive, company-wide improvements in its manufacturing quality operations to assure sustained compliance with current Good Manufacturing Practices (cGMP) regulations. In addition, the company has entered into agreements under which Lonza Biologics, PLC is manufacturing the bulk active ingredient for drotrecogin alfa (activated), the company's investigational compound for sepsis, and Catalytica Pharmaceuticals, Inc., a subsidiary of DSM N.V., is manufacturing the finished product. Prior to product approval both firms must successfully complete a pre-approval inspection by the FDA. Catalytica is also subject to a warning letter from

the FDA with respect to cGMP matters not specifically related to drotrecogin alfa (activated). Lilly is working closely with the FDA to implement the necessary improvements in its own quality systems and procedures. It is also providing support and consultation to both Lonza and Catalytica to assist in their FDA inspections. Lilly does not currently expect a material financial impact from the cGMP issues discussed above or the cost of improvements that Lilly is implementing in its operations. However, the timing and nature of the resolution of cGMP issues will depend on the manufacturer's ability to demonstrate to the satisfaction of the FDA the quality and reliability of its manufacturing controls and procedures. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the satisfaction of the FDA could be subject to product recalls or seizures, interruption of production, and the withholding of approvals of new drug applications pending resolution of the cGMP issues.

In an unrelated matter, the company is conducting a strategic review of its worldwide manufacturing capacity. Based on the results to date, the company decided in July 2001 to close two facilities. The costs to be incurred in the third quarter of 2001 related to these two closings are not expected to be material to the company's consolidated results of operations, liquidity, or financial position. Other closings or asset retirements may be identified as the review is completed.

## FINANCIAL EXPECTATIONS

As noted in Part II, Item 1 of this Form 10-Q, a U.S. federal appeals court has ruled that the company's 2003 method of use patent for Prozac is invalid. The company will seek review of the decision by the U.S. Supreme Court. However, the U.S. Supreme Court seldom grants such reviews in patent cases. The company expects a very substantial decline in Prozac sales in the U.S. in the 12 months following the entry of generic fluoxetine in the U.S. market, which began in early August 2001. Prozac sales in the U.S. have historically represented a significant portion of the company's overall sales, accounting for approximately 19 percent of the company's consolidated worldwide sales in the second quarter of 2001. The company believes that the loss of Prozac market exclusivity will not have a material adverse effect on the company's consolidated financial position or liquidity.

Based on the above, looking forward to full-year 2001 results, excluding unusual items, such as the costs related to the outcome of the strategic review of worldwide manufacturing capacity, the company expects earnings per share to be in the range of \$2.76 to \$2.84. For both the third and fourth quarters of 2001, the company expects earnings per share to be in the range of \$.63 to \$.67, excluding any unusual items. The company now expects ReoPro sales to be flat to slightly positive for 2001. Also, the gross margin percent for 2001 is expected to be approximately flat for the year due to a stronger than anticipated first half of the year. Marketing and administrative expenses are now expected to rise in the high single digits from prior year, while research and development expenses are expected to increase in the low double digits.

The company continues to anticipate single-digit sales and earnings per share growth for full-year 2002, excluding unusual items.

Actual results could differ materially and will depend on, among other things, the outcome of the company's request for review by the U.S. Supreme Court of the recent Prozac ruling; the timing, number of entrants, and pricing strategies of generic fluoxetine competitors; the continuing growth of the company's other currently marketed products; developments with competitive products; the timing of regulatory approvals, including the necessary FDA approvals of manufacturing operations in connection with pending new drug applications as discussed above under "Other Matters"; the timing and success of expected new product launches; foreign exchange rates; and the impact of government pricing and reimbursement measures.

## PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

## PART II. OTHER INFORMATION

### *Item 1. Legal Proceedings*

#### PROZAC PATENT LITIGATION

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), each submitted an Abbreviated New Drug Application (ANDA) seeking U.S. Food and Drug Administration (FDA) approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that the challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a \$4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company filed a petition requesting a rehearing by the Court of Appeals. On May 30, 2001, the Court of Appeals accepted the company's request for a rehearing and vacated its August 9, 2000 decision, but simultaneously issued a new decision on rehearing that also found the 2003 patent invalid based on different legal reasoning. On July 18, 2001, the Court of Appeals denied the company's request to rehear the second decision. The company intends to seek review of the decision by the U.S. Supreme Court.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac in various dosage forms, challenging one or both of the patents. These companies include Alphapharm Pty. Ltd. (Alphapharm); Teva Pharmaceuticals USA (Teva); companies affiliated with Dr. Reddy's Laboratories Ltd., including Cheminor Drugs, Ltd. (Reddy); Zenith Goldline Pharmaceuticals, Inc. (Zenith); Novex Pharma, a division of Apotex, Inc.; Carlsbad Technology, Inc.; and Mallinckrodt, Inc. The company filed lawsuits in federal district court in Indianapolis seeking rulings that all these challenges to the patent(s) are without merit. On July 26, 2001, the District Court entered judgment against Lilly in all these cases based on the second decision of the Court of Appeals.

Generic forms of fluoxetine were launched in the U.S. in early August 2001. Under the patent-challenge provisions of the Hatch-Waxman Act of 1984, the FDA has granted exclusive ANDA marketing approvals for a period of approximately 180 days to the following companies: Barr (20 mg. capsules); Geneva (10 mg. capsules); Reddy (40 mg. capsules); Alphapharm (10 mg. and 20 mg. tablets); and Teva (liquid oral solution). Pharmaceutical Resources, Inc. has announced that during the 180-day exclusivity period, it will market exclusively the 10 mg. and 20 mg. tablets and 40 mg. capsules through its subsidiary Par Pharmaceuticals under arrangements with the respective ANDA holders.

For additional information on the impact of the Prozac patent litigation, see the "Financial Expectations" under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### ZYPREXA PATENT LITIGATION

In February 2001, the company was notified that Zenith had submitted an ANDA seeking permission to market a generic version of Zyprexa in various dosage forms prior to the expiration of the company's U.S. patents for the product, alleging that the patents are invalid or not infringed. On April 2, 2001, the company filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, the company was notified that Reddy had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, the company filed suit against Reddy in federal district court in Indianapolis seeking a ruling that Reddy's patent challenge is without merit. On July 11, 2001, Reddy filed a parallel suit against



the company in federal district court in Newark, New Jersey. The company believes that the generic manufacturers' patent claims are without merit and expects to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the company will prevail. An unfavorable outcome could have a material adverse impact on the company's consolidated results of operations, liquidity, and financial position.

#### OTHER MATTERS

The U.S. Federal Trade Commission (FTC) has instituted an industrywide study into what it describes as "the use of agreements between and among pharmaceutical companies, and any other strategies, that may delay generic drug competition throughout the United States since January 1, 1991." In April 2001, the company received an order from the FTC for the production of documents and other information in connection with the agency's investigation. The FTC has indicated that orders are being issued to approximately 100 pharmaceutical companies. The company is cooperating with the agency and believes that all of its actions have been lawful and proper.

In March, 2001, the company received a subpoena, issued at the request of the Commonwealth's attorney for the Commonwealth of Massachusetts, for production of documents related to pricing and Medicaid reimbursement of company products in Massachusetts. The company believes that it is not the only pharmaceutical company to receive such a request. The company is cooperating with the inquiry and believes all of its practices have been lawful and proper.

#### Item 2. Changes in Securities and Use of Proceeds

Reference is made to the information on sales of put options and other equity derivatives related to repurchases of Lilly stock as described in the accompanying notes to consolidated condensed financial statements. All such transactions were exempt from registration under Section 4(2) of the Securities Act of 1933. No public offering or public solicitation was used in the offering of these securities. The transactions were privately negotiated, and all offerees and purchasers were accredited investors and/or qualified institutional buyers.

#### Item 4. Submission of Matters to a Vote of Security Holders

The company held its annual meeting of shareholders on April 16, 2001. The following is a summary of the matters voted on at the meeting:

- (a) The four nominees for Director were elected to serve three-year terms ending in 2004, as follows:

Nominee	For	Withhold Vote
Dr. Steven C. Beering	964,095,993	8,397,383
Sir Winfried F.W. Bischoff	964,930,568	7,562,808
Dr. Franklyn G. Prendergast	965,346,219	7,147,157
Ms. Kathi P. Seifert	965,178,978	7,314,398

The terms of the following directors continued after the meeting: George M.C. Fisher; Alfred G. Gilman, M.D., Ph.D.; Charles E. Golden; Karen N. Horn, Ph.D.; Kenneth L. Lay; Sidney Taurel; August M. Watanabe, M.D.; and Alva O. Way.

- (b) The appointment of Ernst & Young LLP as the company's principal independent auditors was ratified by the following shareholder vote:

For:	947,544,547
Against:	21,213,458
Abstain:	3,735,461

- (c) By the following vote, the shareholders defeated a shareholder proposal regarding pharmaceutical pricing:

For:	38,265,834
Against:	786,203,980
Abstain:	23,726,260
Broker Nonvote:	124,297,302

#### Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 3. By-laws, as amended and restated effective June 24, 2001

EXHIBIT 11. Statement re: Computation of Earnings Per Share

EXHIBIT 12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges

EXHIBIT 99. Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

- (b) Reports on Form 8-K.

The company filed a Form 8-K on July 12, 2001 in order to file as exhibits the underwriting agreement and form of note in connection with its issuance of \$400,000,000 of 5.5% notes due 2006.

#### SIGNATURES

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

ELI LILLY AND COMPANY  
(Registrant)

Date August 10, 2001

S/Alecia A. DeCoudreaux  
Alecia A. DeCoudreaux  
Secretary and Deputy General Counsel

Date August 10, 2001

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

#### INDEX TO EXHIBITS

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

Exhibit

3. By-laws, as amended and restated effective June 24, 2001
11. Statement re: Computation of Earnings Per Share
12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
99. Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

ELI LILLY AND COMPANY

BY-LAWS

As Amended through  
June 24, 2001

ELI LILLY AND COMPANY

BY-LAWS

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BY-LAWS  
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; provided, however, that for a particular year the Board of Directors may designate another date not later than June 30 of that year by resolution adopted by not less than a majority of the directors then in office. Failure to hold an annual meeting of the shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

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, Place, and Conduct 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. The chairman of each meeting shall have sole authority to decide questions relating to the conduct of that meeting.

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 (which may include by telegraph, facsimile, or other form of wire or wireless communication) 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 chairman of the meeting or 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, facsimile, or electronic 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.



SECTION 1.8. Notice of Shareholder Business. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have the legal right and authority to make the proposal for consideration at the meeting and the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than one hundred twenty (120) calendar days in advance of the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting of shareholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the shareholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made.

A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business described to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the shareholder(s) proposing such business, (c) the class and number of the Corporation's shares which are beneficially owned by such shareholder(s), and (d) any material interest of such shareholder(s) in such business. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1.8. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1.8, and if the chairman should so determine, he or she shall so declare to the meeting any such business not properly brought before the meeting shall not be transacted. At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

SECTION 1.9. Notice of Shareholder Nominees. Only persons who are nominated in accordance with the procedures set forth in this Section 1.9 shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors may be made at or prior to a meeting of shareholders by or at the direction of the Board of Directors or by any nominating committee or person appointed by or at the direction of the Board of Directors, and at a meeting of shareholders by any shareholder entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 1.9. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than one hundred twenty (120) calendar days in advance of the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting of

shareholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the shareholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made.

Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person; (iii) the class and number of the Corporation's shares which are beneficially owned by such person; and (iv) to the extent reasonably available to the shareholder, any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of the Corporation's shares which are beneficially owned by such shareholder. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 1.9. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not so declared in accordance with the procedures prescribed by these By-laws, and if the chairman should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

## 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.

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 any directors voting separately as a class, 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 of the holders of shares of preferred stock is present.

#### 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 and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

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 percent 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 transactions with the Corporation in which one or more of its directors has a direct or indirect interest shall be either void or voidable solely because of such interest if any one of the following is true:

(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 subsection (a) of this section. The presence of, or a vote cast by, a director with a direct or indirect interest in the transaction does not affect the validity of any actions taken under subsection (a) of 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, Senior 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 By-laws.

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 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 or her by the By-laws and by the Board of Directors. The Chairman shall perform the duties and exercise the powers of the President at any time that the President is unable do so.

SECTION 3.8. President. The President shall be the chief executive officer 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 President shall have such other powers and perform such other duties as are assigned to him or her by the By-laws or the Board of Directors. The President shall perform the duties and exercise the powers of the Chairman of the Board at any time that the Chairman of the Board is unable to do so.

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 President or the Board of Directors. The Executive Vice Presidents, in order of their seniority in office as Executive Vice Presidents (and, between two or more of equal seniority in office as Executive Vice Presidents, in order of their seniority in office as Vice Presidents), shall perform the duties and exercise the powers of the President and the Chairman of the Board at any time that both the President and the Chairman of the Board are unable to do so.

SECTION 3.10. Senior Vice Presidents and Group Vice Presidents. Each Senior Vice President and each Group Vice President shall perform such duties and have such powers as may be assigned to him or her by the President or the Board of Directors. The Senior Vice Presidents, in order of their seniority in office as Senior Vice Presidents (and between two or more of equal seniority in office as Senior Vice Presidents, in order of their seniority in office as Vice Presidents), shall perform the duties and exercise the powers of the President and the Chairman of the Board at any time that the President, the Chairman of the Board, and all the Executive Vice Presidents are unable to do so.

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 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 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 President or the Secretary 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 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 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 or invested in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories or investments 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 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 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 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 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 President or the Board of Directors.

SECTION 3.20. Chairman Emeritus. In recognition of distinguished service to the Corporation, the Board of Directors may designate a person who has served as Chairman of the Board and who is no longer an employee, officer, or director as Chairman Emeritus. The Chairman Emeritus may serve to represent the Corporation at the request of the Chairman of the Board.

SECTION 3.21. Compensation. The compensation of executive officers of the Corporation shall be fixed from time to time by the Compensation Committee (or successor committee) established pursuant to Section 2.10. Unless the Board of Directors by resolution shall direct otherwise, the compensation of employees who are not executive officers of the Corporation shall be fixed by the management of the Company. No employee shall be prevented from receiving compensation by reason of being a director of the Corporation.

SECTION 3.22. 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, powers of attorney, or consents to vote with respect to shares or units of other corporations or other entities 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, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or by any other person or persons thereunto authorized by the Board of Directors. Persons with authority to execute proxies, powers of attorney, or consents under this Section 4.2 may delegate that authority unless prohibited by the Board of Directors.

## ARTICLE V

### Shares

SECTION 5.0. Certificates for Shares. Shares in the corporation may be issued in book-entry form or evidenced by certificates. However, every holder of shares in the Corporation shall be entitled upon request 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 (or in the case of book-entry shares, the statements evidencing ownership of such shares shall state) 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 (or book-entry statement) shall state whether such shares have been fully paid and are non-assessable. If any such shares are not fully paid, the certificate (or book-entry statement) 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 (or book-entry statement updated) 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 (if any), 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 (if any) 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 or book-entry 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 and the book-entry 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 or the Secretary, and the Board of Directors or Secretary may require the owner of the lost or destroyed certificate or the owner's legal representatives to give the Corporation a bond in such form and for such amount as the Board of Directors or Secretary may direct, and with such surety or sureties as may be satisfactory to the Board of Directors or the Secretary 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 or the Secretary, 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

### Indemnification

SECTION 6.0. Right to Indemnification. The Corporation shall, to the fullest extent permitted by applicable law now or hereafter in effect, indemnify any person who is or was a director, officer or employee of the Corporation ("Eligible Person") and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such Eligible Person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, member, manager, trustee, employee, fiduciary or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines or penalties against (including excise taxes assessed with respect to an employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such Eligible Person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Proceeding commenced by a current or former director, officer or employee of the Corporation except for such a Proceeding commenced following a Change in Control (as hereafter defined) with respect to actions or failure to act prior to such Change in Control. Any right of an Eligible Person to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, advancement of any expenses incurred by the Eligible Person in connection with such Proceeding in accordance with Section 6.3.

SECTION 6.1. Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any Eligible Person against any expense, judgments, fines and amounts paid in settlement as specified in Section 6.0 of this Article or incurred by any Eligible Person in connection with any Proceeding referred to in such section, to the fullest extent permitted by applicable law now or hereafter in effect. The Corporation may enter into agreements with any director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity supplemental to or in furtherance of the provisions of this Article and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification and advancement of expenses as provided in this Article.

SECTION 6.2. Non-Exclusive Rights; Applicability to Certain Proceedings. The rights provided in this Article shall not be exclusive of any other rights to which any Eligible Person may otherwise be entitled, and the provisions of this Article shall inure to the benefit of the heirs and legal representatives of any Eligible Person and shall be applicable to Proceedings commenced or continuing after the adoption of this Article, whether arising from acts or omissions occurring before or after such adoption.

SECTION 6.3. Advancement of Expenses. All reasonable expenses incurred by or on behalf of an Eligible Person in connection with any Proceeding shall be advanced to the Eligible Person by the Corporation within sixty (60) days after the receipt by the Corporation of a statement or statements from the Eligible Person requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding unless a determination has been made pursuant to Section 6.4 that such Eligible Person is not entitled to indemnification. Any such statement or statements shall reasonably evidence the expenses incurred by the Eligible Person and shall include any written affirmation or undertaking to repay advances if it is ultimately determined that the Eligible Person is not entitled to indemnification under this Article.

SECTION 6.4. Procedures; Presumptions and Effect of Certain Proceedings; Remedies. In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to and the right to indemnification and advancement of expenses under this Article.

(a) To obtain indemnification under this Article, an Eligible Person shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Eligible Person and reasonably necessary to determine whether and to what extent the Eligible Person is entitled to indemnification (the "Supporting Documentation"). The determination of the Eligible Person's entitlement to indemnification shall be made not later than sixty (60) days after receipt by the Corporation of the written request together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such request, advise the Board in writing of the Eligible Person's request.

(b) An Eligible Person's entitlement to indemnification under this Article shall be determined in one of the following methods, such method to be selected by the Board of Directors, regardless of whether there are any Disinterested Directors (as hereinafter defined): (i) by a majority vote of the Disinterested Directors, if they constitute a quorum of the Board; (ii) by a written opinion of Special Counsel (as hereinafter defined) if (A) a Change in Control shall have occurred and the Eligible Person so requests or (B) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (iii) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to the shareholders for their determination); or (iv) as provided in subsection (d).

(c) In the event of the determination of entitlement is to be made by Special Counsel, a majority of the Disinterested Directors shall select the Special Counsel, but only Special Counsel to which the Eligible Person does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Eligible Person shall select such Special Counsel, but only Special Counsel to which a majority of the Disinterested Directors does not reasonably object.

(d) Except as otherwise expressly provided in this Article, if a Change in Control shall have occurred, the Eligible Person shall be presumed to be entitled to indemnification (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with the Supporting Documentation in accordance with subsection (a), and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under subsection (c) to determine entitlement shall not have been appointed or shall not have made a determination within sixty (60) days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Eligible Person shall be deemed to be, and shall be, entitled to indemnification and advancement of expenses unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of an Eligible Person to indemnification or create a presumption that the Eligible Person did not act in good faith and in a manner which the Eligible Person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal proceeding, that the Eligible Person had reasonable cause to believe that his or her conduct was unlawful.

(e) In the event that a determination is made that the Eligible Person is not entitled to indemnification (i) the Eligible Person shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Eligible Person's sole option, in (A) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (B) an arbitration to be conducted in Indianapolis, Indiana, by a single arbitrator pursuant to the rules of the American Arbitration Association; (ii) in any such judicial proceeding or arbitration the Eligible Person shall not be prejudiced by reason of the prior determination pursuant to this Section 6.4; and (iii) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Eligible Person is not entitled to indemnification but only with respect to actions or failures to act occurring prior to such Change in Control.

(f) If a determination shall have been made or deemed to have been made that the Eligible Person is entitled to indemnification, the Corporation shall be obligated to pay the amounts incurred by the Eligible Person within ten (10) days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. In the event that (A) any advancement of expenses is not timely made pursuant to Section 6.3 or (B) payment of indemnification is not made within ten (10) days after a determination of entitlement to indemnification has been made, the Eligible Person shall be



entitled to seek judicial enforcement of the Corporation's obligation, to pay to the Eligible Person such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the State of Indiana or any other court of competent jurisdiction, contesting the right of the Eligible Person to receive indemnification hereunder due to the occurrence of an event described in clause (i) or (ii) of this subsection (f) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(g) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 6.4 that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by the provisions of this Article.

(h) In the event that the Eligible Person seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of this Article, the Eligible Person shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation, against, any expenses actually and reasonably incurred by the Eligible Person if the Eligible Person prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Eligible Person is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Eligible Person in connection with such judicial adjudication or arbitration shall be prorated accordingly.

#### SECTION 6.5. Certain Definitions. For purposes of this Article:

(a) "Change in Control" means any of the following events: (i) the acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), other than (A) the Corporation, (B) any subsidiary of the Corporation, (C) any employee benefit plan or employee stock plan of the Corporation or a subsidiary of the Corporation or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (D) Lilly Endowment, Inc., of "beneficial ownership" as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15 percent or more of the shares of the Corporation's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board (or which would have such voting power but for the application of IC 23-1-42-1 through IC 23-1-42-11) ("Voting Stock"); (ii) the first day on which less than two-thirds of the total membership of the Board shall be Continuing Directors (as such term is defined in Article 13.(f) of the Articles of Incorporation); (iii) consummation of a merger, share exchange, or consolidation of the Corporation (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50 percent of the Voting Stock of the Corporation or such surviving entity immediately after such Transaction; or (iv) approval by the shareholders of the Corporation of a complete liquidation of the Corporation or a sale of disposition of all or substantially all the assets of the Corporation.

(b) "Disinterested Director" means a Director who is not or was not a party to the Proceeding in respect of which indemnification is sought by the Eligible Person.

(c) "Special Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent any other party to the Proceeding giving rise to a claim for indemnification under this Article. In addition, any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Eligible Person in an action to determine the Eligible Person's rights under this Article may not act as Special Counsel.

SECTION 6.6. Indemnification of Agents. Notwithstanding any other provisions of this Article, the Corporation may, consistent with the provisions of applicable law, indemnify any person other than a director, officer or employee of the Corporation who is or was an agent of the Corporation and who is or was involved in any manner (including, without limitation, as party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an agent of the Corporation or, at the request of the Corporation, a director, officer, partner, member, manager, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such person in connection with any such Proceeding, consistent with the provisions of applicable law.

SECTION 6.7. Effect of Amendment or Repeal. Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article shall adversely affect the rights of any Eligible Person under this Article (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Eligible Person.

SECTION 6.8. Severability. If any of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article (including, without limitation, all portions of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article (including, without limitation, all portions of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VII

Miscellaneous

SECTION 7.0. 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 7.1. 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 7.2. 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: (a) 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; (b) no provision of these By-laws incorporating a provision of Articles 9, 13 or 14 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; and (c) any amendment to Articles I and VI of these By-laws shall require the affirmative vote of a majority of (i) the actual number of directors elected and qualified, and (ii) the Continuing Directors, as defined in Article 13.(f) of the Articles of Incorporation.

\* \* \*

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
----- (Dollars and shares in millions except per-share data)				
<b>BASIC</b>				
Net income.....	\$ 827.7	\$ 666.2	\$1,634.5	\$1,511.7
Average number of common shares outstanding.....	1,077.1	1,081.3	1,077.6	1,082.4
Contingently issuable shares.....	-	-	.2	.3
Adjusted average shares.....	1,077.1	1,081.3	1,077.8	1,082.7
Basic earnings per share.....	\$ .77	\$ .62	\$ 1.52	\$ 1.40
=====				
<b>DILUTED</b>				
Net income.....	\$ 827.7	\$ 666.2	\$1,634.5	\$1,511.7
Average number of common shares outstanding.....	1,077.1	1,081.3	1,077.6	1,082.4
Incremental shares - stock options and contingently issuable shares.....	14.3	15.2	14.1	14.5
Adjusted average shares.....	1,091.4	1,096.5	1,091.7	1,096.9
Diluted earnings per share.....	\$ .76	\$ .61	\$ 1.50	\$ 1.38
=====				

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

ELI LILLY AND COMPANY AND SUBSIDIARIES  
(Dollars in millions)

	Six Months Ended June 30, 2001	2000	Years Ended December 31, 1999	1998	1997	1996
Consolidated pretax income from continuing operations before extraordinary item.....	\$2,095.5	\$3,858.7	\$3,245.4	\$2,665.0	\$2,901.1	\$ 2,131.3
Interest from continuing operations and other fixed charges.....	110.0	225.4	213.1	198.3	253.1	323.8
Less interest capitalized during the period from continuing operations.....	(28.2)	(43.1)	(29.3)	(17.0)	(20.4)	(35.8)
Earnings.....	\$2,177.3	\$4,041.0	\$3,429.2	\$2,846.3	\$3,133.8	\$ 2,419.3
Fixed charges /1/.....	\$ 110.0	\$ 225.4	\$ 213.2	\$ 200.5	\$ 256.8	\$ 328.5
Ratio of earnings to fixed charges.....	19.8	17.9	16.1	14.2	12.2	7.4

/1/ Fixed charges include interest from continuing operations for all years presented and preferred stock dividends for 1996 through 1999.

EXHIBIT 99. Cautionary Statement Under Private Securities  
Litigation Reform Act Of 1995 - "Safe Harbor" For  
Forward-Looking Disclosures

Certain forward-looking statements are included in this Form 10-Q and may be made by company spokespersons based on then-current expectations of management. All forward-looking statements made by the company are subject to risks and uncertainties. One can identify forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects," "believes," "anticipates" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the company's growth strategy, financial results, regulatory issues, status of product approvals, development programs, litigation and investigations.

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

- - Competitive factors, including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and new patented products or expanded indications for existing products introduced by competitors, which can lead to declining demand for the company's products.
- - Changes in inventory levels maintained by pharmaceutical wholesalers that can cause reported sales for a particular period to differ significantly from underlying prescriber demand.
- - Economic factors over which the company has no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas such as Latin America.
- - Governmental factors, including federal, state and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which the company's products are sold.
- - The difficulties and uncertainties inherent in new product development. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others.
- - Delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in lost market opportunity.
- - Regulatory issues concerning compliance with Current Good Manufacturing practice (cGMP) regulations for pharmaceutical products. In particular, as a result of observations noted by the FDA in two recent Lilly plant inspections, one of which resulted in a warning letter from the agency, the company is in the process of implementing comprehensive, company-wide improvements in its manufacturing quality operations to assure sustained compliance with current Good Manufacturing Practices (cGMP) regulations. The company is working closely with the FDA to implement the improvements and does not currently expect a material financial impact from the issues raised by the FDA or the cost of the improvements the company is implementing. However, the timing and nature of the resolution of the cGMP issues will depend on the company's ability to demonstrate to the satisfaction of the FDA the quality and reliability of its manufacturing controls and procedures. A failure to correct cGMP deficiencies to the satisfaction of the FDA could lead to product recalls and seizures, interruption of production, and the withholding of approvals of new drug applications pending resolution of the cGMP issues. Similar issues can arise with other companies that perform third-party manufacturing for Lilly.

- - Unexpected safety or efficacy concerns arising with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.
- - Legal factors including unanticipated litigation of product liability or other liability claims; antitrust litigation; environmental matters; and patent disputes with competitors that could preclude commercialization of products or negatively affect the profitability of existing products. In particular, see "Financial Expectations" under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of the expected impact of litigation involving the company's U.S. patents on Prozac.
- - Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits.
- - Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Emerging Issues Task Force which are adverse to the Company.
- - Internal factors such as changes in business strategies and the impact of restructurings and business combinations.

The company undertakes no duty to update forward-looking statements.