

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarter ended September 30, 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 October 31, 2001:

Class	Number of Shares Outstanding
Common	1,124,207,792

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Dollars in millions except per-share data)			
Net sales	\$2,874.4	\$2,811.9	\$8,713.6	\$7,884.5
Cost of sales	549.0	490.1	1,593.5	1,490.5
Research and development	566.0	506.1	1,645.2	1,473.4
Marketing and administrative	865.9	800.3	2,534.7	2,284.0
Acquired in-process technology	90.5	—	90.5	—
Asset impairment and other site charges	121.4	—	121.4	—
Interest expense	41.9	44.1	123.7	136.4
Other income— net	(75.6)	(27.1)	(206.2)	(374.8)
	2,159.1	1,813.5	5,902.8	5,009.5
Income before income taxes and extraordinary item	715.3	998.4	2,810.8	2,875.0
Income taxes	128.6	219.6	589.6	584.5
Income before extraordinary item	586.7	778.8	2,221.2	2,290.5
Extraordinary item, net of tax	(16.6)	—	(16.6)	—
Net income	\$ 570.1	\$ 778.8	\$2,204.6	\$2,290.5
Earnings per share – basic:				
Income before extraordinary item	\$.55	\$.72	\$ 2.06	\$ 2.12
Extraordinary item	(.02)	—	(.02)	—
Net income	\$.53	\$.72	\$ 2.04	\$ 2.12
Earnings per share – diluted:				
Income before extraordinary item	\$.54	\$.71	\$ 2.04	\$ 2.09
Extraordinary item	(.02)	—	(.02)	—
Net income	\$.52	\$.71	\$ 2.02	\$ 2.09
Dividends paid per share	\$.28	\$.26	\$.84	\$.78

CONSOLIDATED CONDENSED BALANCE SHEETS
ELI LILLY AND COMPANY AND SUBSIDIARIES

	September 30, 2001	December 31, 2000
(Dollars in millions)		
(Unaudited)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,646.3	\$ 4,114.9
Short-term investments	945.3	503.3
Accounts receivable, net of allowances for doubtful amounts of \$102.3 (2001) and \$115.3 (2000)	1,402.6	1,630.7
Other receivables	285.2	335.4
Inventories	1,052.0	883.1
Deferred income taxes	230.3	269.5
Prepaid expenses	415.2	206.1
TOTAL CURRENT ASSETS	6,976.9	7,943.0
OTHER ASSETS		
Prepaid pension	1,070.3	1,032.5
Investments	2,753.8	395.7
Sundry	1,189.7	1,143.0
	5,013.8	2,571.2
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	8,213.9	7,784.7
Less allowances for depreciation	(3,807.2)	(3,608.1)
	4,406.7	4,176.6
	\$16,397.4	\$14,690.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 438.4	\$ 184.3
Accounts payable	483.4	661.9
Employee compensation	327.5	468.3
Dividends payable	—	315.4
Income taxes payable	2,241.2	2,200.2
Other liabilities	1,292.7	1,130.6
TOTAL CURRENT LIABILITIES	4,783.2	4,960.7
LONG-TERM DEBT	3,153.9	2,633.7
OTHER NONCURRENT LIABILITIES	1,093.2	1,049.5
	4,247.1	3,683.2
COMMITMENTS AND CONTINGENCIES		
	—	—
SHAREHOLDERS' EQUITY		
Common stock	703.2	704.4
Additional paid-in capital	2,610.0	2,610.0
Retained earnings	7,587.0	6,223.2
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(126.0)	(135.0)
Accumulated other comprehensive loss	(663.6)	(611.2)
	7,475.6	6,156.4
Less cost of common stock in treasury	108.5	109.5
	7,367.1	6,046.9
	\$16,397.4	\$14,690.8

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Nine Months Ended September 30,	
	2001	2000
(Dollars in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,204.6	\$2,290.5
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(390.5)	206.2
Depreciation and amortization	377.3	359.9
Change in deferred taxes	246.4	(74.9)
Gain related to sale of Kinetra, net of tax	—	(214.4)
Acquired in-process technology, net of tax	58.8	—
Asset impairment and other site charges, net of tax	78.9	—
Other, net	5.5	84.3
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,581.0	2,651.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(570.6)	(433.0)
Purchase of investments	(2,743.8)	(1,484.5)
Proceeds from sale of investments	30.5	534.7
Purchase of in-process technology	(59.6)	—
Other, net	(136.1)	(96.9)
NET CASH USED FOR INVESTING ACTIVITIES	(3,479.6)	(1,479.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(905.4)	(845.0)
Purchase of common stock and other capital transactions	(421.5)	(754.2)
Issuances under stock plans	83.4	124.5
Net change in short-term borrowings	255.1	(191.4)
Net change in long-term debt	443.9	(23.9)
NET CASH USED FOR FINANCING ACTIVITIES	(544.5)	(1,690.0)
Effect of exchange rate changes on cash and cash equivalents	(25.5)	(66.1)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,468.6)	(584.2)
Cash and cash equivalents at January 1	4,114.9	3,700.4
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	\$2,646.3	\$3,116.2

See Notes to Consolidated Condensed Financial Statements.

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**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)**

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
(Dollars in millions)				
Net income	\$570.1	\$778.8	\$2,204.6	\$2,290.5
Other comprehensive gain (loss) ¹	71.6	(76.1)	(52.4)	(222.8)
Comprehensive income	\$641.7	\$702.7	\$2,152.2	\$2,067.7

¹ The significant components of other comprehensive gain (loss) were a gain of \$86.8 million and a loss of \$38.3 million from foreign currency translation adjustments for the three months and nine months ended September 30, 2001, respectively, as compared to losses of \$96.1 million and \$216.6 million for the three months and nine months ended September 30, 2000, respectively.

See Notes to Consolidated Condensed Financial Statements.

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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 \$53 million and \$47 million, respectively, for the three months ended September 30, 2001 and 2000 and \$148 million and \$127 million, respectively, for the nine months ended September 30, 2001 and 2000.

SALES BY PRODUCT CATEGORY

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
(Dollars in millions)				
Net sales—to unaffiliated customers				
Neurosciences	\$1,323.4	\$1,385.9	\$4,137.4	\$3,726.5
Endocrinology	792.8	669.6	2,306.7	1,893.4
Oncology	191.3	160.5	533.8	415.8
Animal health	177.5	164.4	497.7	471.1
Anti-infectives	162.5	194.4	550.7	648.6
Cardiovascular	137.2	137.9	429.6	445.0
Other pharmaceuticals	89.7	99.2	257.7	284.1
Net sales	\$2,874.4	\$2,811.9	\$8,713.6	\$7,884.5

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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 presentation 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

In February 2001, the company was notified that Zenith Goldline Pharmaceuticals, Inc. (Zenith) had submitted an Abbreviated New Drug Application (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 Dr. Reddy's Laboratories Ltd. (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 6, 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.

Several generic manufacturers have filed ANDAs for generic forms of Prozac® in various dosage forms, challenging the company's patents. On May 30, 2001, the Court of Appeals held the company's 2003 method of use patent was invalid. Generic fluoxetine entered the U.S. market in early August 2001, resulting in a substantial decline in Prozac sales. On October 16, 2001, the company filed for a review of the decision by the U.S. Supreme Court. Prozac sales in the U.S. have historically represented a significant portion of the company's overall sales, accounting for approximately 19 percent in the first six months of 2001.

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. A portion of the costs associated with defending and disposing of these suits is 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 coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

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The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately \$150.4 million at September 30, 2001. Estimated insurance recoverables of approximately \$62.2 million at September 30, 2001 have been reflected as assets in the consolidated balance sheet.

The company is nearing completion of an 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 5.5 million shares were repurchased during the first nine months of 2001, at a net cost of approximately \$422.5 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 4.3 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 September 30, 2001, written equity put options, purchased call options and other derivative contracts, which provide for purchase of a total of approximately 5.1 million shares, remain outstanding at prices ranging from \$74 to \$90 per share with expiration dates ranging from November 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.

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IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001 and effectively eliminates the pooling-of-interests method of accounting and further clarifies the recognition of intangible assets separately from goodwill.

SFAS No. 142 applies to all acquired intangible assets. Upon adoption, 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. 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 and does not expect that this statement will have a material impact on its consolidated financial position or results of operations.

On August 15, 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, which is adjusted to its present value each period. In addition, the companies must capitalize a corresponding amount by increasing the carrying amount of the related long-lived asset, which is depreciated over the useful life of the related asset. The company will adopt SFAS 143 on January 1, 2003 and does not expect that this statement will have a material impact on its consolidated financial position or results of operations.

On October 3, 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. This statement also requires expected future operating losses from discontinued operations to be recorded in the period in which the losses are incurred (rather than as of the date management commits to a formal plan to dispose of a segment, as presently required). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. The company will adopt SFAS 144 on January 1, 2002 and does not expect that this statement will have a material impact on its consolidated financial position or 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 trade and loan payables and receivables denominated in foreign currency. 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.

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

At September 30, 2001, the amount reflected in accumulated other comprehensive loss related to derivative financial instruments is not material. The company expects to reclassify approximately \$10.2 million of net gains on cash flow hedges from accumulated other comprehensive loss to earnings during the next twelve months.

UNUSUAL ITEMS

In the third quarter of 2001, the company entered into significant collaboration arrangements with two companies. In August, the company licensed Isis Pharmaceuticals, Inc.'s (Isis) non-small cell lung cancer treatment and entered into an agreement regarding an ongoing research collaboration. In September, the company entered into a collaboration with Bioprojet, Société Civile de Recherche (Bioprojet) to jointly develop and commercialize a vasopeptidase inhibitor (Fasidotril) for hypertension and chronic heart failure. These compounds are in the development phase (late Phase II / early Phase III clinical trials) and no alternative future uses were identified. As with many late Phase II / early Phase III compounds, launch of the products, if successful, is not expected in the near term. The company's charge for acquired in-process technology expense related to these arrangements totaled \$90.5 million.

The company periodically assesses its worldwide manufacturing capacity to maximize the efficiency of its worldwide manufacturing operations. As a result of this strategic review, the company recognized asset impairments and other site charges totaling \$121.4 million in the third quarter of 2001. The charges principally consist of impairments of facilities and equipment, which are expected to be disposed of or destroyed in 2002, termination of third party manufacturing arrangements, and a plant closure in Taiwan. The impairment charges were necessary to adjust the carrying value of certain assets to fair value. The fair values of the assets were estimated based upon anticipated future cash flows, discounted at a rate commensurate with the risk involved.

In the third quarter of 2001, the company repurchased certain debt due in 2006-2036, with interest rates higher than current prevailing rates. As a result of this debt repurchase, the company recognized an extraordinary charge of \$25.6 million (\$16.6 million net of income taxes).

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

Reported net income was \$570.1 million, or \$.52 per share, for the third quarter of 2001, compared with \$778.8 million, or \$.71 per share, for the third quarter of 2000, representing decreases in earnings and earnings per share of 27 percent. Reported net income was \$2.20 billion, or \$2.02 per share, for the first nine months of 2001, compared with \$2.29 billion, or \$2.09 per share, for the first nine months of 2000, representing decreases of 4 percent and 3 percent, respectively.

Comparisons between years for both the three and nine month periods are made difficult by the impact of several unusual items that are reflected in the company's operating results in the third quarter of 2001 and the first quarter of 2000. Excluding these unusual items, which are discussed further below, net income for the three and nine month periods ended September 30, 2001, would have been \$723.2 million and \$2.36 billion, or \$.66 and \$2.16 per share, respectively, while net income for the nine month period of 2000, would have been \$2.14 billion, or \$1.95 per share. Adjusted for these unusual items, net income and earnings per share for the third quarter of 2001 decreased 7 percent and net income and earnings per share for the first nine months of 2001 increased 10 and 11 percent, respectively.

Adjusted net income for the third quarter and nine month period was favorably affected by increased sales and increased interest income. The decrease in net income and earnings per share in the third quarter was due primarily to a decline in gross margins from lower Prozac sales and operating expenses (as defined below) growing at a greater rate than sales in order to support the company's growth products and upcoming product launches. Earnings per share for the nine month period benefited slightly from a lower number of shares outstanding resulting from the company's share repurchase programs.

As noted above, several unusual items are reflected in the company's operating results for the third quarter of 2001 and 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's charge for acquired in-process technology expense related to the collaboration arrangements with Isis and Bioprojet in the third quarter of 2001 totaled \$90.5 million, which decreased earnings per share by approximately \$.05 in the third quarter of 2001.
- The company recognized asset impairments and other site charges totaling \$121.4 million in the third quarter of 2001 due to actions taken as a result of the recent assessment of its worldwide manufacturing capacity, which decreased earnings per share by approximately \$.07 in the third quarter of 2001.
- The company recognized an extraordinary charge of \$25.6 million (\$16.6 million net of income taxes) from the repurchase of higher interest rate debt, which decreased earnings per share by approximately \$.02 in the third quarter of 2001.
- 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.

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The company's sales for the third quarter of 2001 increased 2 percent, to \$2.87 billion, compared with the third quarter of 2000. This significant slowing of sales growth was primarily the result of the entrance of generic fluoxetine in the U.S. in early August 2001. Excluding daily Prozac, the company's worldwide sales increased 15 percent. Sales growth was led by Zyprexa, Evista®, Gemzar®, and the diabetes care products. The sales growth of these products was offset by lower sales of Prozac and anti-infectives. Sales in the U.S. remained flat at \$1.86 billion for the third quarter of 2001, compared with the third quarter of 2000. Increases in sales in the U.S. of Zyprexa, Gemzar, Evista, and diabetes care products were offset by a 43 percent decrease in Prozac sales. Sales outside the U.S. increased 7 percent, to \$1.01 billion, for the third quarter of 2001, compared with the third quarter of 2000. Worldwide sales for the third quarter reflected volume growth of 3 percent and a 2 percent increase in global selling prices, partially offset by an unfavorable exchange rate impact of 2 percent (Numbers do not add due to rounding).

The company's reported sales for the first nine months of 2001 increased 11 percent, to \$8.71 billion, compared with the first nine months of 2000. Excluding daily Prozac, the company's worldwide sales increased 17 percent. Adjusting for the impact of year-2000-related wholesaler buying, worldwide sales increased 9 percent. Sales growth was led by Zyprexa, diabetes care products, Evista, and Gemzar, partially offset by the entrance of generic fluoxetine in the U.S. in early August 2001 and lower sales of anti-infectives. Reported sales in the U.S. increased 13 percent, to \$5.68 billion, for the nine month period of 2001 compared with the nine month period of 2000. Reported sales outside the U.S. increased 6 percent, to \$3.03 billion, for the nine month period of 2001, compared with the nine month period of 2000. Worldwide sales reflected volume growth of 12 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 \$812.5 million and \$2.19 billion for the third quarter and nine month period of 2001, respectively, representing increases of 26 percent and 32 percent, compared with the same periods of 2000. U.S. sales increased 22 percent, to \$577.9 million, for the quarter and 33 percent, to \$1.55 billion, for the nine month period. Zyprexa's sales continued to experience strong growth in the face of competition in the U.S. Sales outside the U.S. increased 38 percent, to \$234.6 million, for the quarter and 31 percent, to \$634.4 million, for the nine month period benefiting in part from the launch of Zyprexa in Japan during the second quarter of 2001. Adjusting for year-2000-related sales, worldwide Zyprexa sales grew by 31 percent for the first nine months of 2001.

Prozac, Prozac Weekly™, and Sarafem™ (collectively "Fluoxetine Product(s)") had combined reported worldwide sales of \$449.4 million and \$1.76 billion for the third quarter and nine month period of 2001, respectively, representing decreases of 34 percent and 7 percent, compared with the same periods of 2000. This decrease was primarily caused by the entrance of generic fluoxetine in the U.S. market in early August 2001. Fluoxetine Product sales in the U.S. decreased 38 percent, to \$371.5 million, for the quarter and 8 percent, to \$1.52 billion, for the nine month period. Sales outside the U.S. decreased 5 percent, to \$77.9 million, for the quarter and \$246.0 million, for the nine month period, primarily due to continuing generic competition. Adjusting for year-2000-related sales, worldwide Fluoxetine Product sales decreased by 8 percent for the nine month period. Reference is made to the discussion of the Prozac patent litigation under Part II, Item 1 of this Form 10-Q. 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 \$533.0 million and \$1.58 billion for the third quarter and nine month period of 2001, respectively, representing increases of 18 percent and 22 percent compared with the same periods of 2000. Diabetes care revenues in the U.S. increased 23 percent, to \$351.3 million, for the quarter and 30 percent, to \$1.02 billion, for the nine month period. Sales outside the U.S. increased 10 percent, to \$181.7 million, for the quarter and 9 percent, to \$554.3 million, for the nine month period. Worldwide Humulin sales of \$254.7 million and \$792.9 million decreased 10 percent and 3 percent for the quarter and nine month period due to the continued shift by patients to Humalog and Humalog mix products and to increased competition. Worldwide Humalog sales of \$164.3 million for the quarter and \$435.1 million for the nine month period increased 81 percent and 82 percent, respectively. The company received service revenues of \$94.5 million and \$293.2 million, respectively, for the third quarter and nine month period of 2001 representing increases of 54 percent and 64 percent relating to sales of Actos. The increase was driven by strong underlying Actos sales, as well as a periodic payment by Takeda Chemical Industries Ltd. (Takeda) to the company in the third quarter of 2001 for promotional activities. Actos is manufactured and sold in the U.S. by Takeda, and is copromoted by Takeda and the company. Adjusting for year-2000-related sales, worldwide diabetes care revenues grew by 20 percent for the nine month period.

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Gemzar had worldwide sales of \$187.0 million and \$521.9 million for the third quarter and nine month period of 2001, respectively, representing increases of 21 and 31 percent, compared with the same periods of 2000. Sales in the U.S. increased 18 percent, to \$109.7 million, for the quarter and 36 percent, to \$300.0 million, for the nine month period. Sales outside the U.S. increased 24 percent for both the third quarter and nine month period, to \$77.3 million and \$221.9 million, respectively. Adjusting for year-2000-related sales, worldwide Gemzar sales grew by 30 percent for the nine month period.

Evista had worldwide sales of \$183.1 million and \$499.1 million for the third quarter and nine month period of 2001, respectively, representing increases of 29 percent and 33 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 25 percent, to \$149.1 million, for the quarter and 28 percent, to \$402.3 million, for the nine month period. Sales outside the U.S. increased 53 percent, to \$34.0 million, for the quarter and 58 percent, to \$96.8 million, for the nine month period.

ReoPro® had worldwide sales of \$105.1 million and \$325.9 million, for the third quarter and nine month period of 2001, respectively, representing increases of 8 percent and 4 percent compared with the same periods of 2000.

Anti-infectives had worldwide sales of \$162.5 million and \$550.7 million, for the third quarter and nine 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 19 percent and 33 percent for the quarter and nine month period, respectively. Sales outside the U.S. decreased 16 percent for the quarter and 11 percent for the nine month period. Cefaclor and Keflex[®] accounted for the majority of the decline in anti-infective sales.

For the third quarter of 2001, gross margins decreased to 80.9 percent of sales, compared with 82.6 percent for the third quarter of 2000. For the nine month period of 2001, gross margins improved to 81.7 percent of sales, compared with 81.1 percent for the nine month period of 2000. During the quarter and nine 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. However, the decline in sales of Prozac, a higher-margin product, in the third quarter of 2001 contributed to the decreased gross margin percentage in the quarter.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 10 percent for the third quarter and 11 percent for the nine month period of 2001, compared to the same periods of 2000. Investment in research and development increased 12 percent for both the third quarter and nine month period, to \$566.0 million and \$1.65 billion, respectively, as the company continued to invest in its internal pipeline. In addition, the company recorded \$90.5 million in acquired in-process technology charges in connection with its collaborations with Isis and Bioprojet during the third quarter of 2001. Marketing and administrative expenses increased 8 percent from the third quarter of 2000 and 11 percent from the nine month period of 2000 primarily due to worldwide sales force expansion in support of the company's growth products and upcoming product launches.

Net other income for the third quarter of 2001 increased \$48.5 million, to \$75.6 million primarily due to investment losses in the third quarter of 2000. Net other income for the nine month period of 2001 increased \$44.8 million, to \$206.2 million, excluding the first quarter 2000 gain on the sale of Kinetra LLC.

For the third quarter of 2001, the effective tax rate was 18.0 percent compared with 22.0 percent for the third quarter of 2000. The effective tax rate for the nine month period of 2001 was 21.0 percent compared with 20.3 percent for the nine month period of 2000. Excluding the impact of the unusual items discussed previously, the effective tax rate would have been 22.0 percent for all periods presented.

FINANCIAL CONDITION

As of September 30, 2001, cash, cash equivalents and short-term investments totaled \$3.59 billion as compared with \$4.62 billion at December 31, 2000. Investments as of September 30, 2001 totaled \$2.75 billion compared to \$395.7 million at December 31, 2000. Cash flow from operations of \$2.58 billion and net cash from issuance of debt of \$699.0 million as described further below were offset by purchase of long-term investments of \$2.75 billion, dividends paid of \$905.4 million, net capital expenditures of \$570.6 million, and shares repurchased and other capital transactions of \$421.5 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 September 30, 2001, was \$3.59 billion, an increase of \$774.3 million from December 31, 2000, primarily due to the issuance of \$250 million of 4.25 percent one-year resettable notes in March 2001, \$250 million of 30-year debt in May 2001, and \$400 million of 5.5 percent five-year notes in July, 2001. This issuance of debt was partially offset by the repurchase of \$200.9 million of higher interest rate debt which resulted in an extraordinary charge of \$25.6 million (\$16.6 million net of income taxes) in the third quarter of 2001.

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

On October 29, 2001, the company received a "complete response" letter from the FDA in connection with the company's pending application for the use of Xigris[™] as a treatment for severe sepsis. The "complete response" letter stated that approval is contingent upon successful negotiation of labeling (including the scope of the indication), agreement on post-approval clinical trials and successful completion of manufacturing inspections.

On October 6, 2001, the company received an approvable letter from the FDA for the use of Fortéo[™] in postmenopausal women and men with osteoporosis. Approval is contingent upon labeling negotiations, agreement on measures to ensure appropriate use of the product and successful completion of manufacturing inspections.

As a result of observations noted by the FDA in two Lilly plant inspections in early 2001, one of which resulted in a warning letter from the agency, the company has been 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 Xigris, 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 Xigris. 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.

FINANCIAL EXPECTATIONS

As noted above, in early August 2001, generic fluoxetine was introduced into the U.S. market. This has resulted in a very steep decline in Prozac sales and further declines are expected. Prozac sales in the U.S. have historically represented a significant portion of the company's overall sales, accounting for approximately 19 percent in the first six months of 2001. While the Prozac decline is expected to significantly affect results of operations for the twelve months following August 2001, it is not expected to have a material adverse impact on the company's consolidated financial position or liquidity.

The company currently expects single-digit sales growth for 2001 and 2002. Also, excluding unusual items, the company currently expects earnings per share to be \$.59 to \$.61 in the fourth quarter of 2001, \$2.75 to \$2.77 for the full year 2001, and \$2.70 to \$2.80 for 2002. For 2003, the company is targeting high-teen earnings-per-share growth excluding unusual items.

The company will record a one-time charge of approximately \$100 million in the fourth quarter of 2001 for acquired in-process technology associated with the Phase III compound resiquimod, a potential treatment for genital herpes, licensed from Minnesota Mining & Manufacturing Company. This one-time charge is excluded from the normalized earnings-per-share expectations of \$.59 to \$.61 for the fourth quarter of 2001.

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 and scope 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

PROZAC PATENT LITIGATION

Several generic manufacturers have filed ANDAs for generic forms of Prozac in various dosage forms, challenging the company's patents. On May 30, 2001, the Court of Appeals for the Federal Circuit held that the company's 2003 method of use patent was invalid. Generic fluoxetine entered the U.S. market in early August 2001. On October 16, 2001, the company filed a petition for a writ of certiorari seeking review of the decision by the U.S. Supreme Court. Such certiorari petitions are rarely granted in patent cases. Further, even if the petition is granted, there is no assurance that the case would be overturned.

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 6, 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.

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.

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Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 10.1	1994 Lilly Stock Plan, as amended
EXHIBIT 10.2	1998 Lilly Stock Plan, as amended
EXHIBIT 10.3	Change in Control Severance Pay Plan for Select Employees, as amended
EXHIBIT 10.4	Letter agreement dated September 17, 2001 between the company and Sidney Taurel, Chairman, President, and Chief Executive Officer, concerning Mr. Taurel's request that his base salary for 2002 be reduced to \$1.00
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 percent notes due 2006.

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SIGNATURES

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

ELI LILLY AND COMPANY
(Registrant)

Date: November 12, 2001

/s/ Rebecca O. Kendall

Rebecca O. Kendall
Senior Vice President and
General Counsel

Date: November 12, 2001

/s/ Arnold C. Hanish

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

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1994
LILLY STOCK PLAN,
as amended through
October 15, 2001

The 1994 Lilly Stock Plan ("1994 Plan") authorizes the Compensation and Management Development Committee ("Committee") to provide officers and other key executive, management, professional, and administrative employees of Eli Lilly and Company and its subsidiaries with certain rights to acquire shares of Eli Lilly and Company common stock ("Lilly Stock"). The Company believes that this incentive program will benefit the Company's shareholders by allowing the Company to attract, motivate, and retain key employees and by causing those employees, through stock-based incentives, to contribute materially to the growth and success of the Company. For purposes of the 1994 Plan, the term "Company" shall mean Eli Lilly and Company and its subsidiaries, unless the context requires otherwise.

1. Administration.

The 1994 Plan shall be administered and interpreted by the Committee consisting of not less than three persons appointed by the Board of Directors of the Company from among its members. A person may serve on the Committee only if he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Committee shall determine the fair market value of Lilly Stock for purposes of the 1994 Plan. The Committee may, subject to the provisions of the 1994 Plan, from time to time establish such rules and regulations and delegate such authority to administer the 1994 Plan as it deems appropriate for the proper administration of the Plan. The decisions of the Committee or its authorized delegates shall be final, conclusive, and binding with respect to the interpretation and administration of the 1994 Plan and any Grant made under it.

2. Grants.

Incentives under the 1994 Plan shall consist of incentive stock options, nonqualified stock options, performance awards, and restricted stock grants (collectively, "Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with the 1994 Plan as the Committee deems appropriate. The Committee shall approve the form and provisions of each Grant. Grants under a particular section of the 1994 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

3. Eligibility for Grants.

Grants may be made to any employee of the Company who is an officer or other key executive, managerial, professional, or administrative employee, including a person who is also a member of the Board of Directors ("Eligible Employee"). The Committee shall select the

persons to receive Grants ("Grantees") from among the Eligible Employees and determine the number of shares subject to any particular Grant.

4. Shares Available for Grant.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 1994 Plan is 25,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 25,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants. Payment in cash in lieu of shares shall be deemed to be an issuance of the shares for purposes of determining the number of shares available for Grants under the 1994 Plan as a whole or to any individual Grantee.

(b) Adjustment Provisions. If any subdivision or combination of shares of Lilly Stock or any stock dividend, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off or other extraordinary distribution, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Sections 4(a), 5(f), and 6(f). The Committee shall also adjust as it determines appropriate the number of shares and Option Price in outstanding Grants made before the event.

5. Stock Options.

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

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

(b) Option Exercise Period. The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date.

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

(d) Satisfaction of Option Price. A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within

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

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

(f) Limits on Individual Grants. No individual Grantee may be granted Stock Options under the 1994 Plan for more than 1,500,000 shares of Lilly Stock in any three consecutive calendar years.

(g) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1994 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed \$100,000. The aggregate fair market value will be determined at the Grant Date. An Incentive Stock Option shall not be granted to any Eligible Employee who, on the Grant Date, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company.

6. Performance Awards.

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

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

(b) Performance Goals and Payment. Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, are limited to earnings per share, divisional income, net income, or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Committee). The Committee shall also set forth in the Grant the number of Performance Shares or the amount of payment to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)).

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

(d) Revisions for Significant Events. At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur during an Award Period which have a substantial effect on the Performance Goals and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made; provided, however, that no such revision shall be made with respect to a Performance Award to the extent that the Committee determines the revision would cause payment under the Award to fail to be fully deductible by the Company under Section 162 (m) of the Code.

(e) Requirement of Employment. To be entitled to receive payment under a Performance Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable in its sole discretion.

(f) Maximum Payment. No individual may receive Performance Award payments in respect of Stock Performance Awards in excess of 60,000 shares of Lilly Stock in any calendar year or payments in respect of Dollar Performance Awards in excess of \$2,000,000 in any calendar year. No individual may receive both a Stock Performance Award and a Dollar Performance Award for the same Award Period.

7. Restricted Stock Grants.

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

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

(b) Restrictions on Transfer. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall be held in escrow by the Company until the expiration of the Restriction Period.

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

(d) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse (i) upon the expiration of the Restriction Period if all conditions stated in Sections 7(a), (b) and (c) have been met or (ii) as provided under Section 9(a)(ii). The Grantee shall then be entitled to delivery of the certificate.

8. Amendment and Termination of the 1994 Plan.

(a) Amendment. The Company's Board of Directors may amend or terminate the 1994 Plan, but no amendment shall withdraw from the Committee the right to select Grantees under Section 3.

(b) Termination of 1994 Plan. The 1994 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board or unless extended by the Board.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the 1994 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 10(e). The termination of the 1994 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 1994 Plan has terminated, an outstanding Grant may be terminated or amended under Section 10(e) or may be amended (i) by agreement of the Company and the Grantee consistent with the 1994 Plan or (ii) by action of the Committee

provided that the amendment is consistent with the 1994 Plan and is found by the Committee not to impair the rights of the Grantee under the Grant.

9. Change in Control.

(a) Effect on Grants. Unless the Committee shall otherwise expressly provide in the agreement relating to a Grant, upon the occurrence of a Change in Control (as defined below):

(i) In the case of Stock Options, (y) each outstanding Stock Option that is not then fully exercisable shall automatically become fully exercisable until the termination of the option exercise period of the Stock Option (as modified by subsection (i)(z) that follows), and (z) in the event the Grantee's employment is terminated within two years after a Change in Control, his or her outstanding Stock Options at that date of termination shall be immediately exercisable for a period of three months following such termination, provided, however, that, to the extent the Stock Option by its terms otherwise permits a longer option exercise period after such termination, such longer period shall govern, and provided further that in no event shall a Stock Option be exercisable more than 10 years after the Grant Date;

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

(iii) Each Grantee of a Performance Award for an Award Period that has not been completed at the time of the Change in Control shall be deemed to have earned a minimum Performance Award equal to the product of (y) such Grantee's maximum award opportunity for such Performance Award, and (z) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of such Award Period to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Award Period.

(b) Change in Control. For purposes of the 1994 Plan, a Change in Control shall mean the happening of any of the following events:

(i) The acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the 1934 Act (other than (w) the Company, (x) any subsidiary of the Company, (y) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (z) Lilly Endowment, Inc.,) of "beneficial ownership," as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15% or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of the Company (or which would have such voting power but for the application of the Indiana Control Share Statute) ("Voting Stock"); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control;

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

(iii) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the Voting Stock of the Company or such surviving entity immediately after such Transaction; or

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

10. General Provisions.

(a) Prohibitions Against Transfer. (i) Except as provided in part (ii) of this subparagraph, only a Grantee or his or her authorized legal representative may exercise rights under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether voluntary, involuntary, or by operation of law, and any such attempted disposition shall be void; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the 1994 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

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

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, performance award, or restricted stock grant granted by such other corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions that would otherwise be required by the 1994 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where possible the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) Subsidiaries. The term "subsidiary" means a corporation of which Eli Lilly and Company owns directly or indirectly 50% or more of the voting power.

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

(e) Compliance with Law. The 1994 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and regulations and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory law or government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

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

(g) No Right to Employment. The 1994 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time, with or without notice or cause.

(h) Foreign Jurisdictions. The Committee may adopt, amend, and terminate such arrangements and make such Grants, not inconsistent with the intent of the 1994 Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign jurisdictions to Grantees who are subject to such laws. The terms and conditions of such foreign Grants may vary from the terms and conditions that would otherwise be required by the 1994 Plan.

(i) Governing Law. The 1994 Plan and all Grants made under it shall be governed by and interpreted in accordance with the laws of the State of Indiana, regardless of the laws that might otherwise govern under applicable Indiana conflict-of-laws principles.

(j) Effective Date of the 1994 Plan. The 1994 Plan shall become effective upon its approval by the Company's shareholders at the annual meeting to be held on April 18, 1994, or any adjournment of the meeting.

* * *

1998
LILLY STOCK PLAN
As amended and restated effective October 15, 2001

The 1998 Lilly Stock Plan ("1998 Plan") authorizes the Board of Directors of Eli Lilly and Company ("Board") and the Compensation Committee of the Board ("Committee"), as applicable, to provide officers and other employees of Eli Lilly and Company and its subsidiaries and Nonemployee directors of Eli Lilly and Company ("Non-employee Directors") with certain rights to acquire shares of Eli Lilly and Company common stock ("Lilly Stock"). The Company believes that this incentive program will benefit the Company's shareholders by allowing the Company to attract, motivate, and retain employees and directors and by providing those employees and directors stock-based incentives to strengthen the alignment of interests between those persons and the shareholders. For purposes of the 1998 Plan, the term "Company" shall mean Eli Lilly and Company and its subsidiaries, unless the context requires otherwise.

1. Administration.

(a) Grants to Eligible Employees. With respect to Grants to Eligible Employees (as those terms are defined in Sections 2 and 3(a), respectively), the 1998 Plan shall be administered and interpreted by the Committee consisting of not less than two persons appointed by the Board from among its members. A person may serve on the Committee for purposes of administration and interpretation of the 1998 Plan only if he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Committee shall determine the fair market value of Lilly Stock for purposes of the 1998 Plan. The Committee may, subject to the provisions of the 1998 Plan, from time to time establish such rules and regulations and delegate such authority to administer the 1998 Plan as it deems appropriate for the proper administration of the Plan, except that no such delegation shall be made in the case of awards intended to be qualified under Section 162(m) of the Code. The decisions of the Committee or its authorized delegates shall be final, conclusive, and binding with respect to the interpretation and administration of the 1998 Plan and any Grant made under it.

(b) Grants to Nonemployee Directors. With respect to Stock Option Grants made to Nonemployee Directors pursuant to Section 8, the Board shall serve to administer and interpret the 1998 Plan and any such Grants, and all duties, powers and authority given to the Committee in subsection (a) above or elsewhere in the 1998 Plan in connection with Grants to Eligible Employees shall be deemed to be given to the Board in connection with Stock Option Grants to Nonemployee Directors.

2. Grants.

Incentives under the 1998 Plan shall consist of incentive stock options or other forms of tax-qualified stock options under the Code, nonqualified stock options, performance awards, and restricted stock grants (collectively, "Grants"). The Committee shall approve the form and provisions of each Grant to Eligible Employees and the Board shall approve the form and

provisions of each Stock Option Grant to Nonemployee Directors. All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with the 1998 Plan as the Committee or Board, as applicable, deems appropriate. Grants under a particular section of the 1998 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

3. Eligibility for Grants.

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

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

4. Shares Available for Grant.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 1998 Plan is 55,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 55,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants.

(b) Adjustment Provisions. If any subdivision or combination of shares of Lilly Stock or any stock dividend, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off or other extraordinary distribution, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Sections 4(a), 5(f), 6(f), and 7(e). The Committee shall also adjust as it determines appropriate the number of shares and Option Price in outstanding Grants made before the event.

5. Stock Option Grants to Eligible Employees.

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

(a) Option Price. The Committee shall determine the price or prices at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") which shall be not less

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

(b) Option Exercise Period. The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date.

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

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

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

(f) Limits on Individual Grants. No individual Grantee may be granted Stock Options under the 1998 Plan for more than 1,500,000 shares of Lilly Stock in any period of three consecutive calendar years.

(g) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1998 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed \$100,000. The aggregate fair market value will be determined at the Grant Date. An Incentive Stock Option shall not be granted to any Eligible Employee who, on the Grant Date, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company.

6. Performance Awards to Eligible Employees.

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

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

(b) Performance Goals and Payment. Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, are limited to earnings per share; divisional income; net income; return on equity; economic value added (EVA); market value added (MVA); any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Committee at or within 90 days after the time of grant); total shareholder return; or stock price goals. The Committee shall also set forth in the Grant the number of Performance Shares or the amount of payment to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)).

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

(d) Revisions for Significant Events. At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unusual events occur during an Award Period which have a substantial effect on the Performance Goals and

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

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

(f) Maximum Payments. (i) No individual may receive Performance Award payments in respect of Stock Performance Awards in excess of 100,000 shares of Lilly Stock in any calendar year or payments in respect of Dollar Performance Awards in excess of \$4,000,000 in any calendar year. For purposes of determining the maximum payment under this subsection, payment in cash of all or part of a Stock Performance Award will be deemed an issuance of the number of shares with respect to which such cash payment is made. No individual may receive both a Stock Performance Award and a Dollar Performance Award for the same Award Period.

(ii) Not more than 18,000,000 shares of Lilly Stock may be issued or transferred under the 1998 Plan in the form of Performance Awards.

7. Restricted Stock Grants to Eligible Employees.

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

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

(b) Restrictions on Transfer. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall be held in escrow by the Company until the expiration of the Restriction Period.

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

(d) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse (i) upon the expiration of the Restriction Period if all conditions stated in Sections 7(a), (b) and (c) have been met or (ii) as provided under Section 9(a)(ii). The Grantee shall then be entitled to delivery of the certificate.

(e) Total Number of Shares Granted. Not more than 2,000,000 shares of Lilly Stock may be issued or transferred under the 1998 Plan in the form of Restricted Stock Grants.

8. Stock Option Grants to Nonemployee Directors

The Board may grant Stock Options to Nonemployee Directors pursuant to the following provisions:

(a) Option Price. The Board shall determine the price or prices at which Lilly Stock may be purchased by the Nonemployee Director under a Stock Option ("Option Price") which shall be not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Board's discretion, the Grant Date of a Stock Option may be established as the date on which Board action approving the Stock Option is taken or any later date specified by the Board. Once established, the Option Price may not be reduced except in the case of adjustments under Section 3(b).

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

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

(d) Satisfaction of Option Price. A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within

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

9. Amendment and Termination of the 1998 Plan.

(a) Amendment. The Board may amend or terminate the 1998 Plan, but no amendment shall (i) allow the repricing of Stock Options; (ii) allow the grant of Stock Options at an Option Price below the fair market value of Lilly Stock on the Grant Date; (iii) increase the number of shares authorized for issuance or transfer pursuant to Sections 4(a), 6(f)(ii), or 7(e); or (iv) increase the maximum limitations on Grants imposed under Sections 5(f) or 6(f)(i), unless in any case such amendment receives approval of the shareholders of the Company.

(b) Termination of 1998 Plan. The 1998 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the 1998 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 11(e). The termination of the 1998 Plan shall not impair the power and authority of the Committee or its delegates with respect to outstanding Grants. Whether or not the 1998 Plan has terminated, an outstanding Grant may be terminated or amended under Section 11(e) or may be amended (i) by agreement of the Company and the Grantee consistent with the 1998 Plan or (ii) by action of the Committee provided that the amendment is consistent with the 1998 Plan and is found by the Committee not to impair the rights of the Grantee under the Grant.

10. Change in Control.

(a) Effect on Grants. Unless the Committee shall otherwise expressly provide in the agreement relating to a Grant, upon the occurrence of a Change in Control (as defined below):

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

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

(iii) Each Grantee of a Performance Award for an Award Period that has not been completed at the time of the Change in Control shall be deemed to have earned a minimum

Performance Award equal to the product of (y) such Grantee's maximum award opportunity for such Performance Award, and (z) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of such Award Period to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Award Period; provided, however, that nothing in this subsection shall prejudice the right of the Grantee to receive a larger payment under such Performance Award pursuant to the terms of the Award or under any other plan of the Company.

(b) Change in Control. For purposes of the 1998 Plan, a Change in Control shall mean the happening of any of the following events:

(i) The acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the 1934 Act (other than (w) the Company, (x) any subsidiary of the Company, (y) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (z) Lilly Endowment, Inc.,) of "beneficial ownership," as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15% or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of the Company (or which would have such voting power but for the application of the Indiana Control Share Statute) ("Voting Stock"); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control;

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

(iii) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the Voting Stock of the Company or such surviving entity immediately after such Transaction; or

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

11. General Provisions.

(a) Prohibitions Against Transfer. (i) Except as provided in part (ii) of this subparagraph, only a Grantee or his or her authorized legal representative may exercise rights under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether voluntary, involuntary, or by operation of law, and any such attempted disposition shall be void; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the 1998 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the

Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

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

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, performance award, or restricted stock grant granted by such other corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions that would otherwise be required by the 1998 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where practical the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

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

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

(e) Compliance with Law. The 1998 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and regulations and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory law or government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

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

(g) No Right to Employment or to Future Grants. The 1998 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or as a member of the Board or affect in any way (i) the right of the Company to terminate the employment of a Grantee at any time, with or without notice or cause, or (ii) any right of the

Company or its shareholders to terminate the Grantee's service on the Board. The receipt of one or more Grants by a Grantee shall not confer upon the Grantee any rights to future Grants.

(h) Foreign Jurisdictions. The Committee may adopt, amend, and terminate such arrangements and make such Grants, not inconsistent with the intent of the 1998 Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign jurisdictions to Grantees who are subject to such laws. The terms and conditions of such foreign Grants may vary from the terms and conditions that would otherwise be required by the 1998 Plan.

(i) Governing Law. The 1998 Plan and all Grants made under it shall be governed by and interpreted in accordance with the laws of the State of Indiana, regardless of the laws that might otherwise govern under applicable Indiana conflict-of-laws principles.

(j) Effective Date of the 1998 Plan. The 1998 Plan was originally effective on April 20, 1998. As amended and restated, the 1998 Plan is effective on October 15, 2001.

* * *

ELI LILLY AND COMPANY

CHANGE IN CONTROL SEVERANCE PAY PLAN
FOR SELECT EMPLOYEES

(amended and restated effective October 15, 2001)

1. PURPOSE

This Eli Lilly and Company Change in Control Severance Pay Plan For Select Employees has been established by the Company to provide for the payment of severance pay and benefits to Eligible Employees whose employment with a Participating Employer terminates due to certain conditions created by a Change in Control of the Company. The purpose of the Plan is to assure a continuity in operations of the Company during a period of Change in Control by allowing employees to focus on their responsibilities to the Company knowing that they have certain financial security in the event of their termination of employment. The accomplishment of this purpose is in the best interests of the Company and its shareholders. The Plan was originally adopted by the Board on March 1, 1995, and has been amended and restated by action of the Board effective as of October 15, 2001.

2. DEFINITIONS

The terms defined in this Section 2 shall have the meanings given below:

- (a) "Annual Base Salary" means the amount of the Eligible Employee's Monthly Base Salary multiplied by twelve (12).
- (b) "Board" means the Board of Directors of the Company.
- (c) "Change in Control" has the meaning given in Section 3.
- (d) "Code" means the Internal Revenue Code of 1986, as amended.
- (e) "Committee" means the Compensation Committee of the Board, or such other committee appointed by the Board to perform the functions of the Committee under the Plan, provided that at all times the Committee shall be constituted solely of directors who are Continuing Directors (as defined in Section 3) to the extent any such directors remain on the Board and are willing to serve in such capacity.
- (f) "Covered Termination" has the meaning given in Section 6.
- (g) "Company" means Eli Lilly and Company, an Indiana corporation.

- (h) "Eligible Employee" means a Tier I Employee or a Tier II Employee.
- (i) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (k) "EVA Plan" means the Eli Lilly and Company EVA Bonus Plan, as in effect from time to time, or any similar bonus plan adopted by the Board.
- (l) "Monthly Base Salary" means an Eligible Employee's gross monthly base salary before any deductions, exclusions or any deferrals or contributions under any Participating Employer plan or program, but excluding bonuses, incentive awards or compensation, employee benefits or any other non-salary form of compensation.
- (m) "Participating Employer" has the meaning given in Section 4.
- (n) "Plan" means this Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees.
- (o) "Severance Multiple" means the number of years represented by the Severance Period for the Eligible Employee.
- (p) "Severance Period" means (i) in the case of Tier I Employees, the three (3) year period immediately following a Covered Termination and (ii) in the case of Tier II Employees, the two (2) year period immediately following a Covered Termination.
- (q) "Tier I Employees" and "Tier II Employees" have the meanings given in Section 5.

3. CHANGE IN CONTROL

For purposes of the Plan, a "Change in Control" of the Company shall be deemed to have occurred upon:

(a) the acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the Exchange Act (other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (iv) Lilly Endowment, Inc.) of "beneficial ownership," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of 15% or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board (or which would have such voting power but for the application of the Indiana Control Shares Statute) ("Voting Stock"); provided, however,

 that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control under this Section 3(a);

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

(c) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the Voting Stock of the Company or such surviving entity immediately after such Transaction;

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

(e) either (i) the Company shall have entered into a definitive agreement with any Person, which, if consummated, would result in a Change in Control as specified in paragraphs (a) through (d) of this Section 3 or (ii) any Person initiates a tender offer or exchange offer to acquire shares of the Voting Stock which, if consummated, would result in a Change in Control as specified in paragraphs (a) through (d) of this Section 3; provided, however, that if the Board shall make a final determination that

such agreement, tender offer or exchange offer will not be consummated, the occurrence of any such event shall cease to constitute a Change in Control and the termination of employment of an Eligible Employee after such determination shall not be treated as a Covered Termination on the basis of such event; or

(f) the Board adopts a resolution to the effect that any Person has taken actions which, if consummated, would result in its having acquired effective control of the business and affairs of the Company; provided,

however, that if the Board shall make a final determination that such

actions will not be consummated, the occurrence of any such event shall cease to constitute a Change in Control and the termination of employment of an Eligible Employee after such determination shall not be treated as a Covered Termination on the basis of such event.

For purposes of this Section 3 only, the term "subsidiary" means a corporation or limited liability company of which the Company owns directly or indirectly fifty (50) percent or more of the voting power.

4. PARTICIPATING EMPLOYERS

A. Designation of Participating Employers. The Company and each subsidiary corporation of which the Company owns directly or indirectly one-hundred (100) percent of the voting power at the time of the Change in Control shall be Participating Employers under the Plan. In addition, the Committee may designate other affiliates of the Company as Participating Employers under the

Plan, from time to time and under such terms and conditions, as shall be specified by an action in writing by the Committee. Such terms and conditions may impose limitations on the extent to which any such affiliate participates in the Plan (including but not limited to the duration of any such participation), but shall not provide rights or benefits to Eligible Employees that are broader than those set forth in the Plan. Any entity that is a Participating Employer at the time of a Change in Control shall continue to be a Participating Employer following a Change in Control, and any person, firm or business that is a successor to the business or interests of a Participating Employer following a Change in Control shall be treated as a Participating Employer under the Plan.

B. Limitations in Foreign Jurisdictions. Notwithstanding the foregoing or anything elsewhere in the Plan to the contrary, the Committee shall have the discretionary authority, as specified below, to exclude from participation or limit the participation of any Participating Employer with respect to its Eligible Employees employed outside of the United States. The Committee shall exercise this authority only by an action in writing taken prior to a Change in Control on the basis of a good faith determination that, as a result of the specific effect of applicable local law or practice with respect to the Plan, it would be in the best interests of the Company to so exclude or limit such participation. In addition, to the extent specified by an action in writing prior to a Change in Control, the Committee may offset the benefits provided under the Plan to any such Eligible Employee by benefits under severance arrangements that exist by reason of applicable local law or practice.

5. ELIGIBLE EMPLOYEES

The following individuals shall be eligible to participate in the Plan and shall be considered an Eligible Employee for all purposes hereunder:

(i) "Tier I Employees" - the Chief Executive Officer of the Company

immediately prior to the Change in Control, and all members of the Senior Management Forum (or a successor committee) of the Company appointed by the Chief Executive Officer, as constituted immediately prior to the Change in Control; and

(ii) "Tier II Employees" - all employees of the Participating

Employers (other than Tier I Employees) who are classified by the Company as G-6 level (Executive Director) or above (or any successor classifications) immediately prior to the Change in Control.

Any person who is an Eligible Employee in accordance with the foregoing shall continue to be an Eligible Employee (and shall retain his/her status as a Tier I or Tier II Employee for purposes of the Plan) notwithstanding any change in his/her position or classification following a Change in Control, subject to Section 6 hereof relating to certain terminations of employment. The Committee shall notify each Eligible Employee of his/her participation in the Plan and status as a Tier I or Tier II Employee at the time of the Change in Control.

6. COVERED TERMINATIONS

A. General. An Eligible Employee shall be treated as having suffered a "Covered Termination" hereunder under the following circumstances:

1. Tier I Employees. The termination of employment of a Tier I

Employee shall be treated as a Covered Termination if his/her employment is terminated under one of the following circumstances:

(i) at any time within two (2) years following the date of a Change in Control, termination of employment by a Participating Employer other than for "Cause" or by the Eligible Employee for "Good Reason"; or

(ii) beginning with the one (1) year anniversary of the date of a Change in Control and for a period of thirty (30) calendar days thereafter, termination of employment by a Participating Employer other than for "Cause" or by the Eligible Employee for any reason (whether or not for "Good Reason").

2. Tier II Employees. The termination of employment of a Tier

II Employee shall be treated as a Covered Termination if his/her employment is terminated, within a period of two (2) years following the date of a Change in Control, by a Participating Employer other than for "Cause" or by the Eligible Employee for "Good Reason."

For purposes of the foregoing, the time periods specified above within which a termination of employment may be treated as a Covered Termination shall commence on the date the Change in Control becomes effective and, with respect to a Change in Control under paragraphs (e) and (f) of Section 3, shall recommence (for the full applicable period) on the date of consummation of the underlying actions; provided, however, that in the event of a Change in Control under

paragraphs (e) and (f) of Section 3, the time period within which a Covered Termination under clause (ii) of paragraph 1 above may occur shall be measured only from the date of consummation of the underlying actions (and not from any earlier date). For purposes of the Plan, a termination of employment shall be effective as of the last date of the Eligible Employee's employment with the Participating Employer.

An Eligible Employee shall not be treated as having suffered a Covered Termination in the event of (1) death, (2) total disability (within the meaning of the Company's Extended Disability Plan), (3) transfer of employment among Participating Employers (unless such transfer gives rise to a "Good Reason"), (4) involuntary termination by the Participating Employer for "Cause", (5) voluntary termination by the Eligible Employer other than for Good Reason or other than as provided in Section 6.A.1(ii) for Tier I Employees or (6) a termination of employment for any reason by either the Participating Employer or the Eligible Employee that does not occur during the time periods specified above.

B. Termination For Cause. For purposes hereof, the termination of an Eligible Employee's employment shall be deemed to be a termination for "Cause" if as a result of:

(i) the willful refusal of the Eligible Employee to perform, without legal cause, his/her material duties to the Participating Employer, resulting in demonstrable economic harm to any Participating Employer, which the Eligible Employee has failed to cure after thirty (30) calendar days' advance written notice from the Company; or

(ii) the conviction of the Eligible Employee by a court of competent jurisdiction of any crime (or the entering of a plea of guilty or nolo contendere to a charge of any crime) constituting a felony.

A termination for Cause shall be communicated to the Eligible Employee in writing by the Participating Employer and shall specify the provisions of the Plan and factual matters relied upon in making the Cause determination.

C. Termination for Good Reason. For purposes hereof, an Eligible Employee may terminate his/her employment for "Good Reason" as a result of:

(i) a material diminution in the nature or status of the Eligible Employee's position, title, reporting relationship, duties, responsibilities or authority, or the assignment to him/her of additional responsibilities that materially increase his/her workload;

(ii) any reduction in the Eligible Employee's then-current Monthly Base Salary;

(iii) a material reduction in the Eligible Employee's opportunities to earn incentive bonuses below those in effect for the year most recently completed before the date of the Change in Control, taking into account all material bonus factors such as targeted bonus amounts and corporate performance measures;

(iv) a material reduction in the Eligible Employee's employee benefits and coverages (including, without limitation, pension, profit sharing and all welfare, retiree welfare and fringe benefits) that are provided to the Eligible Employee from the benefit levels in effect immediately prior to the Change in Control;

(v) the failure to grant to the Eligible Employee stock options, performance shares or similar equity incentive rights during each twelve (12) month period following the Change in Control on the basis of a number of shares or units and all other material terms (including vesting requirements) at least as favorable to the Eligible Employee as those rights granted to him/her on an annualized average basis for the three (3) year period immediately prior to the Change in Control; or

(vi) relocation of the Eligible Employee by more than fifty (50) miles from his/her regularly assigned workplace existing on the date of the Change in Control.

A termination for Good Reason shall be communicated to the Participating Employer in writing by the Eligible Employee and shall specify the provisions of the Plan and the factual matters relied upon in making the Good Reason determination.

7. SEVERANCE PAYMENT

The amount of the severance payment to be received by an Eligible Employee whose employment is terminated under conditions constituting a Covered Termination shall equal the applicable Severance Multiple for the Eligible Employee multiplied by the sum of:

(i) the Eligible Employee's Annual Base Salary at the time of Covered Termination (calculated without regard to any reduction in Monthly Base Salary that results in a Good Reason termination) or, if greater, at the time of the Change in Control, plus

(ii) the greater of (a) the amount of the Eligible Employee's target incentive bonus for the year of Covered Termination or (b) the amount of the Eligible Employee's incentive bonus earned for the year immediately prior to the Change in Control.

The severance payment to be made hereunder shall be paid to the Eligible Employee in a single lump-sum cash payment, less any required tax withholding, within fifteen (15) calendar days after the date of the Eligible Employee's Covered Termination. Any payment required under this Section 7 or any other provision of the Plan that is not made in a timely manner shall bear interest at a rate equal to one hundred twenty (120) percent of the monthly compounded applicable federal rate, as in effect under Section 1274(d) of the Code for the month in which the payment is required to be made.

8. OTHER SEVERANCE BENEFITS

In addition to the severance payment provided under Section 7, an Eligible Employee shall be entitled to the following benefits and other rights in the event of his/her Covered Termination:

A. Welfare Benefits. The Eligible Employee shall be entitled to continued coverage and benefits for the duration of the applicable Severance Period, at the Company's sole expense for coverage, under all employee welfare benefit plans (including, without limitation, medical, dental, group life, death benefit, dependent life, supplemental life, accidental death and dismemberment, short-term disability and long-term disability plans, health care reimbursement account and dependent day care reimbursement account) of a Participating Employer for which he/she was eligible at the time of Covered Termination (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control), as though his/her termination of employment had not occurred (the "Welfare Continuation Coverages"). All Welfare Continuation Coverages shall apply to the Eligible Employee and any of his/her dependents who would have been eligible for coverage if the Eligible Employee remained employed for the applicable Severance Period. The Company may provide the Eligible Employee with the Welfare Continuation Coverages under arrangements other than its generally applicable welfare benefit plans, provided that the benefit coverages so provided are at least as favorable to the Eligible Employee as coverage under the otherwise applicable Welfare Continuation Coverages, on a

coverage by coverage basis, and taking into account all tax consequences to the Eligible Employee. At the expiration of the applicable Severance Period, the Eligible Employee shall be treated as a then terminating employee with respect to the right to elect continued medical and dental coverages in accordance with Section 4980B of the Code (or any successor provision thereto).

B. Retiree Welfare Benefits. Following a Covered Termination, the Participating Employer shall continue to provide to the Eligible Employee (subject to normal eligibility requirements as supplemented in the last sentence of this paragraph), and shall not be permitted to terminate or amend in any manner adverse to the Eligible Employee, all retiree medical and dental benefit plans ("Retiree Welfare Plans") that are in effect at the time of Covered Termination (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control). For purposes of determining eligibility for the Retiree Welfare Plans, the Eligible Employee shall receive additional credit for the number of years equal to the Severance Period applicable to the Eligible Employee for purposes of both age and service requirements under the Retiree Welfare Plans.

C. Pension Supplement. The Eligible Employee shall be entitled to the additional pension benefits that would be payable to him/her, under all defined benefit pension plans of a Participating Employer in which he/she is participating at the time of Covered Termination (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control), including all such tax-qualified and supplemental plans, by taking into account under such plans (i) an additional number of years equal to the Severance Period applicable to the Eligible Employee for purposes of the age and service credit of the Eligible Employee under such plans and (ii) the amount of the severance payment to which the Eligible Employee is entitled under Section 7, expressed on an annualized basis for the number of years equal to the Severance Period applicable to the Eligible Employee, for purposes of the compensation credit of the Eligible Employee under such plans (but only to the extent such additional credit would produce a higher benefit for the Eligible Employee than if it were not taken into account). The additional pension benefits provided hereby shall be paid pursuant to a supplemental pension plan of the Company, at the same time and in the same form as pension benefits are otherwise payable to the Eligible Employee (subject to clause (iii) of Section 8.E).

D. Equity Incentives. Immediately upon a Covered Termination, (i) any stock options or similar equity-based incentive rights granted to the Eligible Employee under a stock incentive plan of a Participating Employer that are not then fully vested and exercisable shall become fully vested and immediately exercisable, (ii) the Eligible Employee shall be entitled to exercise any stock options or similar equity-based incentive rights until the expiration of their original full term (without regard to any earlier termination otherwise applicable in the event of termination of employment), and (iii) any performance shares or shares of restricted stock granted to the Eligible Employee under a stock incentive plan of a Participating Employer that remain subject to forfeiture, performance conditions or transfer restrictions at such time shall become fully and immediately vested and all such conditions and restrictions shall immediately lapse. In addition, as to any other types of equity-based incentive awards granted to the Eligible Employee under a stock incentive plan of a Participating Employer prior to the date of Covered Termination, any restrictions on exercise, payment or transfer shall immediately lapse, and the Eligible Employee shall have all rights associated with such awards as of the date of Covered Termination. The

provisions of this Section 8.D shall apply equally to any awards or rights into which the equity incentive rights described herein are converted or for which such rights are substituted in connection with a Change in Control.

E. Accrued Rights. The Eligible Employee shall be entitled to the following payments and benefits in respect of accrued compensation rights at the time of a Covered Termination, in addition to all other rights provided under the Plan: (i) immediate payment of any accrued but unpaid Annual Base Salary through the date of Covered Termination; (ii) payment within fifteen (15) calendar days of Covered Termination of the accrued bonus for the year in effect on the date of the Covered Termination, determined on the basis of the bonus earned under terms of the applicable bonus plan through the date of termination or, if greater, the pro-rata amount of the target bonus for the period of such year through the date of termination; (iii) payment within fifteen (15) calendar days of Covered Termination of all non-tax-qualified deferred compensation rights, in lieu of payment in respect of such rights that would otherwise be made at a later date in accordance with the terms of such arrangements, except to the extent such rights are funded by amounts held under an irrevocable grantor trust or other irrevocable commitment of funds by the Company; and (iv) all benefits and rights accrued under the employee benefit plans, fringe benefit programs and payroll practices of a Participating Employer (other than those described in clause (iii) above) in accordance with their terms (including, without limitation, employee pension, employee welfare, incentive bonus and stock incentive plans).

F. EVA Plan. Notwithstanding any provision of this Plan or the EVA Plan to the contrary, the following provisions of this Section 8.F shall apply with respect to any interest of an Eligible Employee under the EVA Plan, without duplication by any otherwise applicable provision of this Section 8. The Eligible Employee shall be entitled to the following payments within fifteen (15) days of a Covered Termination: (i) payment of the positive balance, if any, of the amount credited to his/her "Bonus Bank" (or similar bonus bank) under the EVA Plan immediately prior to the Covered Termination, and (ii) payment of the amount of his/her "Target Bonus Amount" (or similar target bonus) for the year in which the Covered Termination occurs, prorated for any partial year of service prior to the Covered Termination. The foregoing payments shall be made without offset of one against the other and without regard to any negative balance that may exist in the Bonus Bank immediately prior to the Covered Termination.

G. Outplacement; Relocation. The Eligible Employee shall be provided, at the Company's sole expense, with professional outplacement services selected by the Eligible Employee consistent with his/her duties or profession and of a type and level customary for persons in his/her position; provided, however, that the

Company shall not be required to pay fees in connection with the foregoing in an amount greater than fifteen (15) percent of the Eligible Employee's Annual Base Salary for purposes of clause (i) of Section 7. The Company shall honor any prior agreement or understanding with an Eligible Employee who has suffered a Covered Termination to reimburse his/her relocation expenses to the Indianapolis, Indiana metropolitan area or, if it does not result in a greater cost to the Company, to such other location selected by the Eligible Employee.

H. Indemnification. With respect to any Eligible Employee who is, immediately prior to a Change in Control or a Covered Termination, indemnified by the Company for his/her service as a director, officer or employee of a Participating Employer, the Company shall indemnify such

Eligible Employee to the fullest extent permitted by applicable law, and the Company shall maintain in full force and effect, for the duration of all applicable statute of limitation periods, insurance policies at least as favorable to the Eligible Employee as those maintained by the Company for the benefit of its directors and officers at the time of Change in Control, with respect to all costs, charges and expenses whatsoever (including payment of expenses in advance of final disposition of a proceeding) incurred or sustained by the Eligible Employee in connection with any action, suit or proceeding to which he/she may be made a party by reason of being or having been a director, officer or employee of a Participating Employer or serving or having served any other enterprise as a director, officer or employee at the request of a Participating Employer.

I. Retention Bonuses and Loans. Immediately upon a Covered Termination, there shall automatically be forgiven any repayment obligation of the Eligible Employee to the Participating Employer that arises under any retention bonus agreement, forgivable loan or similar arrangement that provides for the lapse of the Eligible Employee's repayment obligation over time based on continued employment or other conditions (but not under any other loan obligations of the Eligible Employee that do not include forgiveness provisions).

9. EXCISE TAX REIMBURSEMENT

In the event it shall be determined that any payment, right or distribution by the Company or any other person or entity to or for the benefit of an Eligible Employee is a "parachute payment" within the meaning of Section 280G of the Code, pursuant to the terms of this Plan or otherwise, in connection with, or arising out of, his/her employment with a Participating Employer or a change in ownership or effective control of the Company or a substantial portion of its assets (a "Payment"), and would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), concurrent with the making of such Payment, the Company shall pay to the Eligible Employee an additional payment (the "Gross-Up Payment") in an amount such that the net amount retained by the Eligible Employee, after deduction of any Excise Tax on such Payment and any federal, state or local income tax and Excise Tax on the Gross-Up Payment shall equal the amount of such Payment. In the event the Internal Revenue Service subsequently may assess or seek to assess from the Eligible Employee an amount of Excise Tax in excess of that determined in accordance with the foregoing, the Company shall pay to the Eligible Employee an additional Gross-Up Payment, calculated as described above in respect of such excess Excise Tax, including a Gross-Up Payment in respect of any interest or penalties imposed by the Internal Revenue Service with respect to such excess Excise Tax. The rights of the Eligible Employee to a Gross-Up Payment under this Section 9 shall apply without regard to whether the Eligible Employee has incurred a Covered Termination and shall apply to all payments whether or not in connection with a Covered Termination.

10. NO MITIGATION OR OFFSET

The Eligible Employee shall be under no obligation to minimize or mitigate damages by seeking other employment, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligation to make the payments and provide the benefits required under the Plan. In addition, the Company's obligation to make the payments and provide the benefits required under the Plan shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other rights which a Participating Employer may have against the Eligible Employee.

11. UNFUNDED STATUS

The Plan is intended to constitute an employee pension benefit plan under ERISA which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, and shall be interpreted and administered accordingly. The payments and benefits provided hereunder shall be paid from the general assets of the Company. Nothing herein shall be construed to require the Company to maintain any fund or to segregate any amount for the benefit of any employee, and no employee or other person shall have any right against, right to, or security or other interest in any fund, account or asset of the Company from which the payment pursuant to the Plan may be made. Consistent with the foregoing, the Company may, in its sole discretion, deposit funds in a grantor trust or otherwise establish arrangements to pay amounts that become due under the Plan, and, notwithstanding anything elsewhere in the Plan to the contrary, the payments and benefits due under the Plan shall be reduced to reflect the amount of any payment made in respect of any Eligible Employee from a grantor trust or other arrangement established for this purpose.

12. ADMINISTRATION

The Committee shall be the named fiduciary of the Plan and the plan administrator for purposes of ERISA. The Committee shall be responsible for the overall operation of the Plan and shall have the fiduciary responsibility for the general operation of the Plan. The Committee may allocate to any one or more of the Company's employees any responsibility the Committee may have under the Plan and may designate any other person or persons to carry out any of the Committee's responsibilities under the Plan. As plan administrator, the Committee shall maintain records pursuant to the Plan's provisions and shall be responsible for the handling, processing and payment of any claims for benefits under the Plan.

13. CLAIMS AND DISPUTES

Within fifteen (15) calendar days of a Covered Termination, the Company shall notify each Eligible Employee whom the Company determines is entitled to payments and benefits under the Plan of his/her entitlement to such payments and benefits. An Eligible Employee who is not so notified may submit a claim for payments and benefits under the Plan in writing to the Company

within ninety (90) calendar days after becoming entitled to such benefits as described in Section 6. All such claims shall be approved or denied in writing by the Company within fifteen (15) calendar days after submission.

Any denial of a claim by the Company shall be in writing and shall include: (i) the reason or reasons for the denial; (ii) reference to the pertinent Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the Eligible Employee to perfect the claim together with an explanation of why the material or information is necessary; and (iv) an explanation of the Plan's claim review procedure, described below.

An Eligible Employee shall have a reasonable opportunity to appeal a denied claim to the Company for a full and fair review. The Eligible Employee or authorized representative shall have sixty (60) calendar days after receipt of written notification of the denial of claim in which to request a review and to review pertinent documents of the Plan. The Company shall notify the Eligible Employee or his/her authorized representative of the time and place for the claim review. The Company shall issue a decision on the reviewed claim promptly, but no later than fifteen (15) calendar days after receipt of the request for review. The Company's decision shall be in writing and shall include: (i) the reasons for the decision, and (ii) references to the Plan provisions on which the decision is based.

If the Eligible Employee shall dispute the Company's final decision, the dispute shall be submitted to an arbitration proceeding, conducted before a panel of three arbitrators, in accordance with the rules of the Center for Public Resources (or such other organization selected by mutual agreement of the Company and the Eligible Employee). Such arbitration shall take place in the location most practicably proximate to the Eligible Employee's principal workplace. Judgment may be entered on the arbitrators' award in any court having jurisdiction. Notwithstanding the foregoing, if an Eligible Employee believes the claims procedure or dispute resolution mechanism provided under this Section 13 would be futile or would cause such Eligible Employee irreparable harm, the Eligible Employee may, in his/her sole discretion, elect to enforce his/her rights under the Plan pursuant to Section 502 of ERISA.

The Company shall bear the expense of any enforcement proceeding brought by an Eligible Employee under the Plan and shall reimburse the Eligible Employee for all of his/her reasonable costs and expenses relating to such enforcement proceeding, including, without limitation, reasonable attorneys' fees and expenses, provided that the Eligible Employee is the prevailing party in such proceeding. For purposes hereof, the trier of fact in such enforcement proceeding shall be requested to make a determination as to the reimbursement of the Eligible Employee's costs and expenses as a prevailing party hereunder. In no event shall the Eligible Employee be required to reimburse the Company for any of the costs or expenses relating to such enforcement proceeding.

14. TERM AND AMENDMENT

The Plan became effective on March 1, 1995 (the "Effective Date"), and shall continue to be effective until the "Expiration Date." The Expiration Date shall initially be the third anniversary of the Effective Date, but as of the first anniversary of the Effective Date and each anniversary date

thereafter, the Expiration Date shall be extended by an additional one (1) year unless, not later than ninety (90) calendar days prior to the respective anniversary date of the Effective Date, the Board shall specify by resolution or other written action that the Expiration Date shall not be so extended. Notwithstanding the foregoing, in the event of a Change in Control, the Plan shall continue in effect, and the Expiration Date shall not occur, until the satisfaction of all severance payments and benefits to which Eligible Employees are or may become entitled to under the Plan. The Board shall have the right, by resolution or other written action, to amend the Plan; provided, however, that

the Plan may only be amended prior to a Change in Control, and then only to the extent such amendment is of a technical or clarifying nature, or increases the rights or benefits of all affected Eligible Employees, and does not in any manner reduce the rights or benefits of any Eligible Employee, unless the Company has obtained the express written consent, in return for good and valuable consideration, of all affected Eligible Employees in respect of any such amendment.

15. SUCCESSORS AND ASSIGNS

The Plan shall be binding upon any person, firm or business that is a successor to the business or interests of the Company, whether as a result of a Change in Control of the Company or otherwise. All payments and benefits that become due to an Eligible Employee under the Plan shall inure to the benefit of his/her heirs, assigns, designees or legal representatives.

16. ENFORCEABILITY

The Company intends the Plan to constitute a legally enforceable obligation between it and each Eligible Employee, and that the Plan confer vested rights on each Eligible Employee in accordance with the terms of the Plan, with each Eligible Employee being a third-party beneficiary thereof. Nothing in the Plan, however, shall be construed to confer on any Eligible Employee any right to continue in the employ of a Participating Employer or affect the right of a Participating Employer to terminate the employment or change the terms and conditions of employment of an Eligible Employee, with or without notice or cause, prior to a Change in Control, or to take any such action following a Change in Control, subject to the consequences specified by the Plan.

The Plan shall be construed and enforced in accordance with ERISA and the laws of the State of Indiana to the extent not preempted by ERISA, regardless of the law that might otherwise govern under applicable principles or provisions of choice or conflict of law doctrines. To the extent any provision of the Plan shall be invalid or unenforceable under any applicable law, it shall be considered deleted herefrom and all other provisions of the Plan shall be unaffected and shall continue in full force and effect.

IN WITNESS WHEREOF, the Board has caused this amended and restated Plan to be approved and executed by its duly authorized representative as of October 15, 2001.

ELI LILLY AND COMPANY

By: _____
Title: Senior Vice President

[Eli Lilly and Company Letterhead]

September 17, 2001

Mr. Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer
Eli Lilly and Company
Lilly Corporate Center
Indianapolis, IN 46285

Dear Sidney:

You recently requested that the Compensation Committee ("Committee") reduce your base salary during the 2002 calendar year only from \$1,391,100 to \$1.00 in light of the expected financial impact in that year from the loss of U.S. market exclusivity for Prozac. The Committee has agreed to honor your request. The purpose of this letter is to set forth our agreement relative to the impact of the reduction in your base pay on certain employee benefits.

In general, it is our mutual intent to preserve your salary-dependent employee benefits during the 2002 calendar year at essentially the same level as if your salary had not been reduced. To achieve this goal, we have agreed that during the period from January 1, 2002 to December 31, 2002, those benefits will be administered as follows:

1. Benefits based on Earnings. Where plan benefit calculations are

based, in part, on earnings, wages or base pay such as your extended disability benefit, they will be based on your 2001 year-end base salary prior to your requested reduction.

2. Benefit Allowance. We also will provide you with a benefit allowance

intended to maintain your same level of contributions to The Lilly Employee Savings Plan and insurance coverages you elected for 2001 under various components of the Welfare Plan, including Life Insurance, Health Plan and Extended Disability.

3. Excess Retirement and Savings Plans. Appropriate amendments will

be made to the Excess Retirement and Savings Plans effective January 1, 2002, to ensure that your benefits and contributions are unaffected by the salary waiver.

4. Change-in Control Severance Pay Plan. Should a change-in control (as

defined in the Company's Change-in Control Severance Pay Plans) occur during the 2002 calendar year, your annual base salary would automatically revert back to the 2001 rate of \$1,391,100. In addition, should you become eligible for a severance payment under the Change-in Control Severance Pay Plan during 2002, your "Monthly Base Salary" for purposes of calculating the severance benefit will be considered to be your 2001 year-end base salary prior to your requested reduction.

Mr. Sidney Taurel
September 17, 2001
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This salary reduction is for 2002 only. It is the Committee's intent to re-establish your base salary at a competitive level for 2003.

If you have any questions, please let us know.

Sincerely,

ELI LILLY AND COMPANY

By: /s/ Steven C. Beering

Steven C. Beering, M.D.
Chairman, Compensation Committee

By: /s/ Pedro P. Granadillo

Pedro P. Granadillo
Senior Vice President

ACCEPTED this 17th day of September, 2001.

By: /s/ Sidney Taurel

Sidney Taurel

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000

	(Dollars and shares in millions except per-share data)			
BASIC				
Net income	\$ 570.1	\$ 778.8	\$2,204.6	\$2,290.5
	-----	-----	-----	-----
Average number of common shares outstanding	1,077.1	1,081.0	1,077.4	1,081.9
Contingently issuable shares	-	-	.1	.2
	-----	-----	-----	-----
Adjusted average shares	1,077.1	1,081.0	1,077.5	1,082.1
	-----	-----	-----	-----
Basic earnings per share	\$.53	\$.72	\$ 2.04	\$ 2.12
	-----	-----	-----	-----
DILUTED				
Net income	\$ 570.1	\$ 778.8	\$2,204.6	\$2,290.5
	-----	-----	-----	-----
Average number of common shares outstanding	1,077.1	1,081.0	1,077.4	1,081.9
Incremental shares - stock options and contingently issuable shares	12.8	16.5	13.8	16.0
	-----	-----	-----	-----
Adjusted average shares	1,089.9	1,097.5	1,091.2	1,097.9
	-----	-----	-----	-----
Diluted earnings per share	\$.52	\$.71	\$ 2.02	\$ 2.09
	-----	-----	-----	-----

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

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Nine Months Ended September 30, 2001	2000	1999	Years Ended December 31, 1998	1997	1996
Consolidated pretax income from continuing operations before extraordinary item	\$2,810.8	\$3,858.7	\$3,245.5	\$2,665.0	\$2,901.1	\$2,131.3
Interest from continuing operations and other fixed charges	169.1	225.4	213.1	198.3	253.1	323.8
Less interest capitalized during the period from continuing operations	(45.4)	(43.1)	(29.3)	(17.0)	(20.4)	(35.8)
Earnings	\$2,934.5	\$4,041.0	\$3,429.2	\$2,846.3	\$3,133.8	\$2,419.3
Fixed charges/1/	\$ 169.1	\$ 225.4	\$ 213.2	\$ 200.5	\$ 256.8	\$ 328.5
Ratio of earnings to fixed charges	17.4	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 Practices (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 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.
- - 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.