SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13E-4

ISSUER TENDER OFFER STATEMENT
(Pursuant to Section 13(e)(1) of the
Securities Exchange Act of 1934)

ELI LILLY AND COMPANY
(Name of Issuer)

ELI LILLY AND COMPANY
(Name of Person(s) Filing Statement)

COMMON STOCK, without
par value
(Title of Class of Securities)

532457 10 8
(CUSIP Number of Class of Securities)

Rebecca O. Goss
ELI LILLY AND COMPANY
Lilly Corporate Center
Indianapolis, Indiana 46285
(317) 276-2000

-Copy to-

Bernard E. Kury
Dewey Ballantine
1301 Avenue of the Americas
New York, New York 10019-6092
(212) 259-8000

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications on Behalf of
Person(s) Filing Statement)

August 21, 1995
(Date Tender Offer First Published, Sent
or Given to Security Holders)

Calculation of Filing Fee

Transaction Valuation/1/	Amount of Filing Fee
$1,247,106,017	$249,421.20

[X] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: $456,827.59

Form or Registration No.: Registration Statement on Form S-4 (No. 33-93716)

Filing party: Guidant Corporation
Date Filed: June 6, 1995

/1/ Estimated solely for purposes of calculating the filing fee and computed pursuant to Rule 0-11(a)(4) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This amount assumes the acquisition by Eli Lilly and Company of 16,504,298 shares of its common stock for $75 9/16 per share, the average of the high and low sales prices of a share of such common stock as reported on the New York Stock Exchange Composite Tape on August 17, 1995.

This Schedule 13E-4 relates to an offer by Eli Lilly and Company (the "Company") to exchange (the "Exchange Offer") 57,600,000 shares of Common Stock, without par value, of Guidant Corporation (the "Guidant Common Stock") which the Company owns for shares of the Company's Common Stock, without par value, upon the terms and subject to the conditions stated in the Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") attached hereto as Exhibit A(2) and the related Letter of Transmittal attached hereto as Exhibit A(4).

Item 1. Security and Issuer.

(a) The name of the issuer is Eli Lilly and Company and the address of its principal executive office is Lilly Corporate Center, Indianapolis, Indiana 46285.

(b) The exact title and amount of the class of securities being sought are: up to 16,504,298 shares of Common Stock, without par value, of the Company (the "Shares"). As of July 31, 1995, 292,011,493 Shares were outstanding. With respect to the consideration being offered for the Shares, the cover page of the Offering Circular - Prospectus and the sections of the Offering Circular - Prospectus entitled "Offering Circular -Prospectus Summary," "The Transaction," "The Exchange Offer" and "Price Range of Guidant Common Stock and Dividends" are hereby incorporated herein by reference. With respect to whether any Shares will be purchased from any officer, director or affiliate of the Company, the second, third, fourth and fifth paragraphs of the section of the Offering Circular - Prospectus entitled "Relationship Between Guidant and Lilly--Other" are hereby incorporated herein by reference.

(c) Reference is made to the section of the Offering Circular - Prospectus entitled "Price Range of Lilly Common Stock and Dividends" which is hereby incorporated herein by reference.

(d) Not applicable.

Item 2. Source and Amount of Funds or Other Consideration.

(a) The consideration being offered by the Company in exchange for the Shares are shares of Guidant Common Stock owned by the Company. Holders of Shares who will be entitled to receive a fractional share of Guidant Common Stock will be paid cash in lieu of such fractional share. Reference is made to the sections of the Offering Circular -Prospectus entitled "The Transaction" and "The Exchange Offer--Terms of The Exchange Offer" which are hereby incorporated herein by reference. The maximum number of

shares of Guidant Common Stock that will be exchanged for the Shares shall be 57,600,000 shares, or approximately 80.2%, of the 71,860,000 shares of Guidant Common Stock outstanding.

(b) Not applicable.

Item 3. Purpose of the Tender Offer and Plans or Proposals of the Issuer or Affiliate.

With respect to the purpose of the Exchange Offer, disposition of securities acquired and plans or proposals of the Company, the sections of the Offering Circular - Prospectus entitled "Purpose and Effects of the Transaction" and "The Transaction--Accounting Treatment of the Transaction" are hereby incorporated herein by reference.

(a) With respect to the acquisition by any person of additional securities of the Company, or the disposition of securities of the Company, the Cover Page of the Offering Circular - Prospectus and the Sections of the Offering Circular - Prospectus entitled "Offering Circular - Prospectus Summary--The Transaction," "The Transaction" and "The Spin-Off" are hereby incorporated herein by reference.

(b) - (j) Not applicable.

Item 4. Interest in Securities of the Issuer.

(a) Except as set forth in the first paragraph of the section of the Offering Circular - Prospectus entitled "Relationship Between Guidant and Lilly--Other" which is hereby incorporated herein by reference, no transaction with respect to the Shares was effected during the period of 40 business days prior to the date hereof by the Company, or to the Company's knowledge, its directors or executive officers, or any of the directors or executive officers of any of its subsidiaries, or any associate or subsidiary of any such person (including any director or executive officer of any such subsidiary).

Item 5. Contracts, Arrangements, Understandings or Relationships with Respect to the Issuer's Securities.

Neither the Company nor, to the best of the Company's knowledge, any of its directors or executive officers, or any of the directors or executive officers of any of its subsidiaries, is party to any contract, arrangement, understanding or relationship relating, directly or indirectly, to the Exchange Offer with respect to any securities of the Company required to be disclosed herein.

Item 6. Persons Retained, Employed or to Be Compensated.

Neither the Company nor any person on behalf of the Company will pay any commission or other remuneration to any broker, dealer, salesman or other person for soliciting exchanges of the Shares except as set forth in the section of the Offering Circular - Prospectus entitled "The Exchange Offer--Fees and Expenses" which is hereby incorporated herein by reference. Regular employees of the Company may solicit exchanges from holders of the Shares but they will not receive additional compensation therefor.

Item 7. Financial Information.

(a)(1) - (2) Reference is made to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, and the financial statements included therein, said report is incorporated by reference in the Offering Circular - Prospectus, and the sections of the Offering Circular - Prospectus entitled "Offering Circular -Prospectus Summary--Summary Consolidated Financial Data of Lilly" and "Selected Consolidated Financial Data of Lilly"; said sections and financial statements are hereby incorporated herein by reference.

(a)(3) - (4) With respect to the ratio of earnings to fixed charges and book value per share, reference is made to the sections in the Offering Circular - Prospectus entitled "Offering Circular - Prospectus Summary--Summary Consolidated Financial Data of Lilly" and "Selected Consolidated Financial Data of Lilly"; said sections are hereby incorporated herein by reference.

(b) Reference is made to the sections of the Offering Circular - Prospectus entitled "Offering Circular -Prospectus Summary--Summary Consolidated Financial Data of Lilly" and "Unaudited Pro Forma Consolidated Financial Information of Lilly"; said sections are hereby incorporated herein by reference.

Item 8. Additional Information.

(a) None.

(b) The information set forth in the section of the Offering Circular - Prospectus entitled "The Transaction--Regulatory Approvals" is hereby incorporated herein by reference.

(c) Not applicable.

(d) None.

(e) Additional information with respect to the Exchange Offer and related matters is included throughout the Offering Circular - Prospectus and the Letter of Transmittal, which are attached hereto as Exhibits A(2) and A(4), respectively and which are hereby incorporated herein by reference in its entirety. The Company is not aware of any jurisdiction in which the making of the Exchange Offer or the tender of the Shares would not be in compliance with the laws of such jurisdiction. However, the Company reserves the right to exclude holders in any jurisdiction in which it is asserted that the Exchange Offer cannot lawfully be made. So long as the Company makes a good faith effort to comply with any state law deemed applicable to the Exchange Offer, if it cannot do so, the Company believes that the exclusion of holders residing in such state(s) is permitted under Rule 13e-4(f)(9) promulgated under the Exchange Act.

Item 9. Material to be Filed as Exhibits.

(a)(1) Press Releases dated June 6, 1995 and August 21, 1995.

(a)(2) Offering Circular - Prospectus dated August 21, 1995.

(a)(3) Letter dated August 21, 1995, from Randall L. Tobias, Chairman of the Board and Chief Executive Officer, to the Company's Shareholders.

(a)(4) Letter of Transmittal.

(a)(5) Letter from the Company to Securities Dealers, Commercial Banks, Trust Companies and other Nominees.

(a)(6) Form of Letter to Clients.

(a)(7) Notice of Guaranteed Delivery.

(a)(8) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

(a)(9) Question and Answer Letter.

(a)(10) Advertisement to be printed in the Wall Street Journal on August 21, 1995.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

(e) See Exhibit (a)(2) above.

(f) Not applicable.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: August 21, 1995

ELI LILLY AND COMPANY

By /s/ James M. Cornelius

Name: James M. Cornelius
Title: Vice President, Finance and Chief Financial Officer

June 6, 1995 EXHIBIT(a)(1)

Guidant Files Registration Statement With SEC for Lilly's Split-Off

Eli Lilly and Co. and Guidant Corp. announced today that Guidant has filed a registration statement with the Securities and Exchange Commission that outlines the split-off plan for the remaining equity interest held by Lilly in Guidant. The proposed split-off would be achieved through an exchange offer whereby Lilly shareholders would be given the opportunity to exchange some of or all their Lilly stock for Guidant common stock. Following review by the SEC and depending upon market conditions, the split-off is expected to be completed during the fall of 1995. Specific terms of the transaction will be communicated by mail at the commencement of the exchange offer.

In January 1994, Lilly announced that it was separating its medical devices and diagnostics businesses from its core pharmaceutical business to better focus its resources on global pharmaceutical operations and further maximize shareholder value. The formation of Guidant, which comprises five of the nine MDD businesses, was announced in June 1994, and an initial public offering of slightly less than 20 percent of its common stock took place in December. The completion of the split-off transactions would conclude the divestiture of Guidant from Lilly.

Eli Lilly and Co. is a global research-based pharmaceutical corporation headquartered in Indianapolis, Ind., that is working with its customers worldwide to ensure that diseases are prevented, managed and cured with maximum benefit and minimum cost to patients and society. Lilly focuses its research efforts on five disease categories: central-nervous-system and related diseases; endocrine disorders, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular diseases.

A leader in the medical device industry, Guidant Corp. provides innovative, cost-effective products and services to the global cardiology and minimally invasive surgery marketplaces. Guidant comprises Advanced Cardiovascular Systems Inc. (ACS), Cardiac Pacemakers Inc. (CPI), Devices for Vascular Intervention Inc. (DVI), Heart Rhythm Technologies Inc. (HRT), and Origin Medsytems Inc.

August 21, 1995

Lilly Commences Guidant Exchange Offer

Eli Lilly and Company and Guidant Corporation announced today the commencement of an offer to Lilly shareholders to exchange some or all of their shares of Lilly Common Stock for shares of Guidant Common Stock.

Under the terms of the exchange offer, Lilly shareholders who tender their shares for exchange will receive 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock tendered, up to an aggregate of 16,504,298 Lilly shares, or approximately 5.7 percent of the Lilly shares currently outstanding. The exchange offer is conditioned upon, among other things, a minimum of 8,252,149 shares of Lilly Common Stock being validly tendered and not withdrawn prior to the expiration of the exchange offer.

The exchange offer, which is being made by means of an offering circular-prospectus, will expire at midnight (EDT) on September 18, 1995. The exchange agent for the exchange offer is The First National Bank of Boston, the dealer manager in the United States is Morgan Stanley & Co. Inc. and the information agent is D.F. King & Co. Inc.

In January 1994, Lilly announced that it was separating its medical devices and diagnostics businesses from its core pharmaceutical business. The formation of Guidant, which comprises five of the nine businesses that formerly made up Lilly's Medical Device and Diagnostics Division, was announced in June 1994, and an initial public offering of slightly less than 20 percent of its common stock took place in December 1994.

Lilly is a global research-based pharmaceutical corporation headquartered in Indianapolis, Ind., that is dedicated to creating and delivering superior health care solutions--by combining pharmaceutical innovation, existing pharmaceutical technology, disease prevention and management and information technologies--in order to provide customers worldwide with optimal clinical and economic outcomes.

A leader in the medical device industry, Guidant Corporation provides innovative, cost-effective products and services to the global cardiology and minimally invasive surgery marketplaces. Guidant comprises Advanced Cardiovascular Systems Inc. (ACS), Cardiac Pacemakers Inc. (CPI), Devices for Vascular Intervention Inc. (DVI), Heart Rhythm Technologies Incorporated (HRT), Origin Medsytems Inc. and the company's international affiliates.

OFFERING CIRCULAR - PROSPECTUS

Eli Lilly and Company

Offer to Exchange
3.49 shares of Common Stock of Guidant Corporation
for each share of Common Stock of Eli Lilly and Company

THE EXCHANGE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY,SEPTEMBER 18, 1995, UNLESS THE EXCHANGE OFFER IS EXTENDED.

ELI LILLY AND COMPANY, AN INDIANA CORPORATION ("LILLY"), HAS DETERMINED TO DISTRIBUTE THE SHARES IT OWNS OF GUIDANT CORPORATION, AN INDIANA CORPORATION ("GUIDANT" OR THE "COMPANY"), TO LILLY SHAREHOLDERS BY OFFERING TO EXCHANGE 3.49 SHARES OF COMMON STOCK OF GUIDANT, WITHOUT PAR VALUE ("GUIDANT COMMON STOCK"), FOR EACH SHARE OF COMMON STOCK OF LILLY, WITHOUT PAR VALUE ("LILLY COMMON STOCK"), UP TO AN AGGREGATE OF 16,504,298 SHARES OF LILLY COMMON STOCK TENDERED AND EXCHANGED, UPON THE TERMS AND SUBJECT TO THE CONDITIONS SET FORTH HEREIN AND IN THE RELATED LETTER OF TRANSMITTAL (WHICH TOGETHER CONSTITUTE THE "EXCHANGE OFFER"). A HOLDER OF LILLY COMMON STOCK HAS THE RIGHT TO TENDER ALL, NONE OR A PORTION, OF SUCH HOLDER'S SHARES OF LILLY COMMON STOCK. LILLY CURRENTLY HOLDS 57,600,000 SHARES OF GUIDANT COMMON STOCK. IF MORE THAN 16,504,298 SHARES OF LILLY COMMON STOCK ARE VALIDLY TENDERED AND NOT WITHDRAWN ON OR PRIOR TO THE EXPIRATION DATE (AS DEFINED HEREIN) OF THE EXCHANGE OFFER, LILLY WILL ACCEPT SUCH SHARES FOR EXCHANGE ON A PRO RATA BASIS AS DESCRIBED HEREIN. THE EXCHANGE OFFER IS SUBJECT TO CERTAIN CONDITIONS AS SET FORTH UNDER "THE EXCHANGE OFFER--CERTAIN CONDITIONS TO THE EXCHANGE OFFER," INCLUDING AT LEAST 8,252,149 SHARES OF LILLY COMMON STOCK (APPROXIMATELY 2.8% OF THE OUTSTANDING LILLY COMMON STOCK AND A SUFFICIENT NUMBER OF SHARES TO RESULT IN AT LEAST 50% OF THE GUIDANT COMMON STOCK OWNED BY LILLY BEING EXCHANGED PURSUANT TO THE EXCHANGE OFFER) BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE OF THE EXCHANGE OFFER. IF FEWER THAN 16,504,298 SHARES OF LILLY COMMON STOCK (BUT AT LEAST 8,252,149 SHARES) ARE TENDERED AND EXCHANGED FOR GUIDANT COMMON STOCK PURSUANT TO THE EXCHANGE OFFER AND LILLY ACCORDINGLY CONTINUES TO OWN SHARES OF GUIDANT COMMON STOCK AFTER CONSUMMATION OF THE EXCHANGE OFFER, AS SOON AS PRACTICABLE THEREAFTER, LILLY WILL EFFECT A PRO RATA DISTRIBUTION OF ITS REMAINING SHARES OF GUIDANT COMMON STOCK TO HOLDERS OF LILLY COMMON STOCK REMAINING AFTER CONSUMMATION OF THE EXCHANGE OFFER (THE "SPIN-OFF"; TOGETHER WITH THE EXCHANGE OFFER, THE "TRANSACTION").

(CONTINUED ON FOLLOWING PAGE)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Dealer Manager in the United States for the Exchange Offer is:

MORGAN STANLEY & CO.
Incorporated

August 21, 1995

(Cover continued from previous page)

Neither the Board of Directors of Lilly nor Lilly makes any recommendation to any shareholder whether to tender or refrain from tendering shares of Lilly Common Stock pursuant to the Exchange Offer. Each shareholder of Lilly must make his or her own decision whether to tender pursuant to the Exchange Offer and, if so, how many shares to tender after reading this Offering Circular - Prospectus and consulting with his or her advisors based on his or her own financial position and requirements. This Offering Circular - Prospectus relates to all shares of Guidant Common Stock to be distributed pursuant to the Exchange Offer and any spin-off.

SEE "RISK FACTORS" ON PAGE 14 FOR A DISCUSSION OF CERTAIN FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH THE EXCHANGE OFFER.

The shares of Guidant Common Stock are listed and traded on the New York Stock Exchange, Inc. (the "NYSE") and the Pacific Stock Exchange Incorporated ("PSE"). The shares of Lilly Common Stock are listed and traded on the NYSE and the PSE and the stock exchanges of London, Tokyo, Zurich, Basel and Geneva. On February 13, 1995, the last trading day prior to the announcement of the Transaction, the closing sale prices as reported in the consolidated transactions reporting system on the NYSE per share of Lilly Common Stock and Guidant Common Stock were $64 7/8 and $19, respectively. On August 18, 1995, the last trading day before Lilly commenced the Exchange Offer, the closing sale prices as reported in the consolidated transactions reporting system on the NYSE per share of Lilly Common Stock and Guidant Common Stock were $76 3/8 and $24 3/4, respectively. As of July 31, 1995, there were 292,011,493 shares of Lilly Common Stock outstanding.

Any shareholder desiring to accept the Exchange Offer should either (1) request his or her broker, dealer, commercial bank, trust company or nominee to effect the transactions for him or her or (2) complete the Letter of Transmittal or a facsimile thereof, sign it in the place required, have the signature thereon guaranteed if required by the Letter of Transmittal and forward it and any other required documents to The First National Bank of Boston (the "Exchange Agent"), and either deliver the certificates for such shares of Lilly Common Stock to the Exchange Agent along with the Letter of Transmittal or tender such shares of Lilly Common Stock pursuant to the procedure for book-entry transfer set forth in "The Exchange Offer--Procedures for Tendering Shares of Lilly Common Stock." Shareholders having shares of Lilly Common Stock registered in the name of a broker, dealer, commercial bank, trust company or nominee must contact such person if they desire to tender their shares of Lilly Common Stock. Lilly will not pay any fees or commissions to any broker or dealer or any other person (other than the Dealer Manager and the Soliciting Dealers (as defined herein)) for soliciting shares of Lilly Common Stock pursuant to the Exchange Offer. See "The Exchange Offer--Fees and Expenses." Shareholders who wish to tender shares of Lilly Common Stock and whose certificates for such shares are not immediately available should tender such shares by following the procedures for guaranteed delivery set forth in "The Exchange Offer--Guaranteed Delivery Procedures."

QUESTIONS AND REQUESTS FOR ASSISTANCE OR FOR ADDITIONAL COPIES OF THIS OFFERING CIRCULAR -PROSPECTUS AND THE LETTER OF TRANSMITTAL SHOULD BE DIRECTED TO D.F. KING & CO., INC. (THE "INFORMATION AGENT") OR THE DEALER MANAGER IN THE UNITED STATES, MORGAN STANLEY & CO. INCORPORATED, AT THEIR RESPECTIVE ADDRESSES AND TELEPHONE NUMBERS SET FORTH ON THE BACK COVER HEREOF.

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular - Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by Lilly or Guidant or any other person. This Offering Circular - Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities to which it relates or any offer to sell, or the solicitation of an offer to buy, such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular - Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Lilly or Guidant since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In accordance with various state securities laws applicable to the Exchange Offer which require the Exchange Offer to be made to the public by a licensed broker or dealer, the Exchange Offer is hereby made to shareholders residing in each such state by Morgan Stanley & Co. Incorporated, as Dealer Manager, on behalf of Lilly.

AVAILABLE INFORMATION

Guidant has filed a Registration Statement on Form S-4 under the Securities Act of 1933, as amended (the "Securities Act"), with the Securities and Exchange Commission (the "Commission") with respect to the securities offered hereby (the "Registration Statement"). Lilly has filed a Schedule 13E-4 Issuer Tender Offer Statement (the "Schedule 13E-4") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Commission with respect to the Exchange Offer. This Offering Circular -Prospectus does not contain all the information set forth in the Registration Statement, the Schedule 13E-4 and the exhibits thereto, to which reference is hereby made. Statements contained in this Offering Circular - Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. The material features of any such contract or other document are described herein.

Each of Lilly and Guidant is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy and information statements and other information with the Commission. The Registration Statement, the Schedule 13E-4, reports, proxy and information statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at the Citicorp Center, 500 West Madison, Room 1400, Chicago, Illinois 60661 and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, reports, proxy and information statements and other information concerning Lilly and Guidant can be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005 and the PSE, 301 Pine Street, San Francisco, California 94101.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed by Lilly with the Commission pursuant to the Exchange Act and are incorporated herein by reference and made a part of this Offering Circular - Prospectus: (i) Lilly's Annual Report on Form 10-K for the fiscal year ended December 31, 1994; (ii) Lilly's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995; (iii) Lilly's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1995; (iv) Lilly's Current Report on Form 8-K filed on June 12, 1995; (v) the description of Lilly Common Stock contained in Lilly's registration statement under the Exchange Act with respect to Lilly Common Stock filed with the Commission, including any amendments or reports filed for the purpose of updating that description; and (vi) the description of the Lilly Preferred Stock Purchase Rights contained in Lilly's Registration Statement on Form 8-A, dated July 18, 1988.

All documents and reports filed by Lilly with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Offering Circular - Prospectus and prior to the termination of the offering of the shares of Guidant Common Stock shall be deemed to be incorporated herein by reference and made a part of this Offering Circular - Prospectus from the date of filing of such documents or reports. Any statement contained in a document or report incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Circular -Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular - Prospectus.

THIS OFFERING CIRCULAR - PROSPECTUS INCORPORATES DOCUMENTS BY REFERENCE WHICH ARE NOT PRESENTED HEREIN OR DELIVERED HEREWITH. COPIES OF DOCUMENTS INCORPORATED BY REFERENCE (OTHER THAN EXHIBITS TO SUCH DOCUMENTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE INTO SUCH DOCUMENTS) ARE AVAILABLE WITHOUT CHARGE TO ANY PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM THIS OFFERING CIRCULAR - PROSPECTUS IS DELIVERED UPON WRITTEN OR ORAL REQUEST TO THE INFORMATION AGENT, D.F. KING & CO., INC. THE INFORMATION AGENT'S TELEPHONE NUMBER IS: IN THE UNITED STATES, (800) 207-3158; IN EUROPE, (44) 171-600-5005 (CALL COLLECT); AND OUTSIDE THE UNITED STATES AND EUROPE, (212) 269-5550 (CALL COLLECT). IN ORDER TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS, ANY REQUEST SHOULD BE MADE PRIOR TO SEPTEMBER 11, 1995.

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OFFERING CIRCULAR - PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information included or incorporated by reference in this Offering Circular - Prospectus. See "Glossary of Selected Medical Terms" for the definitions of certain medical terms used herein.

ELI LILLY AND COMPANY

Lilly was incorporated in 1901 under the laws of the state of Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. Lilly is engaged in the discovery, development, manufacture, and sale of products and the provision of services in one industry segment--Life Sciences. Lilly's principal products are human pharmaceuticals and animal health products. Products are manufactured or distributed through owned or leased facilities in the United States, Puerto Rico, and 26 other countries, in 19 of which Lilly owns or has an interest in manufacturing facilities. Its products are sold in approximately 117 countries. Through its PCS Health Systems, Inc. ("PCS") subsidiary, Lilly also provides pharmacy benefit management services in the United States.

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

GUIDANT CORPORATION

Guidant was incorporated in Indiana on September 9, 1994 to be the parent of five of the nine businesses in the Medical Devices and Diagnostics ("MDD") Division of Lilly and its subsidiaries.

Guidant designs, develops, manufactures and markets a broad range of products for use in vascular intervention, primarily the treatment of coronary artery disease ("CAD"), cardiac rhythm management ("CRM") and other forms of minimally invasive surgery ("MIS"). Guidant is a worldwide leader, based on revenues, in percutaneous transluminal coronary angioplasty ("PTCA") and atherectomy, which are minimally invasive procedures used for opening blocked coronary arteries. In addition, Guidant has developed proprietary positions in atherectomy catheters, guidewires and perfusion catheters. Guidant is also a worldwide leader, based on revenues, in implantable cardioverter defibrillator ("ICD") systems. Guidant also designs, manufactures and markets a full line of implantable pacemaker systems used in the treatment of slow or irregular arrhythmias. In addition, Guidant develops, manufactures and markets products for use in MIS procedures with products for access, vision, dissection and retraction, focusing on laparoscopic market opportunities in cardiovascular, general, thoracic and urologic surgeries. Guidant's net sales for the year ended December 31, 1994 were $862.4 million.

Guidant's business strategy is to design, develop, manufacture and market innovative, high quality therapeutic products principally for use in treating cardiovascular disease and performing minimally invasive surgical procedures, resulting in improved quality of patient care and reduced treatment costs. This strategy has led to a consistent record of innovative product introductions, certain of which have fundamentally changed the treatment of cardiovascular disease. These product introductions include, in 1985, the first programmable implantable defibrillator for the treatment of fast arrhythmias, and in 1991, the first endocardial defibrillation lead system which provided for a significant reduction in implantation mortality, morbidity and cost, while eliminating the need for highly invasive open chest procedures. Guidant pioneered the development of certain products for use with PTCA and atherectomy procedures with the introduction of perfusion, rapid exchange ("RX"), over-the-wire ("OTW") and atherectomy catheters and guidewires as

less invasive and more cost-effective methods for treating blocked coronary arteries than coronary artery bypass graft surgery ("CABG").

Guidant is committed to ongoing product innovation and has invested significant resources in its new product development program. For the year ended December 31, 1994, 45% of Guidant's total revenues were generated from sales of products and product extensions introduced since January 1, 1993. As of June 30, 1995, Guidant's in-house research and development group, including engineers, technicians and scientists, numbered 773 employees. In addition to maintaining physician advisory boards, Guidant maintains relationships with customers and physicians who assist Guidant in directing and focusing new product development. Guidant has integrated its product development program with manufacturing, marketing and regulatory resources to improve product quality, reduce manufacturing costs and accelerate product development.

Recent product introductions by Guidant include, in March 1995, the ACS RX LIFESTREAM, a high performance, low profile perfusion catheter with extended pressure capability. In October 1993, Guidant introduced the ACS RX ELIPSE catheter, a unique elliptically shaped catheter providing clinicians with the characteristics needed to reach and dilate most lesions, and in August 1993, Guidant introduced the ACS EDGE OTW catheter with enhanced maneuverability, providing easier access to the lesion site. Additionally, in March 1993, Guidant introduced the ACS RX FLOWTRACK 40 perfusion catheter, which is designed to improve access to coronary blockages while allowing physicians to perform PTCA without interrupting blood flow. In May 1993, Guidant introduced in Europe the VIGOR family of pacemakers, a sophisticated adaptive-rate pacemaker line, complementing Guidant's existing pacemaker products. In October 1994, Guidant introduced the VIGOR DDD into the United States market, followed by release of the VIGOR SSI in March 1995. In June 1995, Guidant market released the VIGOR DR and VIGOR SR, a state of the art adaptive-rate pacemaker product line. In October 1994, Guidant market released the VENTAK P3, the VENTAK PRx III and the new ENDOTAK DSP defibrillation lead into the European market. In May 1995, Guidant market released both the VENTAK PRx II and VENTAK PRx III/ENDOTAK defibrillation systems into the United States. The VENTAK PRx III, which is approximately 30% smaller than its market released predecessors, along with the VENTAK PRx II, offer a full range of programmable features, including a biphasic waveform, stored intracardiac electrograms and extensive diagnostics. Both products utilize Guidant's new Model 2950 Programmer/Recorder/Monitor ("PRM") which provides for a simple and easy to use graphical user interface. In May 1995, Guidant also obtained approval for commercial market release in the United States for the ENDOTAK Model 115, which is a shorter version of its ENDOTAK defibrillation lead.

In the United States, Guidant generally markets its products through its direct sales force. Internationally, Guidant uses a combination of direct sales representatives and independent distributors. Guidant continues to evaluate opportunities to sell directly to its customers in markets outside the United States. Guidant currently sells its products in 67 countries and continues to expand its international marketing efforts. International sales accounted for 28% and 31% of Guidant's net sales for 1993 and 1994, respectively.

Guidant's vascular intervention operations are conducted through its subsidiaries Advanced Cardiovascular Systems, Inc. ("ACS") and Devices for Vascular Intervention, Inc. ("DVI"), its CRM operations are conducted through its subsidiaries Cardiac Pacemakers, Inc. ("CPI") and Heart Rhythm Technologies Incorporated ("HRT") and its operations relating to MIS products are conducted through its subsidiary Origin Medsystems, Inc. ("Origin"). Guidant also conducts its business outside the United States through its various international subsidiaries. Guidant's principal executive offices are located at 111 Monument Circle, 29th Floor, Indianapolis, Indiana 46204-5129. Guidant's telephone number is (317) 971-2000.

RISK FACTORS

Set forth below are the principal factors which Guidant believes represent all of the material risks in an investment in the Guidant Common Stock offered hereby: tendering and nontendering shareholders affected differently by the Transaction; tax treatment of the Transaction; market uncertainties with respect to Guidant Common Stock and Lilly Common Stock; stringent government regulation of Guidant's products; Guidant's dependence on patents and proprietary rights; Guidant's reliance on trade secrets and proprietary technology; substantial patent litigation in the medical devices industry; significant competition and continual technological change in the medical devices industry; Guidant's dependence on sole sources of supply; cost pressures on medical technology; potential impact of proposed health care reform; limitations on third party reimbursement; potential impact of an investigation by the United States Department of Health and Human Services regarding reimbursement procedures; potential product liability and product recalls; substantial leverage; restrictions imposed on Guidant by the Credit Agreements (as defined herein); anti-takeover provisions; and potential tax liability of Guidant.

THE TRANSACTION

Pursuant to the Exchange Offer, Lilly is offering, upon the terms and subject to the conditions thereof, to exchange 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock up to an aggregate of 16,504,298 shares of Lilly Common Stock. As of July 31, 1995, there were 292,011,493 shares of Lilly Common Stock outstanding.

If fewer than 16,504,298 shares of Lilly Common Stock (but at least 8,252,149 shares) are tendered and exchanged for Guidant Common Stock pursuant to the Exchange Offer and Lilly accordingly continues to own shares of Guidant Common Stock after consummation of the Exchange Offer, Lilly will, as soon as practicable thereafter, effect the Spin-Off of the remaining shares of Guidant Common Stock owned by Lilly as a pro rata distribution to holders of Lilly Common Stock remaining after consummation of the Exchange Offer. Lilly currently holds 57,600,000 shares of Guidant Common Stock.

PURPOSE AND EFFECTS OF THE TRANSACTION

Lilly announced in January 1994 that it had decided to separate its MDD Division from its core pharmaceutical business. The decision was based on a thorough strategic review by Lilly of its operations. The Transaction will, among other things, (i) allow Guidant to implement more focused incentive compensation programs (including an employee stock ownership plan) designed to better attract, retain and motivate employees by offering employees the ability to own equity in a medical device company, (ii) permit each company to focus its managerial and financial resources on the growth of its business and (iii) enhance the competitive positions of Lilly's core pharmaceutical business and Guidant's medical device business. In addition, Lilly believes that the Transaction will maximize shareholder value for both Lilly and Guidant.

In June 1994, Lilly announced that it intended to form Guidant to be the parent of five of the nine businesses in the MDD Division of Lilly and its subsidiaries. In December 1994, 14,260,000 newly issued shares of Guidant Common Stock were sold pursuant to an initial public offering (the "Offering"). Lilly currently beneficially owns 80.2% of the outstanding shares of Guidant Common Stock. As part of Lilly's plan to consummate the separation of its MDD Division, Lilly is implementing the Transaction.

PRICE RANGE AND DIVIDENDS

Lilly Common Stock and Guidant Common Stock are listed on the NYSE and the PSE. From August 15, 1994 to August 15, 1995, the high and low sale prices per share of Lilly Common Stock as reported in

the consolidated transactions reporting system on the NYSE were $79 3/8 and $52 1/2, respectively. Lilly has paid quarterly cash dividends of $0.625 per share in 1994 and $0.645 per share beginning in the quarter ended March 31, 1995. The declaration and payment of future dividends to holders of Lilly Common Stock will be at the discretion of the Board of Directors of Lilly and will depend upon many factors, including Lilly's competitive position, financial condition, earnings and capital requirements.

From December 14, 1994 (the commencement of trading) to August 15, 1995, the high and low sale prices per share of Guidant Common Stock as reported in the consolidated transactions reporting system on the NYSE were $26 3/4 and $14 1/2, respectively.

On July 17, 1995, the Board of Directors of Guidant declared a cash dividend of $0.025 per share payable on September 18, 1995 to shareholders of record on August 18, 1995. This was the first dividend declared by Guidant since the Offering. The declaration and payment of future dividends, if any, to holders of Guidant Common Stock will be at the discretion of the Board of Directors of Guidant and will depend upon many factors, including Guidant's competitive position, financial condition, earnings and capital requirements. Accordingly, there is no requirement or assurance that future dividends will be declared or paid.

THE EXCHANGE OFFER

Terms of the Exchange Offer.....	Lilly is offering, upon the terms and subject to the conditions of the Exchange Offer, to exchange 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock up to an aggregate of 16,504,298 shares of Lilly Common Stock. A holder of Lilly Common Stock has the right to tender all, or a portion, of such holder's shares of Lilly Common Stock. If fewer than 16,504,298 shares of Lilly Common Stock (but at least 8,252,149 shares) are validly tendered and not properly withdrawn pursuant to the Exchange Offer and the Exchange Offer is consummated, Lilly will distribute the remaining shares of Guidant Common Stock pro rata to remaining holders of Lilly Common Stock as soon as practicable after consummation of the Exchange Offer. See "The Spin-Off." If more than 16,504,298 shares of Lilly Common Stock are validly tendered and not properly withdrawn, Lilly will accept all of such shares on a pro rata basis (except with respect to odd lot tenders) as described herein in exchange for the shares of Guidant Common Stock. To be eligible to receive Guidant Common Stock pursuant to the Exchange Offer, a holder of Lilly Common Stock must validly tender and not withdraw Lilly Common Stock on or prior to the Expiration Date. See "The Exchange Offer--Terms of the Exchange Offer."
Expiration Date.....	12:00 Midnight, New York City time, on Monday, September 18, 1995, unless extended, in which case the term "Expiration Date" shall mean the last date and time to which the Exchange Offer is extended. See "The Exchange Offer--Extension of Tender Period; Termination; Amendment."
Conditions of the Exchange Offer.....	The Exchange Offer is subject to certain conditions including at least 8,252,149 shares of Lilly Common Stock (approximately 2.8% of the outstanding Lilly Common Stock and a sufficient number

	of shares of Lilly Common Stock to result in at least 50% of the Guidant Common Stock to be distributed being exchanged pursuant to the Exchange Offer) being validly tendered and not withdrawn prior to the Expiration Date. All of the conditions to the Exchange Offer may be waived in the good faith reasonable judgment of Lilly. See "The Exchange Offer--Certain Conditions of the Exchange Offer."
Procedures for Tendering....	To be tendered properly, certificates for shares of Lilly Common Stock, together with a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof), or an Agent's Message (as defined herein) in connection with a book-entry transfer of shares and any other documents required by the Letter of Transmittal must be received by the Exchange Agent at one of the addresses set forth on the back cover of this Offering Circular - Prospectus prior to 12:00 Midnight, New York City time, on the Expiration Date, or shareholders must comply with the specific procedures for guaranteed delivery described herein. Delivery of any of the aforementioned required documents to any address other than as set forth herein will not constitute valid delivery thereof. Certain financial institutions may also effect tenders by book-entry transfer through a Book-Entry Transfer Facility (as defined herein). Holders of Lilly Common Stock having shares registered in the name of a broker, dealer, commercial bank, trust company or nominee are urged to contact such person promptly if they wish to tender any shares of Lilly Common Stock pursuant to the Exchange Offer. See "The Exchange Offer--Procedures for Tendering Shares of Lilly Common Stock."
Proration.....	If more than 16,504,298 shares of Lilly Common Stock have been validly tendered for exchange and not withdrawn on or prior to the Expiration Date, Lilly will accept such shares on a pro rata basis, except that any holder of shares of Lilly Common Stock who beneficially owns fewer than 100 shares of Lilly Common Stock and who validly tenders and does not withdraw all such shares of Lilly Common Stock prior to the Expiration Date will not be subject to proration if such holder completes Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery. See "The Exchange Offer--Tenders for Exchange by Holders of Fewer than 100 Shares of Lilly Common Stock."
Withdrawal Rights.....	Subject to the conditions set forth herein, tenders of Lilly Common Stock may be withdrawn at any time on or prior to the Expiration Date, and, unless theretofore accepted for exchange, after October 17, 1995. See "The Exchange Offer--Withdrawal Rights."
No Fractional Shares.....	No fractional shares of Guidant Common Stock will be distributed. Holders of Lilly Common Stock who would otherwise be enti-

	tled to receive a fractional share of Guidant Common Stock will be paid cash in lieu of such fractional share. See "The Exchange Offer."
Delivery of Guidant Common Stock.....	Lilly will deliver shares of Guidant Common Stock and cash in lieu of fractional shares as soon as practicable after acceptance of Lilly Common Stock for exchange. See "The Exchange Offer--Exchange of Shares of Lilly Common Stock."
Exchange Agent.....	The First National Bank of Boston is serving as the Exchange Agent in connection with the Exchange Offer. Its telephone number is (617) 575-2700.
Information Agent.....	D.F. King & Co., Inc. is serving as the Information Agent in connection with the Exchange Offer. Its telephone number is: in the United States, (800) 207-3158; in Europe (44) 171-600-5005 (call collect); and outside the United States and Europe, (212) 269-5550 (call collect).
Certain Federal Income Tax Consequences of the Transaction.....	Lilly has received an advance private letter ruling (the "Ruling Letter") from the Internal Revenue Service (the "IRS") stating that the Transaction will qualify as a distribution that is tax-free to Lilly's shareholders (except with respect to cash received in lieu of fractional shares) and, in general, is tax-free to Lilly. For a more complete discussion of the United States federal income tax consequences of the Transaction to holders of Lilly Common Stock, see "Certain Federal Income Tax Consequences."
Regulatory Approvals.....	Except with respect to possible filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") under certain circumstances, Lilly and Guidant do not believe that the receipt of any material federal or state regulatory approvals will be necessary in connection with the Transaction. See "The Transaction--Regulatory Approvals."
Appraisal Rights.....	No appraisal rights are available to shareholders of Lilly or Guidant in connection with the Transaction. See "The Transaction--Appraisal Rights."

SUMMARY CONSOLIDATED FINANCIAL DATA OF GUIDANT
(IN MILLIONS, EXCEPT OTHER DATA AND PER SHARE AMOUNTS)

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1995	1994	1994	1993	1992	1991	1990
	(UNAUDITED)						(UNAUDITED)
INCOME STATEMENT DATA:							
Net sales:							
Vascular intervention..	$ 225.0	$ 229.3	$464.5	$451.6	$423.7	$376.9	$315.9
CRM.....	209.5	172.4	378.6	336.5	329.9	304.3	246.7
MIS(1).....	14.4	9.0	19.3	6.6	1.2	--	--
Total net sales.....	448.9	410.7	862.4	794.7	754.8	681.2	562.6
Cost of sales.....	144.4	132.9	270.9	236.2	211.8	168.9	135.0
Research and development.....	67.8	65.2	130.9	129.1	117.9	100.4	87.6
Sales, marketing and administrative.....	139.3	128.8	268.9	255.1	251.0	209.1	178.7
Restructuring and special charges.....	--	--	--	81.5	32.9	--	--
Income from operations..	97.4	83.8	191.7	92.8	141.2	202.8	161.3
Other expenses-net.....	25.8	11.3	35.8	5.8	20.1	13.5	28.8
Net income.....	42.3	42.9	92.1	50.6	76.8	115.6	81.6
Earnings per share(2)...	0.59	--	--	--	--	--	--
Pro forma net income(2).	--	30.2	76.2	--	--	--	--
Pro forma earnings per share(2).....	--	0.42	1.06	--	--	--	--

	JUNE 30,	DECEMBER 31,				
	1995	1994	1993	1992	1991	1990
	(UNAUDITED)					(UNAUDITED)
BALANCE SHEET DATA:						
Working capital.....	$ (308.5)(3)	$ 116.8	$ 143.3	$ 136.9	$101.7	$ 58.5
Total assets.....	1,023.6	1,103.6	1,288.6	1,118.0	935.7	754.0
Short-term borrowings...	458.0(3)	--	--	--	--	--
Long-term debt.....	--	473.0(4)	--	2.1	2.4	2.8
Shareholders' equity....	306.8(3)	264.4(5)	1,048.3	942.7	747.2	620.3
Borrowings as a percentage of total capitalization(6).....	59.9%	64.1%	--	0.2%	0.3%	0.5%
Book value per share....	$ 4.27	$ 3.68	--	--	--	--
OTHER DATA:						
Full-time employee equivalents.....	5,164	5,055	5,462	4,864	4,316	3,791

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(1) Sales of MIS products are attributed to the operations of Origin, which was acquired in 1992.

(2) Guidant has reported 1994 earnings per share on a pro forma basis for 1995 comparisons. Pro forma adjustments give effect to the following transactions as if they occurred on January 1, 1994: (i) borrowings under the Credit Agreements, (ii) dividends to Lilly and (iii) receipt of proceeds from the Offering. Historical earnings per share is not presented since such data is not meaningful due to the changes in Guidant's capital structure and other transactions in connection with the Offering.

(3) Borrowings under the Credit Agreements mature on January 8, 1996. As a result, outstanding borrowings, which were $458.0 million on June 30, 1995, are classified as a current liability and result in a working capital deficit.

(4) Long-term debt at December 31, 1994 increased from December 31, 1993 as a result of borrowings under the Credit Agreements.

(5) The decline in shareholders' equity from December 31, 1993 to December 31, 1994 was primarily attributable to dividends to Lilly.

(6) This percentage is computed by dividing the sum of short-term borrowings and long-term debt by total capitalization. Total capitalization is computed as the sum of short-term borrowings, long-term debt and shareholders' equity.

SUMMARY CONSOLIDATED FINANCIAL DATA OF LILLY
(IN MILLIONS, EXCEPT OTHER DATA AND PER SHARE AMOUNTS)

	SIX MONTHS ENDED JUNE 30,			YEAR ENDED DECEMBER 31,					
	PRO FORMA 1995(1)	1995	1994	PRO FORMA 1994(1)	1994	1993	1992	1991	1990
	(UNAUDITED)								
INCOME STATEMENT DATA:									
Net sales	$3,332.1	$3,332.1	$2,655.9	$5,890.3	$5,711.6	$5,198.5	$4,963.1	$4,533.4	$4,179.0
Income from continuing operations before income taxes and cumulative effect of changes in accounting principles	964.5	964.5	893.3	1,431.6	1,698.6	662.8	1,193.5	1,626.3	1,418.1
Income from continuing operations before cumulative effect of changes in accounting principles	684.8	684.8	619.9	989.2	1,185.1	464.8	842.5	1,166.1	1,022.7
Discontinued operations, net of tax	--	35.5	57.4	--	101.0	26.3	(14.9)	148.6	104.6
Income before cumulative effect of changes in accounting principles	--	720.3	677.3	--	1,286.1	491.1	827.6	1,314.7	1,127.3
Cumulative effect of changes in accounting principles, net of tax	--	--	--	--	--	(10.9)	(118.9)	--	--
Net income	--	720.3	677.3	--	1,286.1	480.2	708.7	1,314.7	1,127.3
PER SHARE DATA:									
Income from continuing operations	$ 2.51	$ 2.37	$ 2.14	$ 3.63	$ 4.10	$ 1.58	$ 2.86	$ 3.99	$ 3.54
Income (loss) from discontinued operations	--	.12	.20	--	.35	.09	(.05)	.51	.36
Cumulative effect of changes in accounting principles	--	--	--	--	--	(.04)	(.40)	--	--
Net income	--	2.49	2.34	--	4.45	1.63	2.41	4.50	3.90
Cash dividends declared	--	1.29	1.25	--	2.52	2.44	2.255	2.05	1.73
Ratio of earnings to fixed charges(2)	7.0x	7.0x	19.6x	5.1x	14.0x	7.6x	11.7x	19.1x	15.7x

	JUNE 30,		DECEMBER 31,				
	PRO FORMA 1995(1)	1995	1994	1993	1992	1991	1990
	(UNAUDITED)						
BALANCE SHEET DATA (at end of period):							
Current assets	$3,929.5	$4,410.3	$3,962.3	$3,697.1	$3,006.0	$2,939.3	$2,501.3
Other assets	5,899.3	6,219.4	6,133.6	1,726.3	1,594.7	1,576.8	1,704.8
Property and equipment	4,139.4	4,467.6	4,411.5	4,200.2	4,072.1	3,782.5	2,936.7
Total assets	13,968.2	15,097.2	14,507.4	9,623.6	8,672.8	8,298.6	7,142.8
Short-term borrowings	2,710.5	3,169.2	2,724.4	524.8	591.2	690.2	1,239.5
Other current liabilities	2,303.4	2,484.0	2,945.1	2,403.2	1,807.4	1,581.8	1,578.1
Long-term debt	2,101.7	2,102.1	2,125.8	835.2	582.3	395.5	277.0
Other noncurrent liabilities	1,321.6	1,368.1	1,356.5	1,291.6	799.8	665.0	580.7
Shareholders' equity	5,531.0	5,973.8	5,355.6	4,568.8	4,892.1	4,966.1	3,467.5
Borrowings as a percentage of total capitalization(3)	46.5%	46.9%	47.5%	22.9%	19.3%	17.9%	30.4%
Book value per share	$ 20.08	$ 20.47	$ 18.35	$ 15.61	$ 16.72	$ 16.97	$ 12.98

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(1) Adjusted to give effect to the pro forma adjustments described under "Unaudited Pro Forma Consolidated Financial Information of Lilly."

(2) The ratio of earnings to fixed charges is computed by dividing the sum of income from continuing operations before income taxes and cumulative effect of changes in accounting principles and fixed charges excluding capitalized interest by fixed charges. Fixed charges represent interest on indebtedness from continuing operations.

(3) This percentage is computed by dividing the sum of short-term borrowings and long-term debt by total capitalization. Total capitalization is computed as the sum of short-term borrowings, long-term debt and shareholders' equity.

RISK FACTORS

In considering whether or not to accept the Exchange Offer, holders of Lilly Common Stock should carefully consider all information contained in this Offering Circular - Prospectus, especially the matters described or referred to in the following paragraphs, which Guidant believes represent all of the material risks in an investment in the Guidant Common Stock offered hereby.

TENDERING AND NONTENDERING SHAREHOLDERS AFFECTED DIFFERENTLY BY THE TRANSACTION

Holders of shares of Lilly Common Stock will be affected by the Transaction regardless of whether such holders tender some, all or none of their shares of Lilly Common Stock for exchange pursuant to the Exchange Offer. Holders of shares of Lilly Common Stock who tender all of their shares for exchange pursuant to the Exchange Offer will no longer have an ownership interest in Lilly unless more than 16,504,298 shares of Lilly Common Stock are tendered for exchange and such holder's tendered shares are accordingly prorated (other than shareholders holding less than 100 shares and tendering all such shares and completing Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery). Holders of shares of Lilly Common Stock who do not tender any of their shares for exchange pursuant to the Exchange Offer will not receive shares of Guidant Common Stock unless a spin-off is consummated, and will in any event own fewer shares of Guidant Common Stock than if they had participated in the Exchange Offer. Such holders will continue to have an ownership interest in Lilly, which percentage interest will have been increased as a result of the Exchange Offer. In addition, as a result of the Transaction, Lilly will no longer own any interest in Guidant.

TAX TREATMENT OF THE TRANSACTION

In November 1994, Lilly received the Ruling Letter from the IRS stating that, for United States federal income tax purposes, the Transaction will qualify under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the "Code"), as a distribution that is tax-free to Lilly's shareholders (except with respect to cash received in lieu of fractional shares) and, in general, is tax-free to Lilly. Nevertheless, if Lilly consummates the Transaction and the Transaction is held to be taxable, both Lilly and its shareholders could be subject to tax on the Transaction, which tax could be material. See "Certain Federal Income Tax Consequences."

The Tax Sharing Agreement (as defined herein) provides that if the Transaction fails to qualify under Section 355 as a tax-free distribution as a result of any event wholly or partially within the control of Guidant (or any of its subsidiaries) involving either the stock or assets (or any combination thereof) of Guidant (or any of its subsidiaries) within three years of the date of the Transaction, then Guidant is obligated to indemnify and to hold Lilly harmless from any tax liability imposed upon Lilly in connection with the Transaction. Any such obligation of Guidant to indemnify Lilly would have a material adverse effect on Guidant. See "Relationship Between Guidant and Lilly--Tax Sharing Agreement."

MARKET UNCERTAINTIES WITH RESPECT TO GUIDANT COMMON STOCK AND LILLY COMMON STOCK

The Transaction will increase the number of publicly held shares of Guidant Common Stock and the number of shareholders of Guidant. If significant numbers of holders of Lilly Common Stock who receive shares of Guidant Common Stock pursuant to the Transaction attempt to sell such shares on the open market shortly after the Transaction, the market price for Guidant Common Stock in the short-term could be adversely affected.

The reduction in the number of shares of Lilly Common Stock outstanding will increase the proportionate ownership interest in Lilly of shareholders of Lilly who do not tender pursuant to the Exchange Offer.

STRINGENT GOVERNMENT REGULATION

Guidant's products are subject to extensive regulation by the federal Food and Drug Administration ("FDA") and, in some jurisdictions, by state and foreign governmental authorities. In particular, Guidant must obtain specific clearance from the FDA before it can market products in the United States. The process of obtaining such clearances can be time consuming and expensive, and there can be no assurance that all clearances sought by Guidant will be granted or that FDA review will not involve delays adversely affecting the marketing and sale of Guidant's products. Current FDA enforcement policy prohibits the promotion or labeling of approved medical devices for unapproved uses. Guidant is also required to adhere to the manufacturing, testing, control, labeling, documentation and product surveillance requirements of the FDA. These regulations may have a material impact on Guidant's business. Recently, the FDA has pursued a more rigorous enforcement program to ensure that regulated businesses, like Guidant's, comply with applicable laws and regulations. Medical device laws are also in effect in many of the foreign countries where Guidant does business. Federal, state and foreign regulations regarding the manufacture and sale of medical devices are subject to future changes. For example, the FDA is currently considering major revisions to its Good Manufacturing Practices ("GMP") regulations. Such revisions may have a material impact on Guidant's business. If the FDA believes that a company is not in compliance with applicable regulations, it can institute proceedings to detain or seize products, issue a recall, impose operating restrictions, enjoin future violations and assess civil and criminal penalties against the company, its officers or its employees and can recommend criminal prosecution to the Department of Justice. Other regulatory agencies may have similar powers. In addition, product approvals could be withdrawn due to the failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing. In addition, any adverse regulatory action, depending on its magnitude, may have a material adverse effect on Guidant. See "Business of Guidant--Government Regulation."

DEPENDENCE ON PATENTS AND PROPRIETARY RIGHTS

Guidant owns numerous United States and foreign patents and has numerous patent applications pending. Guidant also has license rights to certain patents held by third parties. Guidant is currently subject to claims of, and legal actions alleging, infringement by Guidant of the patent rights of others. An adverse outcome with respect to any one or more of these claims or actions or any future claims or actions could have a material adverse effect on Guidant. See "Business of Guidant--Legal Proceedings." In addition, there can be no assurance that pending patent applications will result in issued patents, that patents issued to or licensed by Guidant will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect Guidant's technology or provide Guidant with any competitive advantage. Third parties could also obtain patents that may require licensing for the conduct of Guidant's business. See "Business of Guidant--Patents, Trademarks, Proprietary Rights and Licenses."

RELIANCE ON TRADE SECRETS AND PROPRIETARY TECHNOLOGY

Guidant also relies on trade secrets and proprietary technology that it seeks to protect, in part, through confidentiality agreements with certain employees, consultants and other parties. There can be no assurance that these agreements will not be breached, that Guidant will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to Guidant's trade secrets.

SUBSTANTIAL PATENT LITIGATION

There has been substantial litigation regarding patent and other intellectual property rights in the medical devices industry. Historically, litigation has been necessary to enforce certain patent rights held by Guidant. Future litigation by Guidant may be necessary to enforce its patent rights, to protect its trade secrets or know-how or to defend it against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Any such litigation could result in substantial cost to and diversion of effort by Guidant. Adverse determinations in any such litigation could subject Guidant to

significant liabilities to third parties, could require Guidant to seek licenses from third parties and could prevent Guidant from manufacturing, selling or using certain of its products, any of which could have a material adverse effect on Guidant. See "Business of Guidant--Patents, Trademarks, Proprietary Rights and Licenses" and "Business of Guidant--Legal Proceedings."

SIGNIFICANT COMPETITION AND CONTINUAL TECHNOLOGICAL CHANGE

The medical devices market is highly competitive. Guidant competes with many companies, some of which may have access to greater financial and other resources than Guidant. Furthermore, the medical devices market is characterized by rapid product development and technological change. The present or future products of Guidant could be rendered obsolete or uneconomic by technological advances by one or more of Guidant's current or future competitors or by other therapies such as drugs. Guidant must continue to develop new products and technology to remain competitive with other developers of such medical devices and therapies. See "Business of Guidant--Competition."

Guidant's business strategy emphasizes the continued development and commercialization of new products and the enhancement of existing products for Guidant's markets. There can be no assurance that Guidant will be able to develop new products and to enhance existing products, to manufacture these products in a commercially viable manner, to obtain required regulatory approvals or to gain satisfactory market acceptance for such products.

DEPENDENCE ON SOLE SOURCES OF SUPPLY

Guidant purchases certain of the materials and components used in manufacturing its products. Certain of these supplies are custom-made for Guidant. In addition, Guidant purchases certain supplies from single sources due to quality considerations, costs or constraints resulting from regulatory requirements. In the past, certain suppliers have announced that, in an effort to reduce potential product liability exposure, such suppliers intend to limit or terminate sales of certain supplies to the medical devices industry. In addition, agreements with certain suppliers are terminable by either party upon short notice. Guidant has agreed to indemnify certain suppliers for certain potential product liability exposure. Lilly has guaranteed the performance by Guidant of certain of the indemnification obligations. Lilly has agreed with Guidant, pursuant to the Transfer Agreement (as defined herein), that Lilly will not terminate its guarantee obligations for any such supply agreements to which it is a party prior to December 1997, unless any such supplier has consented to the termination or assignment of such obligation. The establishment of additional or replacement suppliers for certain components or materials cannot be accomplished quickly, largely due to the FDA approval system and the complex nature of manufacturing processes employed by many suppliers. The inability to develop satisfactory alternatives, if required, or a reduction or interruption in supply or a significant increase in the price of materials or components could have a material adverse effect on Guidant.

COST PRESSURES ON MEDICAL TECHNOLOGY

Guidant believes that the overall escalating cost of health care products and services has led and will continue to lead to increased pressures upon the health care industry to reduce the cost of products and services, which will include those offered by Guidant.

POTENTIAL IMPACT OF PROPOSED HEALTH CARE REFORM

During the past several years, several comprehensive health care reform proposals were introduced in the United States Congress. The intent of the proposals was, generally, to expand health care coverage for the uninsured and reduce total health care expenditures. Various provisions contained in these proposals would have dramatically altered health care delivery and payment in the United States.

It is expected that future health care reform will be proposed in more of a "piecemeal" approach. Specific areas that may be addressed include insurance market reforms, medical and product liability, fraud and abuse statutes and administrative simplification.

Certain states have already made significant changes to their Medicaid programs and have also adopted health care reform. Efforts by individual states to expand coverage and/or reduce costs are expected to accelerate during 1995 and 1996. Features of such state proposals could include state single payer plans, global budgets, technology assessment panels, the creation of large purchasing pools or mandates on employers to provide coverage. The success of many state initiatives may depend on overcoming regulations imposed by the Employee Retirement Income Security Act ("ERISA"). Among other things, ERISA regulates health insurance programs offered by multi-state employers who are self insured. In order to enact certain reforms, states would be required to seek modifications to ERISA itself.

Implementation of health care reform may limit the price of, or the level at which reimbursement is provided for, Guidant's products. In addition, health care reform may accelerate the growing trend toward involvement by hospital administrators, purchasing managers and buying groups in purchasing decisions. This trend may lead to increased emphasis on the cost-effectiveness of any treatment regimen. Similar initiatives to limit the growth of health care costs, including price regulation, are also underway in several other countries in which Guidant does business. No assurance can be given that any such reforms will not have a material adverse effect on the medical devices industry in general, or Guidant in particular. See "Business of Guidant--Health Care Reform; Third Party Reimbursement."

LIMITATIONS ON THIRD PARTY REIMBURSEMENT

Guidant's products are purchased principally by hospitals or physicians. Hospitals typically bill various third party payors, such as governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care plans, for the health care services provided to their patients. Third party payors are increasingly negotiating the prices charged for medical products and services. If hospitals respond to such pressures by substituting lower cost products or other therapies for Guidant's products, Guidant could be adversely affected. Moreover, third party payors may deny reimbursement if it is determined that a device was not used in accordance with cost-effective treatment methods as determined by the payor, was experimental, or for other reasons. See "Business of Guidant--Health Care Reform; Third Party Reimbursement."

The ability of customers to obtain appropriate reimbursement for their products and services from government and third party payors is critical to the success of all medical device companies around the world. Several foreign governments (most notably Germany and Spain) have attempted to reshape reimbursement policies affecting medical devices. In the United States, investigations by the Office of the Inspector General (the "OIG") of the United States Department of Health and Human Services ("HHS") have had a negative effect on reimbursement for products used as part of FDA approved clinical trials. Further, Congress is currently considering legislation that would apply certain health care fraud and abuse statutes to all payors. Restrictions on reimbursement of Guidant's customers will likely have an impact on the products purchased by customers and the prices they are willing to pay.

POTENTIAL IMPACT OF HHS INVESTIGATION REGARDING REIMBURSEMENT PROCEDURES

The OIG is currently conducting an investigation regarding the possible submission by hospitals or other health care providers of false or improper claims to the Medicare/Medicaid programs for reimbursement for procedures using cardiovascular medical devices that were not approved for marketing by the FDA at the time of use. Several medical devices companies, including CPI and DVI, subsidiaries of Guidant, have received subpoenas from the OIG for records relating to the distribution to hospitals of products under clinical study. Beginning in June 1994, approximately 130 hospitals received subpoenas from HHS seeking information specific to practices in seeking reimbursement from Medicare/Medicaid for procedures using

cardiovascular medical devices (including those manufactured by CPI, ACS and DVI, subsidiaries of Guidant, as well as numerous other manufacturers) that were not approved for marketing by the FDA at the time of use. The subpoenas sent to hospitals also seek information regarding various types of remuneration, including payments, gifts, stock and stock options, received by the hospital or its employees from manufacturers of medical devices. Significant sanctions may be imposed against any person, including a health care provider or medical devices manufacturer, that makes, or causes to be made, a false claim for Medicare or Medicaid payment. These sanctions may include civil fines and penalties, criminal penalties, remedies under the Program Fraud Remedies Act of 1986, the False Claims Act and the Medicare Fraud and Abuse Act, state disciplinary proceedings and, in the case of providers, exclusion from the Medicare and Medicaid programs. The OIG's investigation and any related change in reimbursement practices could cause hospitals to decide not to participate in clinical trials or to treat Medicare and Medicaid patients only with medical devices that have been cleared for marketing by the FDA. There can be no assurance that the OIG's investigation or any changes in third party payors' reimbursement practices will not materially adversely affect the medical devices industry in general, or Guidant in particular. See "Business of Guidant--Health Care Reform; Third Party Reimbursement."

POTENTIAL PRODUCT LIABILITY; PRODUCT RECALLS

Guidant's business exposes it to potential product liability risks which are inherent in the design, manufacture and marketing of medical devices. Guidant's products are often used in intensive care settings with seriously ill patients. In addition, many of the medical devices manufactured and sold by Guidant are designed to be implanted in the human body for long periods of time. Component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information with respect to these or other products manufactured or sold by Guidant could result in an unsafe condition or injury to, or death of, the patient. The occurrence of such a problem could result in product liability claims and/or a recall of, or safety alert relating to, one or more of Guidant's products which could ultimately result, in certain cases, in the removal from the body of such products. There can be no assurance that Guidant's current product liability insurance will be adequate or that Guidant will be able to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on Guidant's business and reputation and on its ability to attract and retain customers for its products. See "--Dependence on Sole Sources of Supply" and "Business of Guidant--Product Liability and Insurance."

SUBSTANTIAL LEVERAGE; RESTRICTIONS IMPOSED ON GUIDANT BY THE CREDIT AGREEMENTS

As of June 30, 1995, Guidant had $458.0 million of aggregate borrowings outstanding under credit agreements entered into by certain of Guidant's subsidiaries with certain banks, dated as of June 8, 1994, as amended (the "Credit Agreements"). Guidant's related debt as a percentage of its total capitalization at June 30, 1995 was approximately 60% while Guidant's related interest coverage ratio (which measures the relationship between income and debt charges and is computed by dividing income before interest charges and taxes by interest charges) as of the same date was 5.8. The degree to which Guidant is leveraged may have important consequences to Guidant's operations, including the following: (i) the ability of Guidant to obtain additional financing in the future for working capital, capital expenditures, acquisitions, or other purposes, should it need to do so, may be impaired; (ii) Guidant may not have the ability to refinance its borrowings under the Credit Agreements on terms acceptable to it; (iii) Guidant will be more highly leveraged than other medical device companies, which may place it at a competitive disadvantage; and (iv) Guidant's leverage may make it more vulnerable to a downturn in its business. See "Description of the Guidant Credit Agreements."

ANTI-TAKEOVER PROVISIONS

Certain provisions of Guidant's Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and By-laws, including the provisions in the Articles of Incorporation providing for (i) the issuance of blank check preferred stock by the Board of Directors without shareholder approval, (ii) higher shareholder voting requirements for certain transactions such as business combinations, (iii) classification of the Board of Directors into three classes, (iv) the removal of directors by a vote of 80% of Guidant's

outstanding voting power and (v) exculpation of directors in certain circumstances, and Guidant's shareholder rights plan may have the effect of delaying, deferring or preventing a change of control of Guidant without further action by the shareholders, may discourage bids for Guidant Common Stock at a premium over the market price of Guidant Common Stock and may adversely affect the market price of, and the voting and other rights of, the holders of Guidant Common Stock. In addition, certain "anti-takeover" provisions of the Indiana Business Corporation Law, including the Indiana Control Share Act and the Indiana Business Combination Act, restrict the ability of shareholders to effect a merger or business combination or obtain control of Guidant, and may be considered disadvantageous by a shareholder. See "Description of Guidant Capital Stock--Certain Articles of Incorporation and By-Laws Provisions of Guidant and Indiana Anti-Takeover Provisions" and "--Shareholder Rights Plan."

POTENTIAL TAX LIABILITY OF GUIDANT

In connection with the Transaction, Guidant has agreed to indemnify Lilly for certain taxes resulting from the failure of the Exchange Offer and the Spin-Off to qualify as tax-free distributions if such failure is attributable to certain actions by or relating to Guidant, including certain change of control transactions involving Guidant occurring within three years after the date of the Transaction. See "Relationship Between Guidant and Lilly--Tax Sharing Agreement."

PURPOSE AND EFFECTS OF THE TRANSACTION

Lilly announced in January 1994 that it had decided to separate its MDD Division from its core pharmaceutical business. The decision was based on a thorough strategic review by Lilly of its operations. The Transaction will, among other things, (i) allow Guidant to implement more focused incentive compensation programs (including an employee stock ownership plan) designed to better attract, retain and motivate employees by offering employees the ability to own equity in a medical device company, (ii) permit each company to focus its managerial and financial resources on the growth of its business and (iii) enhance the competitive positions of Lilly's core pharmaceutical business and Guidant's medical device business. In addition, Lilly believes that the Transaction will maximize shareholder value for both Lilly and Guidant.

In June 1994, Lilly announced that it intended to form Guidant to be the parent of five of the nine businesses in the MDD Division of Lilly and its subsidiaries. In December 1994, 19.8% of Guidant Common Stock was sold to the public. Lilly currently owns 80.2% of the outstanding shares of Guidant Common Stock. As part of Lilly's plan to consummate the separation of its MDD Division, Lilly is implementing the Transaction.

The Transaction will reduce the number of outstanding shares of Lilly Common Stock. This reduction will increase the proportionate ownership in Lilly of shareholders who do not tender Lilly Common Stock pursuant to the Exchange Offer. The Exchange Offer will also provide Lilly's shareholders with an opportunity to adjust, in a tax-efficient manner, their investment between Lilly's remaining life sciences business and Guidant's medical device business. To the extent that a holder exchanges all of such holder's Lilly Common Stock pursuant to the Exchange Offer, the holder will no longer participate in any increase in the value of Lilly Common Stock. Furthermore, any Lilly shareholder owning an aggregate of less than 100 shares of Lilly Common Stock whose shares of Lilly Common Stock are accepted for exchange pursuant to the Exchange Offer will avoid the applicable odd lot discounts payable on sales of odd lots on the NYSE. The Exchange Offer will also result in a reduction of consolidated long-term debt as reported on Lilly's balance sheet. In addition, upon consummation of the Exchange Offer, there will be a reduction in the number of outstanding shares of Lilly Common Stock, and a corresponding reduction in the aggregate amount of dividends payable to Lilly shareholders. Amounts resulting from the reduction in dividend expenditures will be available to Lilly to fund the development of its pharmaceutical business and for other corporate purposes.

Holders of shares of Lilly Common Stock will be affected by the Transaction regardless of whether such holders tender their shares of Lilly Common Stock for exchange pursuant to the Exchange Offer. Holders of

shares of Lilly Common Stock who tender all of their shares for exchange pursuant to the Exchange Offer will no longer have an ownership interest in Lilly unless more than 16,504,298 shares of Lilly Common Stock are tendered for exchange and such holder's tendered shares are accordingly prorated (other than shareholders holding less than 100 shares and tendering all such shares and completing Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery). Holders of shares of Lilly Common Stock who do not tender any of their shares for exchange pursuant to the Exchange Offer will not receive shares of Guidant Common Stock as a result of the Exchange Offer, although such shareholders will receive shares of Guidant Common Stock pursuant to the Spin-Off if fewer than 16,504,298 shares of Lilly Common Stock are tendered pursuant to the Exchange Offer and the Exchange Offer is consummated. Such holders will continue to have an ownership interest in Lilly, which percentage interest will have been increased as a result of the Exchange Offer.

Lilly Common Stock acquired by Lilly pursuant to the Exchange Offer will be available for issuance by Lilly without further shareholder action (except as required by applicable law or the rules of national securities exchanges on which the Lilly Common Stock is listed) for general or other corporate purposes, including stock splits or dividends, acquisitions, the raising of additional capital for use in Lilly's business and pursuant to employee stock plans and benefit plans.

THE TRANSACTION

GENERAL

Pursuant to the Exchange Offer, Lilly is offering, upon the terms and subject to the conditions thereof, to exchange 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock tendered and exchanged up to an aggregate of 16,504,298 shares of Lilly Common Stock.

If more than 16,504,298 shares of Lilly Common Stock have been validly tendered for exchange and not withdrawn on or prior to the Expiration Date, except as provided herein, Lilly will accept such shares for exchange on a pro rata basis. If fewer than 16,504,298 shares of Lilly Common Stock (but at least 8,252,149 shares) are tendered and exchanged for Guidant Common Stock pursuant to the Exchange Offer and Lilly accordingly continues to own shares of Guidant Common Stock after consummation of the Exchange Offer, Lilly will effect the Spin-Off of the remaining shares of Guidant Common Stock owned by Lilly as a pro rata distribution to holders of Lilly Common Stock remaining after consummation of the Exchange Offer based on their percentage ownership of Lilly Common Stock after the Exchange Offer.

Lilly currently holds 57,600,000 shares of Guidant Common Stock.

NEITHER THE BOARD OF DIRECTORS OF LILLY NOR LILLY MAKES ANY RECOMMENDATION TO ANY SHAREHOLDER WHETHER TO TENDER OR REFRAIN FROM TENDERING SHARES OF LILLY COMMON STOCK PURSUANT TO THE EXCHANGE OFFER. EACH SHAREHOLDER OF LILLY MUST MAKE HIS OR HER OWN DECISION WHETHER TO TENDER SHARES OF LILLY COMMON STOCK PURSUANT TO THE EXCHANGE OFFER AND, IF SO, HOW MANY SHARES TO TENDER, AFTER READING THIS OFFERING CIRCULAR -PROSPECTUS AND CONSULTING WITH HIS OR HER ADVISORS BASED ON HIS OR HER OWN FINANCIAL POSITION AND REQUIREMENTS.

REGULATORY APPROVALS

No filings under the HSR Act are required in connection with the Exchange Offer generally. To the extent certain shareholders of Lilly decide to participate in the Exchange Offer and to acquire a number of shares of Guidant Common Stock that exceeds one of the thresholds stated in the regulations under the HSR Act, and if an exemption under those regulations does not apply, such shareholders and Lilly could be required to make filings under the HSR Act, and the waiting period requirements under the HSR Act may have to be satisfied before the exchanges by those particular shareholders could be carried out.

Except as stated above, Lilly and Guidant do not believe that any material federal or state regulatory approval will be necessary in connection with the Transaction.

APPRAISAL RIGHTS

No appraisal rights are available to Lilly or Guidant shareholders in connection with the Transaction.

ACCOUNTING TREATMENT OF THE TRANSACTION

The shares of Lilly Common Stock received pursuant to the Exchange Offer will be recorded as an increase to treasury stock at the market value of the shares of Guidant Common Stock distributed on the Expiration Date. The Exchange Offer will result in a net gain to Lilly, after direct expenses of the disposition, which will be netted with the gains and losses from the divestitures of Lilly's other MDD companies and reported as a component of the anticipated gain on the disposal of discontinued operations. The gain from the Exchange Offer will result from the difference between the market value and the carrying value of the shares of Guidant Common Stock distributed.

The remaining shares of Guidant Common Stock, if distributed through a spin-off, will be accounted for as a dividend with a direct charge to retained earnings. The amount of the dividend will be equal to Lilly's carrying value of the shares of Guidant Common Stock distributed in such spin-off.

THE EXCHANGE OFFER

TERMS OF THE EXCHANGE OFFER

Upon the terms and subject to the conditions set forth in the Exchange Offer, Lilly hereby offers to exchange and will accept for exchange, 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock, up to a maximum of 16,504,298 shares of Lilly Common Stock, that is validly tendered by the Expiration Date and not withdrawn as provided in "--Withdrawal Rights." A holder of Lilly Common Stock has the right to tender all, none or a portion, of such holder's shares of Lilly Common Stock. The term "Expiration Date" shall mean 12:00 Midnight, New York City time, on Monday, September 18, 1995, unless Lilly, in its sole discretion, shall have extended the period of time for which the Exchange Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Exchange Offer, as so extended by Lilly, shall expire. The proration period will also expire on the Expiration Date.

The exchange ratio of 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock exchanged was established by Lilly. The principal factors considered by Lilly in determining the exchange ratio were (i) recent market prices for Lilly Common Stock and Guidant Common Stock and (ii) advice from the Dealer Manager with respect to the determination of the exchange ratio in order to attract a sufficient number of Lilly shareholders to participate in the Exchange Offer.

It is a condition to the Exchange Offer that at least 8,252,149 shares of Lilly Common Stock (approximately 2.8% of the outstanding Lilly Common Stock as of July 31, 1995, and a sufficient number of shares of Lilly Common Stock to result in at least 50% of the Guidant Common Stock intended to be distributed by Lilly being exchanged pursuant to the Exchange Offer) be validly tendered and not withdrawn prior to the Expiration Date (the "Minimum Condition"). If fewer than 16,504,298 shares of Lilly Common Stock are validly tendered pursuant to the Exchange Offer and not withdrawn and the Minimum Condition is satisfied, subject to the other conditions of the Exchange Offer, Lilly intends to exchange all such tendered shares of Lilly Common Stock for shares of Guidant Common Stock and to distribute the remaining shares of Guidant Common Stock intended to be distributed by Lilly to the holders of Lilly Common Stock remaining following consummation of the Exchange Offer pro rata based on their respective holdings of Lilly Common Stock. See "The Spin-Off." Upon the terms and subject to the conditions of the Exchange Offer, if

more than 16,504,298 shares of Lilly Common Stock have been validly tendered for exchange and not withdrawn prior to the Expiration Date, Lilly will exchange shares of Guidant Common Stock for shares of Lilly Common Stock in the following order of priority:

(a) all shares of Lilly Common Stock tendered for exchange and not withdrawn prior to the Expiration Date by or on behalf of any shareholder who beneficially owned an aggregate of fewer than 100 shares of Lilly Common Stock as of the close of business on August 16, 1995 and who validly tenders all such shares of Lilly Common Stock (partial tenders for exchange will not qualify for this preference) and completes Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery; and

(b) after exchange of all of the foregoing shares of Lilly Common Stock, all other shares of Lilly Common Stock validly tendered and not withdrawn prior to the Expiration Date on a pro rata basis, if necessary (with appropriate adjustments to avoid purchases of fractional shares of Lilly Common Stock).

As a result of such order of priority, shares of Lilly Common Stock described in clause (a) will not be subject to proration. Shares of Lilly Common Stock not exchanged for shares of Guidant Common Stock because of proration will be returned.

Lilly does not expect that it would be able to announce the final proration factor or to commence delivery of any shares of Guidant Common Stock exchanged pursuant to the Exchange Offer until approximately seven NYSE trading days after the Expiration Date if proration of tendered shares of Lilly Common Stock is required. This delay results from the difficulty in determining the number of shares of Lilly Common Stock validly tendered for exchange (including shares of Lilly Common Stock tendered for exchange pursuant to the guaranteed delivery procedures described in "--Guaranteed Delivery Procedures") and not withdrawn prior to the Expiration Date and as a result of the "odd lot" procedure described herein. Preliminary results of proration will be announced by press release as promptly as practicable after the Expiration Date. Holders of shares of Lilly Common Stock may obtain such preliminary information from the Information Agent or the Dealer Manager and may also be able to obtain such information from their brokers.

No fractional shares of Guidant Common Stock will be distributed. The Exchange Agent, acting as agent for Lilly shareholders otherwise entitled to receive fractional shares, will aggregate all fractional shares and sell them for the accounts of such shareholders. Proceeds from sales of fractional shares will be paid by the Exchange Agent based upon the average gross selling price per share of all such sales. Any such cash payments will be made through the Exchange Agent if such shares of Lilly Common Stock are tendered to the Exchange Agent, or if such shares of Lilly Common Stock are tendered through a Book-Entry Transfer Facility (as defined herein), through such Book-Entry Transfer Facility. The method for handling fractional share interests is designed so that the amount of cash received by any one shareholder will be less than the amount that is allocated to one whole share. In those instances where Lilly knows that a shareholder holds Lilly Common Stock in multiple accounts, that shareholder's various fractional share interests will be combined so as to avoid distributing to the shareholder an amount of cash equal to or greater than the value of one share. None of the Exchange Agent, Lilly, Guidant, the Dealer Manager or any Soliciting Dealer will guarantee any minimum sale price for the shares of Guidant Common Stock.

On July 18, 1988, Lilly's Board of Directors declared a dividend distribution of one Preferred Stock Purchase Right (a "Purchase Right") for each share of Lilly Common Stock outstanding on July 28, 1988. Shares of Lilly Common Stock outstanding on, or issued subsequent to, July 28, 1988 automatically include these Purchase Rights. The Purchase Rights expire on July 28, 1998 unless redeemed earlier by Lilly. Each Purchase Right entitles its holder to purchase from Lilly one one-hundredth of a share of Series A Junior Participating Preferred Stock at a purchase price of $325 per unit, subject to adjustment. The Purchase Rights are not currently exercisable and trade together with the shares of Lilly Common Stock associated therewith. The Purchase Rights will not become exercisable or separately tradeable as a result of the Exchange Offer.

Absent circumstances causing the Purchase Rights to become exercisable or separately tradeable prior to the Expiration Date, the tender of any shares of Lilly Common Stock pursuant to the Exchange Offer will include the tender of the associated Purchase Rights. No separate consideration will be paid for such Purchase Rights. Upon the exchange of shares of Lilly Common Stock pursuant to the Exchange Offer, the holders of the shares so exchanged will no longer own the Purchase Rights associated with such shares.

The Exchange Offer is subject to certain conditions set forth in "--Certain Conditions of the Exchange Offer," including the Minimum Condition. If any such conditions are not satisfied, Lilly may (i) terminate the Exchange Offer and return all tendered shares of Lilly Common Stock to tendering shareholders, (ii) extend the Exchange Offer and, subject to withdrawal rights as set forth in "--Withdrawal Rights," retain all such shares of Lilly Common Stock until the expiration of the Exchange Offer as so extended, (iii) waive such condition and, subject to any requirement to extend the period of time during which the Exchange Offer is open, exchange all shares of Lilly Common Stock validly tendered for exchange by the Expiration Date and not withdrawn or (iv) delay acceptance for exchange of or exchange for any shares of Lilly Common Stock until satisfaction or waiver of such conditions to the Exchange Offer. Lilly's right to delay acceptance for exchange of, or exchange for, shares of Lilly Common Stock tendered for exchange pursuant to the Exchange Offer is subject to the provisions of applicable law, including, to the extent applicable, Rule 13e-4(f)(5) promulgated under the Exchange Act, which requires that Lilly pay the consideration offered or return the shares of Lilly Common Stock deposited by or on behalf of Lilly's shareholders promptly after the termination or withdrawal of the Exchange Offer. For a description of Lilly's right to extend the period of time during which the Exchange Offer is open and to amend, delay or terminate the Exchange Offer, see "--Extension of Tender Period; Termination; Amendment."

This Offering Circular - Prospectus and related Letter of Transmittal will be mailed to record holders of shares of Lilly Common Stock at the close of business on August 16, 1995, and will be furnished to brokers, banks and similar persons whose names, or the names of whose nominees, appear on the Lilly shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of shares of Lilly Common Stock. As of July 31, 1995, 292,011,493 shares of Lilly Common Stock were outstanding.

TENDERS FOR EXCHANGE BY HOLDERS OF FEWER THAN 100 SHARES OF LILLY COMMON STOCK

All shares of Lilly Common Stock validly tendered for exchange and not withdrawn by or on behalf of persons who beneficially own an aggregate of fewer than 100 shares of Lilly Common Stock as of the close of business on August 16, 1995, and who validly tender for exchange all such shares of Lilly Common Stock and do not withdraw any of such shares of Lilly Common Stock by the Expiration Date, will be accepted for exchange before proration, if any, of the exchange of other shares of Lilly Common Stock tendered for exchange. See "--Terms of the Exchange Offer" and "--Exchange of Shares of Lilly Common Stock." Partial tenders will not qualify for this preference, and it is not available to beneficial holders of 100 or more shares of Lilly Common Stock, even if such holders have separate stock certificates or accounts for fewer than 100 shares of Lilly Common Stock. Any shareholder wishing to tender all of his or her shares of Lilly Common Stock pursuant to this provision must complete Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery.

EXCHANGE OF SHARES OF LILLY COMMON STOCK

Upon the terms (including, without limitation, the proration provisions of the Exchange Offer) and subject to the satisfaction or waiver of the conditions of the Exchange Offer, Lilly will, as promptly as practicable after the Expiration Date, (subject to the proration provisions of the Exchange Offer) accept for exchange, and transfer shares of Guidant Common Stock in exchange for, shares of Lilly Common Stock that have been validly tendered and not withdrawn by the Expiration Date. In addition, Lilly reserves the right, in its sole discretion (subject to Rule 13e-4(f)(5) under the Exchange Act), to delay the acceptance for exchange or delay exchange of any shares of Lilly Common Stock in order to comply in whole or in part

with any applicable law. For a description of Lilly's right to terminate the Exchange Offer and not accept for exchange of or exchange for any shares of Lilly Common Stock or to delay acceptance for exchange of or exchange for any shares of Lilly Common Stock, see "--Extension of Tender Period; Termination; Amendment."

For purposes of the Exchange Offer, Lilly shall be deemed, subject to the proration provisions of the Exchange Offer, to have accepted for exchange and exchanged shares of Lilly Common Stock validly tendered for exchange when, as and if Lilly gives oral or written notice to the Exchange Agent of its acceptance of the tenders of such shares of Lilly Common Stock for exchange. Exchange of shares of Lilly Common Stock accepted for exchange pursuant to the Exchange Offer will be made by deposit of tendered shares of Lilly Common Stock with the Exchange Agent, which will act as agent for the tendering shareholders for the purpose of receiving shares of Guidant Common Stock from Lilly and transmitting such shares of Guidant Common Stock to tendering shareholders. In all cases, exchange for shares of Lilly Common Stock accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of (i) certificates for such shares of Lilly Common Stock (or of a confirmation of a book-entry transfer of such shares of Lilly Common Stock into the Exchange Agent's account at one of the Book-Entry Transfer Facilities) and (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) or an Agent's Message in connection with a book-entry transfer of shares, together with any other documents required by the Letter of Transmittal. For a description of the procedures for tendering shares of Lilly Common Stock pursuant to the Exchange Offer, see "--Procedures for Tendering Shares of Lilly Common Stock." Accordingly, exchanges of shares of Guidant Common Stock for shares of Lilly Common Stock may be made to tendering shareholders at different times if delivery of the shares of Lilly Common Stock and other required documents occur at different times. Under no circumstances will interest be paid by Lilly pursuant to the Exchange Offer, regardless of any delay in making such exchange.

The exchange of shares of Guidant Common Stock for shares of Lilly Common Stock may be delayed in the event of difficulty in determining the number of shares of Lilly Common Stock validly tendered or if proration is required. See "--Terms of the Exchange Offer." In addition, if certain events occur, Lilly may not be obligated to exchange shares of Guidant Common Stock for shares of Lilly Common Stock pursuant to the Exchange Offer. See "--Certain Conditions of the Exchange Offer." As provided in Rules 13e-4(f)(4) and (8)(ii) under the Exchange Act, Lilly will exchange the same number of shares of Guidant Common Stock for each share of Lilly Common Stock accepted for exchange pursuant to the Exchange Offer.

If any tendered shares of Lilly Common Stock are not exchanged pursuant to the Exchange Offer for any reason, or if certificates are submitted for more shares of Lilly Common Stock than are (i) tendered for exchange or (ii) accepted for exchange due to the proration provisions, certificates for such unexchanged or untendered shares of Lilly Common Stock will be returned (or, in the case of shares of Lilly Common Stock tendered by book-entry transfer, such shares of Lilly Common Stock will be credited to an account maintained at one of the Book-Entry Transfer Facilities), without expense to the tendering shareholder, as promptly as practicable following the expiration or termination of the Exchange Offer.

Following termination of the Exchange Offer and Lilly's acceptance of any tendered shares for exchange, Lilly will irrevocably deliver all of its Guidant shares to the Exchange Agent (or an escrowee) who, as agent for the Lilly shareholders entitled thereto, will hold and deliver those shares to such shareholders in accordance with their respective interests pursuant to the Exchange Offer and any related spin-off. If the exchange of shares as to any holder is delayed because of the requirements of the HSR Act, during the delay period such shares (together with any dividends thereon) will continue to be held as described above and will be voted in the same proportions as other outstanding Guidant shares are voted.

Lilly will pay all stock transfer taxes, if any, payable on the transfer to it of shares of Lilly Common Stock and the transfer to tendering shareholders of shares of Guidant Common Stock, pursuant to the Exchange Offer. If, however, the exchange of shares is to be made to, or (in the circumstances permitted by the Exchange Offer) if shares of Lilly Common Stock that are not accepted for exchange are to be registered in the name of or shares of Lilly Common Stock that are not tendered or are not accepted for exchange are

to be delivered to any person other than the registered owner, or if tendered certificates are registered in the name of any person other than the person signing the Letter of Transmittal, the amount of all stock transfer taxes, if any (whether imposed on the registered owner or such other person), payable on account of the transfer to such person must be paid by the tendering shareholder unless evidence satisfactory to Lilly of the payment of such taxes or exemption therefrom is submitted.

PROCEDURES FOR TENDERING SHARES OF LILLY COMMON STOCK

To tender shares of Lilly Common Stock pursuant to the Exchange Offer, either (a) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) or an Agent's Message in the case of a book-entry transfer of shares, and any other documents required by the Letter of Transmittal must be received by the Exchange Agent at one of its addresses set forth on the back cover of this Offering Circular - Prospectus prior to 12:00 Midnight, New York City time, on the Expiration Date, and either (i) certificates for the shares of Lilly Common Stock to be tendered must be received by the Exchange Agent at one of such addresses prior to such time or (ii) such shares of Lilly Common Stock must be delivered pursuant to the procedures for book-entry transfer described below (and a confirmation of such delivery received by the Exchange Agent), in each case by the Expiration Date, or (b) the guaranteed delivery procedures described below must be complied with. LETTERS OF TRANSMITTAL AND CERTIFICATES FOR SHARES OF LILLY COMMON STOCK SHOULD NOT BE SENT TO LILLY, GUIDANT, THE INFORMATION AGENT, THE DEALER MANAGER OR ANY SOLICITING DEALER. DELIVERY OF ANY OF THE AFOREMENTIONED REQUIRED DOCUMENTS TO ANY ADDRESS OTHER THAN AS SET FORTH HEREIN WILL NOT CONSTITUTE VALID DELIVERY THEREOF.

Any shareholder wishing to tender all of his or her shares of Lilly Common Stock pursuant to the procedures described above under "--Tenders for Exchange by Holders of Fewer Than 100 Shares of Lilly Common Stock" must complete Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares," and, if applicable, the box captioned "Odd Lots" on the Notice of Guaranteed Delivery.

It is a violation of Rule 14e-4 promulgated under the Exchange Act for a person to tender shares of Lilly Common Stock for such person's own account unless the person so tendering (a) owns such shares of Lilly Common Stock or (b) owns other securities convertible into or exchangeable for such shares of Lilly Common Stock or owns an option, warrant or right to purchase such shares of Lilly Common Stock and intends to acquire shares of Lilly Common Stock for tender by conversion or exchange of such securities or by exercise of such option, warrant or right. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A tender of shares of Lilly Common Stock made pursuant to any method of delivery set forth herein will constitute a binding agreement between the tendering shareholder and Lilly upon the terms and subject to the conditions of the Exchange Offer, including the tendering shareholder's representation that (i) such shareholder owns the shares of Lilly Common Stock being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act and (ii) the tender of such shares of Lilly Common Stock complies with Rule 14e-4.

The Exchange Agent will establish accounts with respect to the shares of Lilly Common Stock at The Depository Trust Company ("DTC"), Midwest Securities Trust Company ("MSTC") and Philadelphia Depository Trust Company ("PHILADEP," and together with DTC and MSTC, the "Book-Entry Transfer Facilities") for purposes of the Exchange Offer within two business days after the date of this Offering Circular - Prospectus, and any financial institution that is a participant in the system of any Book-Entry Transfer Facility may make delivery of shares of Lilly Common Stock by causing such Book-Entry Transfer Facility to transfer such shares of Lilly Common Stock into the Exchange Agent's account in accordance with the procedures of such Book-Entry Transfer Facility. Although delivery of shares of Lilly Common Stock may be effected through book-entry transfer to the Exchange Agent's account at DTC, MSTC or PHILADEP, a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) and any other required documents or an Agent's Message must, in any case, be transmitted to and

received or confirmed by the Exchange Agent at one of its addresses set forth on the back cover of this Offering Circular - Prospectus by the Expiration Date, or the guaranteed delivery procedures described below must be complied with. "Agent's Message" means a message transmitted through electronic means by a Book-Entry Transfer Facility to and received by the Exchange Agent and forming a part of a book-entry confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgement from the participant in such Book-Entry Transfer Facility tendering the shares that such participant has received and agrees to be bound by the Letter of Transmittal. DELIVERY OF DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY DOES NOT CONSTITUTE DELIVERY TO THE EXCHANGE AGENT AS REQUIRED HEREBY.

Signatures on a Letter of Transmittal must be guaranteed by an Eligible Institution unless the shares of Lilly Common Stock tendered pursuant to the Letter of Transmittal are tendered (i) by the registered holder of the shares of Lilly Common Stock tendered therewith and such holder has not completed Section III of the Letter of Transmittal entitled "Special Issuance Instructions" or (ii) for the account of an Eligible Institution. An "Eligible Institution" means a participant in the Security Transfer Agents Medallion Program or the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program. A verification by a notary public alone is not acceptable. If a certificate representing shares of Lilly Common Stock is registered in the name of a person other than the signer of a Letter of Transmittal, the certificate must be endorsed or accompanied by an appropriate stock power signed exactly as the name of the registered owner appears on the certificate with the signature on the certificate or stock power guaranteed by an Eligible Institution. If shares of Lilly Common Stock that are tendered but not accepted for exchange are to be issued to a person other than the tendering shareholder, the signature of the tendering shareholder must be guaranteed by an Eligible Institution.

If the Letter of Transmittal or Notice of Guaranteed Delivery or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and, unless waived by Lilly, proper evidence satisfactory to Lilly of their authority to so act must be submitted.

If any certificate representing shares of Lilly Common Stock has been mutilated, lost, stolen or destroyed, such shareholder must (i) furnish to the Exchange Agent evidence, satisfactory to it in its discretion, of the ownership of and the mutilation, loss, theft or destruction of such certificate, (ii) furnish to the Exchange Agent indemnity, satisfactory to it in its discretion, and (iii) comply with such other reasonable regulations as the Exchange Agent may prescribe.

PROCEDURES FOR TENDERING DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN SHARES OF LILLY COMMON STOCK

Lilly shareholders who are participants in Lilly's Dividend Reinvestment and Stock Purchase Plan ("DRP") and who wish to tender shares of Lilly Common Stock held in their account under the DRP ("DRP Shares") pursuant to the Exchange Offer, must so indicate by completing Section I.B. of the Letter of Transmittal entitled "Dividend Reinvestment and Stock Purchase Plan Shares" and returning to the Exchange Agent the properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantees and any other documents required by the Letter of Transmittal. If the participant authorizes the tender of his or her DRP Shares, but does not indicate the number of shares to be tendered, the participant will be deemed to have tendered all DRP Shares owned by such participant pursuant to the DRP. A tender of all DRP Shares will include fractional shares and any shares that may be credited to the participant's account after the date of tender and prior to the Expiration Date. If a participant authorizes the tender of the participant's DRP Shares and such DRP Shares are exchanged under the terms and subject to the conditions of the Exchange Offer, Lilly, as administrator of the DRP, will reduce the number of shares of Lilly Common Stock in the participant's DRP account by the number of DRP Shares that are accepted for exchange. Any DRP Shares tendered but not exchanged will be returned to the participant's DRP account.

GUARANTEED DELIVERY PROCEDURES

If a shareholder desires to tender shares of Lilly Common Stock pursuant to the Exchange Offer and cannot deliver such shares of Lilly Common Stock and all other required documents to the Exchange Agent

by the Expiration Date, such shares of Lilly Common Stock may nevertheless be tendered if all of the following conditions are met:

(i) such tender is made by or through an Eligible Institution;

(ii) a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form provided by Lilly setting forth the name and address of the holder and the number of shares of Lilly Common Stock tendered, stating that the tender is being made thereby and guaranteeing that, within three NYSE trading days after the date of the Notice of Guaranteed Delivery, the certificate(s) representing the shares of Lilly Common Stock accompanied by all other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent, is received by the Exchange Agent (as provided below) by the Expiration Date; and

(iii) the certificate(s) for such shares of Lilly Common Stock (or a confirmation of a book-entry transfer of such shares of Lilly Common Stock into the Exchange Agent's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) and any required signature guarantees, or an Agent's Message in connection with a book-entry transfer, and any other documents required by the Letter of Transmittal, are received by the Exchange Agent within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery may be delivered by hand, facsimile transmission or mail to the Exchange Agent and must include a guarantee by an Eligible Institution in the form set forth in such Notice.

THE METHOD OF DELIVERY OF SHARES OF LILLY COMMON STOCK AND ALL OTHER REQUIRED DOCUMENTS IS AT THE OPTION AND RISK OF THE TENDERING SHAREHOLDER. IF CERTIFICATES FOR SHARES OF LILLY COMMON STOCK ARE SENT BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED, AND SUFFICIENT TIME TO ENSURE TIMELY RECEIPT SHOULD BE ALLOWED.

All questions as to the form of documents (including notices of withdrawal) and the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares of Lilly Common Stock will be determined by Lilly in its sole discretion, which determination will be final and binding on all tendering shareholders. Lilly reserves the absolute right to reject any or all tenders of shares of Lilly Common Stock determined by it not to be in proper form or the acceptance for exchange of shares of Lilly Common Stock which may, in the opinion of Lilly's counsel, be unlawful. Lilly also reserves the absolute right to waive any defect or irregularity in any tender of shares of Lilly Common Stock. None of Lilly, the Dealer Manager, the Exchange Agent, the Information Agent or any other person will be under any duty to give notification of any defect or irregularity in tenders or incur any liability for failure to give any such notification.

WITHDRAWAL RIGHTS

Tenders of shares of Lilly Common Stock made pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. Thereafter, such tenders are irrevocable, except that they may be withdrawn after October 17, 1995 unless theretofore accepted for exchange as provided in this Offering Circular - Prospectus. If Lilly extends the period of time during which the Exchange Offer is open, tenders of shares of Lilly Common Stock may be withdrawn at any time during the period of such extension. If Lilly is delayed in its acceptance of shares of Lilly Common Stock for exchange or is unable to accept shares of Lilly Common Stock for exchange pursuant to the Exchange Offer for any reason, then, without prejudice to Lilly's rights under the Exchange Offer, the Exchange Agent may, on behalf of Lilly, retain all shares of Lilly Common Stock tendered, and such shares of Lilly Common Stock may not be withdrawn except as otherwise provided herein, subject to Rule 13e-4(f)(5) under the Exchange Act, which provides that the person making an issuer exchange offer shall either pay the consideration offered or return tendered securities, promptly after the termination or withdrawal of the offer. If a holder of Lilly Common Stock tenders a sufficient number of shares of Lilly Common Stock such that upon consummation of the Exchange Offer an HSR Act filing is required because of the amount of Guidant Common Stock received, such holder has withdrawal rights with respect to his or her tendered shares of Lilly Common Stock after the Expiration Date. See "The Transaction--Regulatory Approvals."

To be effective, a written or facsimile transmission notice of withdrawal must be timely received by the Exchange Agent at one of its addresses set forth on the back cover of this Offering Circular - Prospectus and must specify the name of the person who tendered the shares of Lilly Common Stock to be withdrawn and the number of shares of Lilly Common Stock to be withdrawn precisely as it appears on the Letter of Transmittal. If the shares of Lilly Common Stock to be withdrawn have been delivered to the Exchange Agent, a signed notice of withdrawal with signatures guaranteed by an Eligible Institution must be submitted prior to the release of such shares of Lilly Common Stock (except that such signature guarantee requirement is not applicable in the case of shares of Lilly Common Stock tendered by an Eligible Institution). In addition, such notice must specify, in the case of shares of Lilly Common Stock tendered by delivery of certificates, the name of the registered holder (if different from that of the tendering shareholder) and the serial numbers shown on the particular certificates evidencing the shares of Lilly Common Stock to be withdrawn or, in the case of shares of Lilly Common Stock tendered by book-entry transfer, the name and number of the account at the Book-Entry Transfer Facility from which the shares were transferred. Withdrawals may not be rescinded, and shares of Lilly Common Stock withdrawn will thereafter be deemed not validly tendered for purposes of the Exchange Offer. However, withdrawn shares of Lilly Common Stock may be retendered by again following one of the procedures described in "--Procedures for Tendering Shares of Lilly Common Stock" at any time prior to the Expiration Date.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by Lilly, in its sole discretion, which determination shall be final and binding. None of Lilly, the Dealer Manager, the Exchange Agent, the Information Agent or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal or incur any liability for failure to give any such notification.

EXTENSION OF TENDER PERIOD; TERMINATION; AMENDMENT

Lilly expressly reserves the right, at any time or from time to time, in its sole discretion and regardless of whether or not any of the conditions specified in "--Certain Conditions of the Exchange Offer" shall have been satisfied, (i) to extend the period of time during which the Exchange Offer is open by giving oral or written notice of such extension to the Exchange Agent and by making a public announcement of such extension or (ii) to amend the Exchange Offer in any respect by making a public announcement of such amendment. There can be no assurance that Lilly will exercise its right to extend or amend the Exchange Offer.

If Lilly materially changes the terms of the Exchange Offer or the information concerning the Exchange Offer, Lilly will extend the Exchange Offer to the extent required by the Exchange Act. Certain rules promulgated under the Exchange Act provide that the minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer (other than a change in price, change in the dealer's soliciting fee or a change in percentage of securities sought) will depend on the facts and circumstances, including the relative materiality of such terms or information. The Commission has stated that, as a general rule, it is of the view that an offer should remain open for a minimum of five business days from the date that notice of such a material change is first published, sent or given, and that if material changes are made with respect to information that approaches the significance of price and share levels, a minimum of ten business days may be required to allow adequate dissemination and investor response. If (i) Lilly increases or decreases the number of shares of Guidant Common Stock offered in exchange for shares of Lilly Common Stock pursuant to the Exchange Offer or the number of shares of Lilly Common Stock eligible for exchange and (ii) the Exchange Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given, the Exchange Offer will be extended until the expiration of such period of ten business days. The term "business day" shall mean any day other than Saturday, Sunday or a federal holiday and shall consist of the time period from 12:01 a.m. through 12:00 Midnight, New York City time.

Lilly also reserves the right, in its sole discretion, in the event any of the conditions specified in "--Certain Conditions of the Exchange Offer" shall not have been satisfied and so long as shares of Lilly Common Stock have not theretofore been accepted for exchange, to delay (except as otherwise required by applicable law) acceptance for exchange of or exchange for any shares of Lilly Common Stock or to terminate the Exchange Offer and not accept for exchange of or exchange for any shares of Lilly Common Stock.

If Lilly (i) extends the period of time during which the Exchange Offer is open, (ii) is delayed in accepting for exchange of or exchange for any shares of Lilly Common Stock or (iii) is unable to accept for exchange of or exchange for any shares of Lilly Common Stock pursuant to the Exchange Offer for any reason, then, without prejudice to Lilly's rights under the Exchange Offer, the Exchange Agent may, on behalf of Lilly, retain all shares of Lilly Common Stock tendered, and such shares of Lilly Common Stock may not be withdrawn except as otherwise provided in "--Withdrawal Rights" above. The reservation by Lilly of the right to delay acceptance for exchange of or exchange for any shares of Lilly Common Stock is subject to applicable law, which requires that Lilly pay the consideration offered or return the shares of Lilly Common Stock deposited by or on behalf of shareholders promptly after the termination or withdrawal of the Exchange Offer.

Any extension, termination or amendment of the Exchange Offer will be followed as promptly as practicable by a public announcement thereof. Without limiting the manner in which Lilly may choose to make any public announcement, Lilly will have no obligation (except as otherwise required by applicable law) to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones News Service. In the case of an extension of the Exchange Offer, Commission regulations require a public announcement of such extension no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

CERTAIN CONDITIONS OF THE EXCHANGE OFFER

Notwithstanding any other provisions of the Exchange Offer and without prejudice to Lilly's other rights under the Exchange Offer, Lilly shall not be required to accept for exchange of or, subject to any applicable rules and regulations of the Commission, including Rule 14e-1(c) under the Exchange Act relating to Lilly's obligation to exchange or return tendered shares of Lilly Common Stock promptly after termination or withdrawal of the Exchange Offer, exchange for any shares of Lilly Common Stock, and may terminate the Exchange Offer as provided in "--Extension of Tender Period; Termination; Amendment," if prior to the acceptance for exchange of any shares of Lilly Common Stock (i) at least 8,252,149 shares of Lilly Common Stock (approximately 2.8% of the outstanding shares of Lilly Common Stock as of July 31, 1995 and a sufficient number of shares of Lilly Common Stock to result in at least 50% of the Guidant Common Stock intended to be distributed by Lilly being exchanged pursuant to the Exchange Offer) shall not have been validly tendered and not withdrawn or (ii) at any time on or after August 21, 1995, any of the following conditions exists:

(a) there shall have occurred any material change (i) in the business, financial condition, results of operations or prospects of Lilly or Guidant or (ii) in the market price of the shares of Lilly Common Stock or Guidant Common Stock;

(b) Lilly shall, in its good faith reasonable judgment, determine that it is unable to rely on the Ruling Letter in connection with the consummation of the Transaction;

(c) there shall be threatened, instituted or pending any action or proceeding by any government or governmental authority or agency, domestic or foreign, or by any other person, domestic or foreign, before any court or governmental authority or agency, domestic or foreign, (i) challenging or seeking to make illegal, to delay or otherwise directly or indirectly to restrain or prohibit the making of the Transaction or the acceptance for exchange of or exchange for some or all of the shares of Lilly Common Stock by Lilly or seeking to obtain material damages or otherwise directly or indirectly relating to the Transaction, (ii) seeking any material diminution in the benefits expected to be derived by Lilly or any of its subsidiaries or affiliates (including Guidant) as a result of the Transaction, or (iii) that otherwise, in the good faith reasonable judgment of Lilly, has or may have material adverse significance with respect to the value of Lilly or any of its subsidiaries or affiliates (including Guidant);

(d) there shall be any action taken, or any statute, rule, regulation, injunction, order or decree proposed, enacted, enforced, promulgated, issued or deemed applicable to the Transaction or any other element of the Transaction by any court, government or governmental authority or agency, domestic or foreign, that, in the good faith reasonable judgment of Lilly, might, directly or indirectly, result in any of the consequences referred to in clauses (i) through (iii) of paragraph (c) above;

(e) there shall have occurred (i) any general suspension of or limitation on times for trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) any material adverse change (or development or threatened development involving a prospective material adverse change) in United States or any other currency exchange rates or a suspension of, or a limitation on, the markets therefor, (iv) the commencement or material escalation of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States, (v) any limitation (whether or not mandatory) by any governmental authority or agency on, or any other event that, in the good faith reasonable judgment of Lilly, might adversely affect, the extension of credit by banks or other financial institutions or (vi) in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer, a material acceleration or worsening thereof;

(f) a tender or exchange offer for some or all of the shares of Lilly Common Stock or Guidant Common Stock shall have been publicly proposed to be made or shall have been made by another person or it shall have been publicly disclosed or Lilly or Guidant, as the case may be, shall have otherwise learned that (i) other than Lilly Endowment, Inc. ("Lilly Endowment"), any person or "group" (as defined in Section 13(d)(3) of the Exchange Act) shall have acquired or proposed to acquire beneficial ownership of more than 5% of any class or series of capital stock of Lilly or Guidant (including the shares of Lilly Common Stock or Guidant Common Stock), through the acquisition of stock, the formation of a group or otherwise, or shall have been granted any option, right or warrant, conditional or otherwise, to acquire beneficial ownership of more than 5% of any class or series of capital stock of Lilly or Guidant (including the shares of Lilly Common Stock or Guidant Common Stock), (ii) any person or group shall have made a proposal with respect to a tender or exchange offer or a merger, consolidation or other business combination with or involving Lilly or Guidant or (iii) any person shall have filed a Notification and Report Form under the HSR Act or made a public announcement reflecting an intent to acquire Lilly or Guidant or any assets or securities of Lilly or Guidant; or

(g) Lilly shall, in its good faith reasonable judgment, determine that a holder of Lilly Common Stock has tendered a sufficient number of shares of Lilly Common Stock such that upon consummation of the Exchange Offer, such shareholder would receive a number of shares of Guidant Common Stock, which when added to the shares of Guidant Common Stock beneficially owned by such holder and affiliates of such holder, would constitute at least 10% of the outstanding shares of Guidant Common Stock (a "10% Holder");

which, in the good faith reasonable judgment of Lilly, in any such case, and regardless of the circumstances (including any action or omission by Lilly) giving rise to any such condition, makes it inadvisable to proceed with (i) such acceptance for exchange of or exchange for any shares of Lilly Common Stock or (ii) any other element of the Transaction.

The foregoing conditions are for the sole benefit of Lilly and may be asserted by Lilly regardless of the circumstances (including any action or omission by Lilly) giving rise to any such conditions, or may be waived by Lilly in whole at any time or in part from time to time. The failure by Lilly at any time to exercise its rights under any of the foregoing conditions shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and circumstances shall not be deemed a waiver with respect to any other facts and circumstances; and each such right shall be deemed an ongoing right which may be asserted at any time or from time to time. Any determination by Lilly concerning the events described above will be final and binding upon all parties.

As noted above, if Lilly determines in its good faith reasonable judgment that the consummation of the Exchange Offer would result in a holder of Guidant Common Stock becoming a 10% Holder, Lilly may decide not to consummate the Exchange Offer. If the Exchange Offer is consummated and results in a holder of Guidant Common Stock becoming a 10% Holder, Rights (as defined herein) will be distributed to each holder of Guidant Common Stock unless the Board of Directors of Guidant extends such date of distribution or redeems the Rights. In the event that the Rights are not redeemed and certain events occur following the Exchange Offer, each holder of a Right, other than a 10% Holder, will have the right to purchase shares of Guidant Common Stock having a market value of two times the exercise price of the Right. See "Description of Guidant Capital Stock--Shareholder Rights Plan."

In addition, Lilly will not accept for exchange any shares of Lilly Common Stock tendered, and no shares of Guidant Common Stock will be exchanged for any shares of Lilly Common Stock, at any time at which there shall be a stop order issued by the Commission which shall remain in effect with respect to the Registration Statement.

FEES AND EXPENSES

Morgan Stanley & Co. Incorporated is acting as Dealer Manager in the United States only in connection with the Exchange Offer. The Dealer Manager will, among other things, coordinate all aspects of marketing of the Exchange Offer through the conduct of informational meetings and the direct solicitation of certain identified shareholders. Lilly has agreed to pay Morgan Stanley & Co. Incorporated, as compensation for their services as Dealer Manager, a fee of $1.5 million plus reasonable out of pocket expenses. Morgan Stanley & Co. Incorporated from time to time has provided and continues to provide financial advisory and financing services to Lilly and Guidant and has received customary fees for the rendering of these services. In particular, Morgan Stanley & Co. Incorporated has provided financial advisory services in connection with the sale by Lilly of certain subsidiaries in its MDD Division, the formation of Guidant, the Offering and the Transaction. Upon consummation of the Transaction, Morgan Stanley & Co. Incorporated will receive its customary fee for services rendered in connection with the transactions referred to herein in addition to its fee as Dealer Manager. Lilly has agreed to indemnify the Dealer Manager against certain liabilities, including civil liabilities under the Securities Act, or contribute to payments which the Dealer Manager may be required to make in respect thereof.

Lilly will pay to a Soliciting Dealer a solicitation fee of $1.00 per share, up to a maximum of 1,000 shares, for each share of Lilly Common Stock tendered and accepted for exchange pursuant to the Exchange Offer if such Soliciting Dealer has affirmatively solicited and obtained such tender, except that no solicitation fee shall be payable (i) in connection with a tender of Lilly Common Stock by a shareholder (x) tendering more than 10,000 shares of Lilly Common Stock or (y) tendering from a country outside of the United States; or (ii) to the Dealer Manager. "Soliciting Dealer" includes (i) any broker or dealer in securities which is a member of any national securities exchange or of the National Association of Securities Dealers, Inc. or (ii) any bank or trust company. In order for a Soliciting Dealer to receive a solicitation fee with respect to the tender of shares of Lilly Common Stock, the Exchange Agent must have received a Letter of Transmittal with Section VI thereof entitled "Notice of Solicited Tenders" properly completed and duly executed.

No solicitation fee shall be payable to a Soliciting Dealer if such Soliciting Dealer is required for any reason to transfer the amount of such fee to a tendering holder (other than itself). Soliciting Dealers are not entitled to a solicitation fee with respect to shares of the Lilly Common Stock beneficially owned by such Soliciting Dealer or with respect to any shares which are registered in the name of a Soliciting Dealer unless such shares are held by such Soliciting Dealer as nominee and are tendered for the benefit of beneficial holders identified in the Letter of Transmittal. No broker, dealer, bank, trust company or fiduciary shall be deemed to be the agent of Lilly, Guidant, the Exchange Agent, the Dealer Manager or the Information Agent for purposes of the Exchange Offer.

Lilly has retained D.F. King & Co., Inc. to act as the Information Agent and The First National Bank of Boston to act as the Exchange Agent in connection with the Exchange Offer. The Information Agent may contact holders of shares of Lilly Common Stock by mail, telephone, facsimile transmission and personal interviews and may request brokers, dealers and other nominee shareholders to forward materials relating to the Exchange Offer to beneficial owners. The Information Agent and the Exchange Agent each will receive reasonable and customary compensation for their respective services, will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities in connection therewith, including certain liabilities under the federal securities laws. Neither of the Information Agent nor the Exchange Agent has been retained to make solicitations or recommendations in their respective roles as Information Agent and Exchange Agent and the fees to be paid to them will not be based on the number of shares of Lilly Common Stock tendered pursuant to the Exchange Offer. However, the Exchange Agent will be compensated in part on the basis of the number of Letters of Transmittal received and the number of stock certificates distributed pursuant to the Exchange Offer.

Lilly will not pay any fees or commissions to any broker or dealer or any other person (other than the Dealer Manager and the Soliciting Dealers) for soliciting tenders of shares of Lilly Common Stock pursuant to the Exchange Offer. Brokers, dealers, commercial banks and trust companies will, upon request, be reimbursed by Lilly for reasonable and necessary costs and expenses incurred by them in forwarding materials to their customers. Certain employees of Lilly may solicit shares of Lilly Common Stock from shareholders, but such employees will not receive any commissions or compensation for such services other than their normal employment compensation.

MISCELLANEOUS

The Exchange Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Lilly Common Stock in any jurisdiction in which the making of the Exchange Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. Lilly is not aware of any jurisdiction where the making of the Exchange Offer or the acceptance thereof would not be in compliance with applicable law. If Lilly becomes aware of any jurisdiction where the making of the Exchange Offer or acceptance thereof would not be in compliance with any valid applicable law, Lilly will make a good faith effort to comply with such law. If, after such good faith effort, Lilly cannot comply with such law, the Exchange Offer will not be made to, nor will tenders be accepted from or on behalf of, holders of shares of Lilly Common Stock in any such jurisdiction. Following the Expiration Date and Lilly's acceptance of shares for exchange, Lilly may, at its election, but only if and to the extent that it may lawfully do so under the Federal securities laws, exclude from the Exchange Offer any tendered shares as to which a purchase by Lilly would then be unlawful.

No person has been authorized to give any information or make any representation on behalf of Lilly not contained in this Offering Circular - Prospectus or in the Letter of Transmittal and, if given or made, such information or representation must not be relied upon as having been authorized.

If fewer than 16,504,298 shares of Lilly Common Stock (but at least 8,252,149 shares) are validly tendered pursuant to the Exchange Offer and not withdrawn, and the Exchange Offer is consummated, Lilly will distribute all remaining shares of Guidant Common Stock owned by Lilly pro rata to remaining holders of record of shares of Lilly Common Stock at the close of business on a record date as soon as practicable after consummation of the Exchange Offer. Such record date and the date of such distribution (which will be as soon as practicable after such record date) will be publicly announced by Lilly when they have been determined. If the Minimum Condition is not satisfied, Lilly may, in its sole discretion, (i) decide not to consummate the Exchange Offer, (ii) waive the Minimum Condition and consummate the Transaction, (iii) spin-off all shares of Guidant Common Stock owned by it or (iv) review other alternatives. See "The Exchange Offer--Certain Conditions of the Exchange Offer." If at least 16,504,298 shares of Lilly Common Stock are exchanged pursuant to the Exchange Offer, the Spin-Off will not be effected.

No fractional shares of Guidant Common Stock will be distributed pursuant to the Spin-Off. The Exchange Agent, acting as agent for Lilly shareholders otherwise entitled to receive fractional shares, will aggregate all fractional shares and sell them for the accounts of such shareholders. Proceeds from sales of fractional shares will be paid by the Exchange Agent based upon the average gross selling price per share of all such sales. None of the Exchange Agent, Lilly, Guidant, the Dealer Manager or any Soliciting Dealer will guarantee any minimum sale price for the shares of Guidant Common Stock and no interest will be paid on the proceeds.

PRICE RANGE OF LILLY COMMON STOCK AND DIVIDENDS

Lilly Common Stock is listed and traded on the NYSE and the PSE and the stock exchanges of London, Tokyo, Zurich, Basel and Geneva. The following table sets forth for the periods indicated the high and low sale prices per share of Lilly Common Stock as reported in the consolidated transactions reporting system on the NYSE and the cash dividends paid per share of Lilly Common Stock:

	HIGH	LOW	CASH DIVIDENDS
1993			
First Quarter	$ 62	$45 1/8	$0.605
Second Quarter	52 1/8	45	0.605
Third Quarter	50 5/8	43 5/8	0.605
Fourth Quarter	60 3/4	49 3/4	0.605
1994			
First Quarter	$61 7/8	$48 1/2	$0.625
Second Quarter	58 7/8	47 1/8	0.625
Third Quarter	59 1/4	47 1/4	0.625
Fourth Quarter	66 1/4	57 3/8	0.625
1995			
First Quarter	$76 7/8	$62 1/2	$0.645
Second Quarter	79 3/8	69 1/4	0.645
Third Quarter (through August 18, 1995)	79 3/8	75 1/8	0.645(1)

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(1) On July 17, 1995, the Board of Directors of Lilly declared a regular quarterly dividend of $0.645 per share of Lilly Common Stock payable on September 11, 1995 to shareholders of record on August 15, 1995.

On February 13, 1995, the last full day of trading prior to the announcement of the Transaction, the last reported sale price per share of Lilly Common Stock as reported in the consolidated transactions reporting system on the NYSE was $64 7/8. On August 18, 1995, the last full day of trading prior to commencement of the Exchange Offer, the last reported sale price per share of Lilly Common Stock as reported in the consolidated transactions reporting system on the NYSE was $76 3/8. Shareholders are urged to obtain current market quotations for the shares of Lilly Common Stock.

The declaration and payment of future dividends to holders of Lilly Common Stock will be at the discretion of the Board of Directors of Lilly and will depend upon many factors, including Lilly's competitive position, financial condition, earnings and capital requirements.

PRICE RANGE OF GUIDANT COMMON STOCK AND DIVIDENDS

Guidant Common Stock is listed and traded on the NYSE and the PSE. The following table sets forth for the periods indicated the high and low sale prices per share of Guidant Common Stock as reported in the consolidated transactions reporting system on the NYSE:

	HIGH	LOW	CASH DIVIDENDS
1994			
Fourth Quarter (since commencement of trading on December 14, 1994)	$16 1/8	$14 1/2	--
1995			
First Quarter	$19 7/8	$15 1/2	--
Second Quarter	24 1/2	18 1/4	--
Third Quarter (through August 18, 1995)	26 3/4	22 5/8	$0.025(1)

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(1) On July 17, 1995, the Board of Directors of Guidant declared a quarterly dividend of $0.025 per share of Guidant Common Stock payable on September 18, 1995 to shareholders of record on August 18, 1995.

On February 13, 1995, the last full day of trading prior to the announcement of the Transaction, the last reported sale price per share of Guidant Common Stock as reported in the consolidated transactions reporting system on the NYSE was $19. On August 18, 1995, the last full day of trading prior to commencement of the Exchange Offer, the last reported sale price per share of Guidant Common Stock as reported in the consolidated transactions reporting system on the NYSE was $24 3/4. Shareholders are urged to obtain current market quotations for the shares of Guidant Common Stock.

On July 17, 1995, the Board of Directors of Guidant declared a cash dividend of $0.025 per share payable on September 18, 1995 to shareholders of record on August 18, 1995. This was the first dividend declared by Guidant since the Offering. The declaration and payment of future dividends, if any, to holders of Guidant Common Stock will be at the discretion of the Board of Directors of Guidant and will depend upon many factors, including Guidant's competitive position, financial condition, earnings and capital requirements. Accordingly, there is no requirement or assurance that future dividends will be declared or paid.

BUSINESS OF LILLY

Lilly was incorporated in 1901 under the laws of Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. Lilly is engaged in the discovery, development, manufacture, and sale of products and the provision of services in one industry segment--Life Sciences. Lilly's principal products are human pharmaceuticals and animal health products. Products are manufactured or distributed through owned or leased facilities in the United States, Puerto Rico, and 26 other countries, in 19 of which Lilly owns or has an interest in manufacturing facilities. Its products are sold in approximately 117 countries. Through its PCS subsidiary, Lilly provides pharmacy benefit management services in the United States.

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

PRODUCTS AND SERVICES

PHARMACEUTICAL PRODUCTS

Pharmaceutical products include:

Central-nervous-system agents, including Prozac (R), indicated for the treatment of depression and, in many countries, for bulimia and obsessive-compulsive disorder; the analgesic Darvocet-N (R) 100; and Permax (R), a treatment for Parkinson's disease;

Anti-infectives, including the oral cephalosporin antibiotics Ceclor (R), Keflex (R), and Keftab (R); the oral carbacephem antibiotic Lorabid (TM); the oral macrolide antibiotic Dynabac (R); the injectable cephalosporin antibiotics Mandol (R), Tazidime (R), Kefurox (R), and Kefzol (R); Nebcin (R), an injectable aminoglycoside antibiotic; Vancocin (R) HCl, an injectable antibiotic used primarily to treat staphylococcal infections; and cefaclor, a generic formulation of Ceclor;

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

An antiulcer agent, Axid (R), an H/2/ antagonist, indicated for the treatment of active duodenal ulcer, for maintenance therapy for duodenal ulcer patients after healing of an active duodenal ulcer, and for reflux esophagitis;

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

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

ANIMAL HEALTH PRODUCTS

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

PHARMACY BENEFIT MANAGEMENT SERVICES

PCS provides computer-based prescription drug claims processing and pharmacy benefit design, administration and management services to health plan sponsors, including insurance companies, third-party administrators, self-insured employers, health maintenance organizations, and Blue Cross/Blue Shield organizations that underwrite or administer prescription benefit plans. PCS helps these customers manage prescription benefit costs by providing drug utilization reviews, clinically-based formularies and generic substitution programs. PCS also operates an on-line electronic network to transmit medical, hospital, laboratory, clinical and billing information that links health care providers (physicians, hospitals and clinics) with health plan sponsors. RECAP (R), PCS's on-line prescription claims management system, is linked with over 95% of retail pharmacies in the United States.

RESEARCH AND DEVELOPMENT

Lilly's research and development activities are responsible for the discovery or development of most of the products offered by Lilly today. The growth in research and development expenditures and personnel over the past several years demonstrates both the continued vitality of Lilly's commitment to research and development and the increasing costs and complexity of bringing new products to the market. At the end of 1994, approximately 4,200 people were engaged in pharmaceutical and animal health research and development activities.

Lilly's primary research effort is devoted to discovering and developing human pharmaceutical products. Lilly now concentrates its pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular diseases. Lilly is engaged in biotechnology research programs involving recombinant DNA and monoclonal antibodies. Extensive work is also conducted in animal health research, including animal nutrition and physiology and veterinary medicine.

In addition to the research activities carried on in Lilly's own laboratories, Lilly sponsors and underwrites the cost of research and development by independent organizations, including educational institutions and research-based human health care companies, and contracts with others for the performance of research in their facilities. Lilly's business-development groups actively seek out opportunities to invest in external research and technologies that hold the promise to complement and strengthen Lilly's own research efforts in the five chosen therapeutic categories. Such investments can take many forms, including licensing arrangements, co-development and co-marketing agreements, and outright acquisitions.

MARKETING

Most of Lilly's major products are marketed worldwide. Pharmacy benefit management services are marketed primarily in the United States.

Lilly's pharmaceutical products are promoted in the United States under the Lilly and Dista trade names by one hospital and three retail sales forces employing salaried sales representatives. These sales representatives call upon physicians, wholesalers, hospitals, managed-care organizations, retail pharmacists, and other health care professionals. In 1994, Lilly created a new sales force dedicated to diabetes care.

In the past few years, large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, have begun to account for an increasing portion of total pharmaceutical purchases in the United States. Lilly has created special sales groups to service government and long-term care institutions, and expanded its managed-care sales organization. In response to competitive pressures, Lilly has entered into arrangements with a number of these organizations providing for discounts or rebates on one or more Lilly products or other cost-sharing arrangements. During 1994, Lilly also entered into agreements with a generic pharmaceutical company for the promotion, distribution and/or supply of generic forms of certain brand name products of both Lilly and other companies. In addition, in 1994 Lilly formed Integrated Disease Management, Inc. ("IDM") and acquired Control Diabetes Services, Inc. IDM will provide disease-management services, including capitation and risk-sharing arrangements, to managed-care customers. Control Diabetes provides education to diabetics to help them aggressively manage their disease and thereby minimize their long-term risk of serious complications.

Outside the United States, pharmaceutical products are promoted by salaried sales representatives. Distribution patterns vary from country to country. In recent years, Lilly has significantly expanded its marketing efforts in a number of overseas markets, including emerging markets in Central and Eastern Europe, Latin America, and Asia.

PATENTS AND LICENSES

Lilly owns, has applications pending for, or is licensed under, a substantial number of patents, both in the United States and in other countries, relating to products, product uses, and manufacturing processes. There can be no assurance that patents will result from Lilly's pending applications. Moreover, patents relating to particular products, uses, or processes do not preclude other manufacturers from employing alternative processes or from successfully marketing substitute products to compete with the patented products or uses. Patent protection of certain products, processes, and uses--particularly that relating to Ceclor, Humulin, Prozac, Axid, and Lorabid--is considered to be important to the operations of Lilly. The United States patent covering Humulin expires in 2001, the Prozac patent expires in 2001, the Axid patent expires in 2002, and the Lorabid patent expires in 2004.

The United States product patent covering Ceclor, Lilly's second largest selling product, expired in December 1992, and a United States patent on a key intermediate material expired in December 1994. Lilly holds United States process patents on certain methods of the manufacture of cefaclor that expire in July 1996. In May 1995, two companies began marketing generic forms of cefaclor capsules in the United States. Lilly filed suit against the companies asserting infringement of its United States process patents. On August 4, 1995, Lilly's motion for a preliminary injunction against the sale of the product made by the infringed process was denied. There can be no assurance that Lilly will be successful in this litigation. In October 1994, Lilly's subsidiary, STC Pharmaceuticals, Inc., entered into an agreement with Mylan Pharmaceuticals, Inc. to market and distribute a generic form of cefaclor in the United States. To date, Lilly has experienced only limited competition from generic cefaclor in markets outside the United States. Lilly anticipates that the combined impact of the continued competition from other anti-infectives and the introduction of generic cefaclor could have a material adverse effect on Lilly's 1995 consolidated results of operations. However, Lilly

believes that the patent expirations and increased competition will not have a material adverse effect on Lilly's near-term consolidated financial position.

The United States patent covering Dobutrex expired in October 1993. The patent expiration has resulted in a significant decline in United States Dobutrex sales.

COMPETITION

Lilly's pharmaceutical products compete with products manufactured by numerous other companies in highly competitive markets in the United States and throughout the world. Lilly's animal health products compete on a worldwide basis with products of pharmaceutical, chemical, and other companies that operate animal health divisions or subsidiaries. PCS faces strong competition from other pharmacy benefit management companies and claims processors in the United States. For certain accounts, PCS competes with some retail pharmacy chains, mail order programs and organized groups of independent pharmacists.

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

GOVERNMENTAL REGULATION

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

SELECTED CONSOLIDATED FINANCIAL DATA OF GUIDANT
(IN MILLIONS, EXCEPT OTHER DATA AND PER SHARE AMOUNTS)

The following selected consolidated financial data for the four years ended December 31, 1994 are derived from consolidated financial statements of Guidant which have been audited by Ernst & Young LLP, independent auditors. The selected consolidated financial data for the year ended December 31, 1990 and for the six month periods ended June 30, 1995 and June 30, 1994 are derived from unaudited consolidated financial statements. The consolidated financial data for the six month periods ended June 30, 1995 and June 30, 1994 include all adjustments, consisting of normal recurring accruals, which Guidant considers necessary for a fair presentation of the consolidated financial position and the consolidated results of operations for these periods. Operating results for the six months ended June 30, 1995 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1995. The following data should be read in conjunction with Guidant's Consolidated Financial Statements, the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Offering Circular - Prospectus.

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1995	1994	1994	1993	1992	1991	1990
	(UNAUDITED)						(UNAUDITED)
INCOME STATEMENT DATA:							
Net sales:							
Vascular intervention..	$ 225.0	$ 229.3	$464.5	$451.6	$423.7	$376.9	$315.9
CRM.....	209.5	172.4	378.6	336.5	329.9	304.3	246.7
MIS(1).....	14.4	9.0	19.3	6.6	1.2	--	--
Total net sales.....	448.9	410.7	862.4	794.7	754.8	681.2	562.6
Cost of sales.....	144.4	132.9	270.9	236.2	211.8	168.9	135.0
Research and development.....	67.8	65.2	130.9	129.1	117.9	100.4	87.6
Sales, marketing and administrative.....	139.3	128.8	268.9	255.1	251.0	209.1	178.7
Restructuring and special charges.....	--	--	--	81.5	32.9	--	--
Income from operations..	97.4	83.8	191.7	92.8	141.2	202.8	161.3
Other expenses--net.....	25.8	11.3	35.8	5.8	20.1	13.5	28.8
Net income.....	42.3	42.9	92.1	50.6	76.8	115.6	81.6
Earnings per share(2)...	0.59	--	--	--	--	--	--
Pro forma net income(2).	--	30.2	76.2	--	--	--	--
Pro forma earnings per share(2).....	--	0.42	1.06	--	--	--	--

	JUNE 30,	DECEMBER 31,				
	1995	1994	1993	1992	1991	1990
	(UNAUDITED)					(UNAUDITED)
BALANCE SHEET DATA:						
Working capital.....	$ (308.5)(3)	$ 116.8	$ 143.3	$ 136.9	$101.7	$ 58.5
Total assets.....	1,023.6	1,103.6	1,288.6	1,118.0	935.7	754.0
Short-term borrowings...	458.0 (3)	--	--	--	--	--
Long-term debt.....	--	473.0(4)	--	2.1	2.4	2.8
Shareholders' equity....	306.8 (3)	264.4(5)	1,048.3	942.7	747.2	620.3
Borrowings as a percentage of total capitalization(6).....	59.9%	64.1%	--	0.2%	0.3%	0.5%
Book value per share....	$ 4.27	$ 3.68	--	--	--	--
OTHER DATA:						
Full-time employee equivalents.....	5,164	5,055	5,462	4,864	4,316	3,791

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(1) Sales of MIS products are attributed to the operations of Origin, which was acquired in 1992.

(2) Guidant has reported 1994 earnings per share on a pro forma basis for 1995 comparisons. Pro forma adjustments give effect to the following transactions as if they occurred on January 1, 1994: (i) borrowings under the Credit Agreements, (ii) dividends to Lilly and (iii) receipt of proceeds from the Offering. Historical earnings per share is not presented since such data is not meaningful due to the changes in Guidant's capital structure and other transactions in connection with the Offering.

(3) Borrowings under the Credit Agreements mature on January 8, 1996. As a result, outstanding borrowings, which were $458.0 million on June 30, 1995, are classified as a current liability and result in a working

capital deficit.

(4) Long-term debt at December 31, 1994 increased from December 31, 1993 as a result of borrowings under the Credit Agreements.

(5) The decline in shareholders' equity from December 31, 1993 to December 31, 1994 was primarily attributable to dividends to Lilly.

(6) This percentage is computed by dividing the sum of short-term borrowings and long-term debt by total capitalization.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF GUIDANT

The following unaudited pro forma consolidated financial information of Guidant has been prepared to reflect adjustments to Guidant's historical financial position and results of operations to give effect to certain transactions, as if such transactions had been consummated at earlier dates, as discussed herein.

The unaudited pro forma consolidated statements of income for the year ended December 31, 1994 are based on Guidant's historical results of operations, adjusted to give effect to: (i) the cost of borrowings under the Credit Agreements, (ii) payments to Lilly for dividends, asset purchases and liability repayments, (iii) noncash dividends to Lilly and (iv) the Offering and the application of the net proceeds therefrom, each as if they had occurred on January 1, 1994. All of these transactions, including the borrowings under the Credit Agreements, occurred during 1994 in connection with the initial formation of Guidant and the subsequent Offering.

The unaudited pro forma consolidated balance sheet at June 30, 1995 reflects the impact of the formation of the Guidant Employee Savings and Stock Ownership Plan (the "Guidant ESOP") and the issuance to it of shares of Guidant Common Stock.

The unaudited pro forma consolidated financial information of Guidant is not necessarily indicative of Guidant's consolidated financial position or consolidated results of operations had the transactions reflected therein actually been consummated at the assumed dates, nor is it necessarily indicative of Guidant's consolidated financial position or consolidated results of operations for any future period. The unaudited pro forma consolidated financial information of Guidant should be read in conjunction with Guidant's consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Guidant," which are included elsewhere in this Offering Circular - Prospectus.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME OF GUIDANT
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31, 1994		
	HISTORICAL	ADJUSTMENTS	PRO FORMA
Net sales	$862.4		$ 862.4
Cost of sales	270.9		270.9
Research and development	130.9		130.9
Sales, marketing and administrative	268.9		268.9
	670.7		670.7
Income from operations	191.7		191.7
Other income (expenses):			
Interest, net	(7.6)	$(26.9)(1)	(34.5)
Royalties, net	1.5		1.5
Amortization of goodwill and other intangibles	(20.4)		(20.4)
Other, net	(9.3)		(9.3)
	(35.8)	(26.9)	(62.7)
Income before income taxes	155.9	(26.9)	129.0
Income taxes	63.8	(11.0)(2)	52.8
Net income	$ 92.1	$(15.9)	$ 76.2
Common shares outstanding			71,860,000
Earnings per share			$ 1.06(3)

See Notes to Unaudited Pro Forma Consolidated Financial Information of Guidant.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF GUIDANT
(IN MILLIONS)

	JUNE 30, 1995		
	HISTORICAL	ADJUSTMENTS	PRO FORMA
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 43.4		$ 43.4
Accounts receivable, net of allowances of $5.4	154.0		154.0
Other receivables	12.9		12.9
Inventories	119.1		119.1
Deferred income taxes	40.2		40.2
Prepaid expenses	15.6		15.6
Total current assets	385.2	--	385.2
OTHER ASSETS			
Goodwill, net of allowances of $75.4	261.2		261.2
Other intangible assets, net of allowances of $16.4	34.5		34.5
Deferred income taxes	11.5		11.5
Sundry	29.8		29.8
	337.0	--	337.0
Property and equipment	301.4		301.4
	$1,023.6	$ --	$1,023.6
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Loans payable to affiliated companies	$ 23.2		$ 23.2
Accounts payable	23.2		23.2
Payables to affiliated companies	17.2		17.2
Employee compensation	38.8		38.8
Restructuring liabilities	55.6		55.6
Other liabilities	64.2		64.2
Income taxes payable to Lilly	13.5		13.5
Current portion of long-term debt	458.0		458.0
Total current liabilities	693.7	--	693.7
NONCURRENT LIABILITIES			
Long-term debt	--		--
Other	23.1		23.1
	23.1	--	23.1
SHAREHOLDERS' EQUITY			
Common stock--no par value	192.5	60.0(3)	252.5
Additional paid-in capital	64.5		64.5
Retained earnings	48.2		48.2
Deferred costs--ESOP	--	(60.0)(3)	(60.0)
Currency translation adjustment	1.6		1.6
Total shareholders' equity	306.8	--	306.8
	$1,023.6	$ --	$1,023.6

See Notes to Unaudited Pro Forma Consolidated Financial Information of Guidant.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION
OF GUIDANT

(1) Adjusts net interest for the impact of two transactions, as follows:
(i) reflects interest expense for the year ended December 31, 1994 on projected outstanding debt of $513.0 million, assuming no Lilly guarantee of the debt, using an assumed interest rate of 6.5% as if such debt had been outstanding at the beginning of the period. See "Description of the Guidant Credit Agreements." This resulted in additional interest expense of $22.2 million for the year ended December 31, 1994; and
(ii) reflects interest income earned as if a book dividend (declared on May 26 and November 30, 1994) of amounts resulting from Guidant's participation in Lilly's central cash management system took place at the beginning of the period presented, in an amount equal to all cash generated and invested relating to prior periods. Therefore, interest income, using an interest rate of 5%, was earned only on cash generated during the period presented. This resulted in a reduction of interest income of $4.7 million for the year ended December 31, 1994. See "Relationship Between Guidant and Lilly."

(2) Income tax benefit is computed at a combined effective tax rate of 40.9%.

(3) Assumes 71,860,000 shares of Guidant Common Stock, without par value, were issued and outstanding (approximately 19.8% (14,260,000 shares) owned by the public and approximately 80.2% (57,600,000 shares) owned by Lilly) during the entire year. Guidant will also form the Guidant ESOP prior to the Transaction and issue to it shares of Guidant Common Stock with a value totalling approximately $60.0 million (2.5 million shares based on a June 30, 1995 market price of $24.00 per share) after the Transaction. These shares will be allocated to eligible participant accounts over a period of time in connection with related retirement and saving plans. Shares in the Guidant ESOP are excluded from common shares outstanding for purposes of calculating pro forma net income per share.

SELECTED CONSOLIDATED FINANCIAL DATA OF LILLY
(IN MILLIONS, EXCEPT OTHER DATA AND PER SHARE AMOUNTS)

The following selected consolidated financial data for the five years ended December 31, 1994 are derived from consolidated financial statements of Lilly which have been audited by Ernst & Young LLP, independent auditors. The financial data for the six months ended June 30, 1995 and June 30, 1994 are derived from unaudited consolidated financial statements. The consolidated financial data for the six month periods ended June 30, 1995 and June 30, 1994 include all adjustments, consisting of normal recurring accruals, which Lilly considers necessary for a fair presentation of the consolidated financial position and consolidated results of operations for these periods. Operating results for the six months ended June 30, 1995 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1995. The following data should be read in conjunction with the information concerning Lilly incorporated by reference in this Offering Circular - Prospectus as well as the Unaudited Pro Forma Consolidated Financial Information of Lilly presented elsewhere in this Offering Circular - Prospectus.

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1995	1994	1994	1993	1992	1991	1990
	(UNAUDITED)						
INCOME STATEMENT DATA:							
Net sales	$3,332.1	$2,655.9	$5,711.6	$5,198.5	$4,963.1	$4,533.4	$4,179.0
Income from continuing operations before income taxes and cumulative effect of changes in accounting principles	964.5	893.3	1,698.6	662.8	1,193.5	1,626.3	1,418.1
Income from continuing operations before cumulative effect of changes in accounting principles	684.8	619.9	1,185.1	464.8	842.5	1,166.1	1,022.7
Discontinued operations, net of tax	35.5	57.4	101.0	26.3	(14.9)	148.6	104.6
Income before cumulative effect of changes in accounting principles	720.3	677.3	1,286.1	491.1	827.6	1,314.7	1,127.3
Cumulative effect of changes in accounting principles, net of tax	--	--	--	(10.9)	(118.9)	--	--
Net income	720.3	677.3	1,286.1	480.2	708.7	1,314.7	1,127.3
PER-SHARE DATA:							
Income from continuing operations	$ 2.37	$ 2.14	$ 4.10	$ 1.58	$ 2.86	$ 3.99	$ 3.54
Income (loss) from discontinued operations	.12	.20	.35	.09	(.05)	.51	.36
Cumulative effect of changes in accounting principle	--	--	--	(.04)	(.40)	--	--
Net income	2.49	2.34	4.45	1.63	2.41	4.50	3.90
Cash dividends declared	1.29	1.25	2.52	2.44	2.255	2.05	1.73
Ratio of earnings to fixed charges(1)	7.0x	19.6x	14.0x	7.6x	11.7x	19.1x	15.7x

	JUNE 30,	DECEMBER 31,				
	1995	1994	1993	1992	1991	1990
	(UNAUDITED)					
BALANCE SHEET DATA:						
Current assets	$ 4,410.3	$ 3,962.3	$3,697.1	$3,006.0	$2,939.3	$2,501.3
Other assets	6,219.4	6,133.6	1,726.3	1,594.7	1,576.8	1,704.8
Property and equipment	4,467.6	4,411.5	4,200.2	4,072.1	3,782.5	2,936.7
Total assets	15,097.2	14,507.4	9,623.6	8,672.8	8,298.6	7,142.8
Short-term borrowings	3,169.2	2,724.4	524.8	591.2	690.2	1,239.5
Other current liabilities	2,484.0	2,945.1	2,403.2	1,807.4	1,581.8	1,578.1
Long-term debt	2,102.1	2,125.8	835.2	582.3	395.5	277.0
Other noncurrent liabilities	1,368.1	1,356.5	1,291.6	799.8	665.0	580.7
Shareholders' equity	5,973.8	5,355.6	4,568.8	4,892.1	4,966.1	3,467.5
Borrowings as a percentage of total						

capitalization(2).....	46.9%	47.5%	22.9%	19.3%	17.9%	30.4%
Book value per share....	$ 20.47	$ 18.35	$ 15.61	$ 16.72	$ 16.97	$ 12.98

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(1) The ratio of earnings to fixed charges is computed by dividing the sum of income from continuing operations before income taxes and cumulative effect of changes in accounting principles and fixed charges excluding capitalized interest by fixed charges. Fixed charges represent interest on indebtedness from continuing operations.

(2) This percentage is computed by dividing the sum of short-term borrowings and long-term debt by total capitalization.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF LILLY

The following unaudited pro forma consolidated financial information of Lilly has been prepared to reflect the Transaction and the acquisition of PCS as if these transactions had been consummated at earlier dates as discussed herein.

The unaudited pro forma consolidated statements of income and related earnings per share data for the year ended December 31, 1994 and for the six months ended June 30, 1995 are based on Lilly's historical results from continuing operations adjusted to reflect the impact of the Transaction as if it had occurred on January 1, 1994 and January 1, 1995, respectively. The Transaction will reduce the number of shares of Lilly Common Stock outstanding and the weighted average number of shares of Lilly Common Stock outstanding used in the earnings per share calculations. In addition, the unaudited pro forma consolidated statement of income for the year ended December 31, 1994 assumes that the acquisition of PCS was consummated on January 1, 1994.

The unaudited pro forma consolidated balance sheet at June 30, 1995 reflects the impact of (i) exclusion of the respective Guidant balances including elimination of the minority interest in Guidant; (ii) the effect of the tender of shares of Lilly Common Stock from the Exchange Offer on treasury stock; and (iii) recognition of the estimated net gain from the disposition of discontinued operations.

The unaudited pro forma consolidated financial information is not necessarily indicative of Lilly's consolidated financial position or consolidated results of operations had the Transaction or acquisition of PCS reflected therein actually been consummated at the assumed dates, nor is it necessarily indicative of Lilly's consolidated financial position or consolidated results of operations for any future period. The unaudited pro forma consolidated financial information should be read in conjunction with Lilly's consolidated financial statements and notes thereto incorporated by reference in this Offering Circular - Prospectus.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME OF LILLY
(IN MILLIONS, EXCEPT PER SHARE DATA)

	SIX MONTHS ENDED JUNE 30, 1995		
	HISTORICAL	ADJUSTMENTS	PRO FORMA
Net sales	$3,332.1		$3,332.1
Cost of sales	971.9		971.9
Research and development	497.2		497.2
Marketing and administrative	843.5		843.5
Interest expense	138.5		138.5
Other income--net	(83.5)		(83.5)
	2,367.5		2,367.5
Income from continuing operations before income taxes	964.5		964.5
Income taxes	279.7		279.7
Income from continuing operations	$ 684.8		$ 684.8
Earnings per share from continuing operations	$ 2.37		
Pro forma earnings per share from continuing operations based on level of participation in the Exchange Offer(1):			
100% (16.5 million shares tendered)			$ 2.51
75% (12.4 million shares tendered)			2.47
50% (8.3 million shares tendered)			2.44

See Notes to Unaudited Pro Forma Consolidated Financial Information of Lilly.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME OF LILLY
(IN MILLIONS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1994		
	HISTORICAL	ADJUSTMENTS	PRO FORMA
Net sales	$5,711.6	$ 178.7 (2)	$5,890.3
Cost of sales	1,679.7	94.7 (2)	1,774.4
Research and development	838.7		838.7
Acquired research	58.4		58.4
Marketing and administrative	1,398.3	47.9 (2)	1,446.2
Special charges	66.0		66.0
Other (income)/expense--net	(28.1)	303.1 (2)	275.0
	4,013.0	445.7	4,458.7
Income from continuing operations before income taxes	1,698.6	(267.0)	1,431.6
Income taxes	513.5	(71.1)(2)	442.4
Income from continuing operations	$1,185.1	$(195.9)	$ 989.2
Earnings per share from continuing operations	$ 4.10		
Pro forma earnings per share from continuing operations based on level of participation in the Exchange Offer(1):			
100% (16.5 million shares tendered)			$ 3.63
75% (12.4 million shares tendered)			3.57
50% (8.3 million shares tendered)			3.52

See Notes to Unaudited Pro Forma Consolidated Financial Information of Lilly.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF LILLY
(IN MILLIONS)

	JUNE 30, 1995		
	HISTORICAL	ADJUSTMENTS(3)	PRO FORMA
ASSETS			
CURRENT ASSETS			
Cash	$ 989.7	$ (67.3)	$ 922.4
Short-term investments	208.6	--	208.6
Accounts receivable, net of allowance	1,549.2	(169.4)	1,379.8
Other receivables	307.2	(38.1)	269.1
Inventories	903.4	(129.4)	774.0
Deferred income taxes	172.0	(50.6)	121.4
Prepaid expenses	280.2	(26.0)	254.2
Total current assets	4,410.3	(480.8)	3,929.5
OTHER ASSETS			
Prepaid retirement	417.2	(.7)	416.5
Investments	513.2	(13.0)	500.2
Goodwill and other intangibles--net	4,352.6	(317.1)	4,035.5
Sundry	936.3	10.8	947.1
Property and equipment	4,467.6	(328.2)	4,139.4
	$15,097.2	$(1,129.0)	$13,968.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term borrowings	$ 3,169.2	$ (458.7)	$ 2,710.5
Accounts payable	874.1	(24.3)	849.8
Employee compensation	271.0	(43.6)	227.4
Other liabilities	892.9	(59.7)	833.2
Income taxes payable	446.0	(53.0)	393.0
Total current liabilities	5,653.2	(639.3)	5,013.9
NONCURRENT LIABILITIES			
Long-term debt	2,102.1	(.4)	2,101.7
Deferred income taxes	226.4	44.0	270.4
Retiree medical benefit obligation	166.6	--	166.6
Other noncurrent liabilities	975.1	(90.5)	884.6
SHAREHOLDERS' EQUITY			
Common stock--no par value	183.0	--	183.0
Additional paid-in-capital	406.6	--	406.6
Retained earnings	5,614.3	975.6(4)	6,589.9
Deferred costs--ESOP	(210.7)	--	(210.7)
Currency translation adjustment	46.7	--	46.7
	6,039.9	975.6	7,015.5
Less cost of common stock in treasury	66.1	1,418.4(5)	1,484.5
Total shareholders' equity	5,973.8	(442.8)	5,531.0
	$15,097.2	$(1,129.0)	$13,968.2

See Notes to Unaudited Pro Forma Consolidated Financial Information of Lilly.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF LILLY

(1) Reflects the impact of the Transaction anticipated herein as if it had occurred at the beginning of the period presented. Unaudited pro forma earnings per share from continuing operations is calculated assuming various levels of participation in the Exchange Offer and assuming any Guidant shares held by Lilly after the Exchange Offer are distributed to the remaining Lilly shareholders on a pro rata basis. The Transaction effectively reduces the weighted average number of shares outstanding by the number of shares of Lilly Common Stock exchanged for shares of Guidant Common Stock. This reduction in outstanding shares results in an increase in earnings per share from continuing operations. Also, earnings per share from continuing operations for the year ended December 31, 1994 (assuming 100% participation level) have been reduced by $.72 to reflect Lilly's acquisition of PCS as if it had occurred as of January 1, 1994. (See note 2 hereto.)

(2) Represents the adjustments to reflect the impact of the PCS operations for the pre-acquisition period beginning January 1, 1994 to November 21, 1994, the acquisition date. These adjustments include the amortization of the excess purchase price over the book value of the PCS net assets (goodwill), assumed additional interest expense related to the issuance of debt for the purchase of PCS and the related tax effect of these adjustments based on the statutory tax rates in effect during the period. The goodwill amortization and interest expense adjustments, included in other income, amounted to $87.2 million and $216.2 million, respectively.

(3) Reflects adjustments to remove Guidant's historical consolidated balance sheet amounts, include intercompany balances between Lilly and Guidant as third party balances and eliminate the minority interest ownership of Guidant Common Stock, unless otherwise noted.

(4) Retained earnings are adjusted by the anticipated net gain (net of tax) resulting from Lilly's disposal of all its MDD subsidiaries (including its remaining shares of Guidant Common Stock). The gain is calculated as the net of Lilly's investment in the discontinued operations and the consideration received. In the case of Guidant Common Stock, the consideration received is measured by the assumed market value of the shares of Guidant Common Stock exchanged on the Expiration Date (assumes 100% of the shares of Guidant Common Stock offered hereby are exchanged at a share price of $24.625). If 75% or 50% of the shares of Guidant Common Stock offered hereby are assumed exchanged, the consideration received for those shares would be $1,063.8 million or $709.2 million, respectively, and retained earnings would be reduced $354.6 million or $709.2 million, respectively, as a result of a lower gain on the Exchange Offer and a spin-off of the remaining shares of Guidant Common Stock owned by Lilly after the Exchange Offer.

(5) The increase in treasury stock assumes 100% of the shares of Guidant Common Stock offered hereby are exchanged at Guidant's assumed market value ($24.625) on the Expiration Date. If 75% or 50% of the shares of Guidant Common Stock offered hereby are assumed exchanged, the increase in treasury stock would be $1,063.8 million or $709.2 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF GUIDANT

Guidant designs, develops, manufactures and markets a broad range of products for use in: (i) vascular intervention, primarily the treatment of CAD, (ii) CRM and (iii) MIS. Vascular intervention includes the operations of ACS and DVI, CRM includes the operations of CPI and HRT, and MIS refers to the operations of Origin.

The following tables are summaries of Guidant's net sales and major costs and expenses:

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
	1995	1994	1994	1993	1992
	(IN MILLIONS) (UNAUDITED)				
Net sales:					
Vascular intervention	$ 225.0	$ 229.3	$464.5	$451.6	$423.7
CRM	209.5	172.4	378.6	336.5	329.9
MIS	14.4	9.0	19.3	6.6	1.2
Total net sales	448.9	410.7	862.4	794.7	754.8
Cost of sales	144.4	132.9	270.9	236.2	211.8
Research and development	67.8	65.2	130.9	129.1	117.9
Sales, marketing and administrative	139.3	128.8	268.9	255.1	251.0
	97.4	83.8	191.7	174.3	174.1
Restructuring and special charges	--	--	--	81.5	32.9
Income from operations	$ 97.4	$ 83.8	$191.7	$ 92.8	$141.2

	AS PERCENT OF NET SALES				
	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
	1995	1994	1994	1993	1992
Net sales:					
Vascular intervention	50.1%	55.8%	53.9%	56.9%	56.1%
CRM	46.7	42.0	43.9	42.3	43.7
MIS	3.2	2.2	2.2	0.8	0.2
Total net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	32.2%	32.4%	31.4%	29.7%	28.1%
Research and development	15.1	15.9	15.2	16.2	15.6
Sales, marketing and administrative	31.0	31.3	31.2	32.1	33.2
	21.7	20.4	22.2	22.0	23.1
Restructuring and special charges	--	--	--	10.2	4.4
Income from operations	21.7%	20.4%	22.2%	11.8%	18.7%

OPERATING RESULTS--SIX MONTHS ENDED JUNE 30, 1995 VERSUS SIX MONTHS ENDED JUNE 30, 1994

Guidant had worldwide net sales of $224.1 million for the three months ended June 30, 1995, reflecting an increase of $17.5 million or 8% over the same period in 1994. Growth in unit volume of 6% and fluctuations in foreign currency exchange rates of 3% increased worldwide net sales, while sales prices decreased net sales 1%.

Guidant had worldwide net sales of $448.9 million for the six months ended June 30, 1995, an increase of $38.2 million or 9.3% over the comparable period in 1994. This growth in worldwide net sales was due to unit volume growth of 6.1% and foreign currency exchange rate changes of 3.2%. Sales prices had a negligible impact on net sales during this period.

Net sales of CRM products grew $17.8 million or 20.3% for the three months ended June 30, 1995 as compared to the same period in 1994. CRM product net sales grew $37.1 million or 21.5% for the six months ended June 30, 1995 as compared to the same period in 1994. This growth was primarily due to continued European sales growth led by VENTAK PRx III, VENTAK P3, and ENDOTAK DSP which were released to the European market in October 1994, and the United States introductions of the VENTAK PRx III tiered-therapy defibrillator in May 1995, VENTAK P2 multi-therapy defibrillator in March 1995 and the ENDOTAK 70 endocardial lead system in August 1994. Guidant's pacemaker products also contributed to this growth with continued strong sales performance by the VIGOR product family in Europe, the VIGOR DDD introduction in the United States in October 1994 and, to a lesser degree, the United States releases in late June of the VIGOR DR and VIGOR SR.

Net sales of vascular intervention products for the three months ended June 30, 1995 decreased $2.8 million or 2.5% over the same period in 1994. For the six months ended June 30, 1995, net sales of vascular intervention products decreased $4.3 million or 1.9% over the same period in 1994. Sales growth in angioplasty products, due primarily to increased unit volume from Guidant's worldwide introduction of the technologically advanced ACS RX LIFESTREAM (rapid exchange catheter with perfusion) in March 1995, guidewires, and ACS RX FLOWTRACK 40 (rapid exchange catheter with perfusion), was offset by volume declines in atherectomy and over-the-wire catheters, and lower average selling prices of most angioplasty products. Guidant believes that angioplasty products may continue to experience pricing pressures. Sales price declines on angioplasty products were more than offset by unit volume growth. Atherectomy sales declines were primarily due to the stent, a competing alternative therapy. In addition, on May 17, 1995, DVI voluntarily stopped shipment of the AtheroCath GTO atherectomy catheter in the United States as a result of a meeting initiated by DVI with the FDA, where certain modifications to the product and other regulatory issues were discussed. DVI received FDA approval of these modifications in June 1995 and resumed shipment of the AtheroCath GTO on June 21, 1995. Guidant believes that atherectomy products will continue to experience volume declines during 1995 in comparison to the prior year. In response, Guidant is accelerating the previously announced consolidation of certain vascular intervention manufacturing and administrative operations. This consolidation is expected to be completed by November 1995 and will result in reduced employee headcount and manufacturing capacity in Guidant's atherectomy business. Guidant does not expect that these actions will result in additional charges to the 1995 income statement, as the related expenses were included as part of the 1993 restructuring charges.

Net sales of MIS products for the three months ended June 30, 1995 were $7.5 million, an increase of $2.5 million over the same period in the previous year, as Guidant expanded the marketing of its innovative laparoscopic technologies used in hernia repair, bladder neck suspension, and cholecystectomy. MIS product sales for the six months ended June 30, 1995 were $14.4 million, an increase of 60% over the comparable period in 1994. Sales growth, primarily international, was driven by products such as the PDBS Preperitoneal Distention Balloon Systems and the ACUCLIP Endoscopic Multiple Clip Applier.

Guidant experienced sales growth both in the United States and international markets. Net sales in the United States increased 2.8% to $147.2 million and international net sales increased 21.3% to $76.9 million for the three months ended June 30, 1995 as compared to the same period in 1994. For the six months ended June 30, 1995, United States net sales increased 5% to $297.6 million and international net sales increased 19% to $151.3 million compared to the same period in the previous year. United States net sales growth was primarily due to CRM sales of the VENTAK PRx III, VENTAK P2, and ENDOTAK 70 and vascular intervention sales of ACS RX LIFESTREAM and guidewires. International net sales growth was primarily driven by European and Japanese sales of the VIGOR family of pacemakers introduced in May 1993 and August 1994, respectively, as well as continued strong sales of the VENTAK PRx III, VENTAK P3, and

ENDOTAK DSP in Europe. The VIGOR family of pacemakers, which includes conventional and adaptive-rate pacemaker products, represents a majority of Guidant's bradycardia revenues in Europe. Perfusion catheter and guidewire sales in Europe and Japan also contributed to the international growth.

Cost of sales increased 6.2% for the three months ended June 30, 1995, a rate less than the growth in net sales. Cost of sales as a percentage of net sales for the three months ended June 30, 1995 was 32.8% compared to 33.5% for the same period in the previous year. Cost of sales increased 8.7% for the six months ended June 30, 1995, a rate slightly less than the growth in net sales. Inventory obsolescence charges of $4.9 million on certain CRM products due to recent United States introductions of newer generation products such as VENTAK PRx III, VIGOR DR and VIGOR SR, lower average selling prices for vascular intervention products, and reduced sales of atherectomy products were more than offset by unit manufacturing cost reductions for vascular intervention products resulting from increased manufacturing efficiencies.

Research and development expenses, which increased $2.9 million or 9% for the three months ended June 30, 1995 compared to the same period in 1994, represented 15.4% and 15.2% of net sales, respectively, for these periods. For the six months ended June 30, 1995, research and development expenses increased $2.6 million or 4% and decreased as a percentage of net sales to 15.1% from 15.9% for the same period last year. Investments in vascular intervention programs such as the ACS MULTI-LINK stent and CRM new product development, including the MINI products, and spending on CRM software development accounted for the majority of the expense increase.

Sales, marketing and administrative expenses grew 6.1% for the three months ended June 30, 1995 compared to the same period in 1994. These expenses represented 31.1% of net sales in the second quarter of 1995 and 31.8% in the second quarter of 1994. For the six months ended June 30, 1995, sales, marketing and administrative expenses increased 8.2% in comparison to the same period in the prior year. Sales and marketing expenses increased due to variable selling expenses such as CRM commissions, vascular intervention clinical marketing study expenses, and product launch expenses associated with the recent United States market releases of VIGOR DR, VIGOR SR, VENTAK PRx III and ACS RX LIFESTREAM. Administrative expenses, however, grew at a rate less than net sales. Increased expenses due to fluctuations in foreign currency exchange rates were more than offset by reduced administrative spending.

Total operating expenses, which comprises research and development and sales, marketing and administrative, increased 7.1% for the three months ended June 30, 1995 and decreased to 46.5% of net sales compared to 47.0% for the same period in 1994. Increased net sales combined with controlled growth in operating expenses resulted in increases in income from operations of 15.7% and 16.3% for the three and six months ended June 30, 1995, respectively, compared to the same periods in 1994.

For the three months ended June 30, 1995, Guidant had net other expenses of $10.5 million compared to $6.3 million for the same period in the prior year. Guidant had net other expenses of $25.8 million and $11.3 million for the six months ended June 30, 1995 and 1994, respectively. The increase in net other expenses was primarily a result of interest expense incurred by Guidant on its credit agreements which was partially offset by increased net royalty income. Net royalty income for the three months ended June 30, 1995 of $2.8 million represented a $3.1 million increase from the same period in 1994 and a $4.5 million increase from the three months ended March 31, 1995. This increase was due to royalties received on certain vascular intervention technology patents. Management believes that growth in net royalty income will not continue to the same degree as demonstrated in the three months ended June 30, 1995.

Guidant's effective income tax rate was 40.9% for the three and six months ended June 30, 1995 compared to 40.8% for the same periods in 1994. Reduced state income taxes net of the federal benefit were offset by lower amounts of available research tax credits and reduced benefits from Guidant's operations in Puerto Rico.

Net income for the three months ended June 30, 1995 was $21.2 million, an increase of $1.2 million or 6% from the three months ended June 30, 1994. Net income for the six months ended June 30, 1995 was $42.3 million, a decrease of $0.6 million or 1.4% from the comparable period in 1994. Operating income growth of 15.7% and 16.3% for the three and six months ended June 30, 1995, respectively, was offset by net other expenses as discussed above.

Net income and earnings per share of $0.30 for the three months ended June 30, 1995 increased over 50% in comparison to pro forma net income and pro forma earnings per share for the three months ended June 30, 1994. This increase was primarily due to operating income growth and increased royalty income discussed above and reduced net interest expense for the three months ended June 30, 1995 in comparison to pro forma net interest expense on long-term debt for the same period in 1994. Average outstanding borrowings during the three months ended June 30, 1995 were $458.0 million while pro forma average outstanding borrowings for the three months ended June 30, 1994 were $513.0 million. Guidant has reported 1994 earnings per share on a pro forma basis for 1995 comparisons. The pro forma amounts are based on historical results of operations adjusted to give effect to the following transactions as if they occurred on January 1, 1994: (i) borrowings under Guidant's credit facilities, (ii) dividends to Lilly, and (iii) receipt of proceeds from Guidant's initial public offering.

OPERATING RESULTS--YEAR ENDED DECEMBER 31, 1994 VERSUS YEAR ENDED DECEMBER 31, 1993

Guidant had worldwide net sales of $862.4 million in 1994, reflecting an increase of $67.7 million or 9% over 1993. Growth in unit volume of 8% and fluctuations in foreign currency exchange rates of 2% increased worldwide net sales, while sales prices decreased net sales 1%.

Net sales of vascular intervention products for 1994 increased $12.9 million or 3% over 1993 primarily due to the introduction of the AtheroCath GTO (atherectomy) in 1994, sales of Guidant's technologically advanced ACS RX FLOWTRACK 40 (perfusion) and ACS RX ELIPSE (rapid exchange) catheters, which were introduced in March 1993 and October 1993, respectively, and increased sales of guidewires. Vascular intervention net sales growth was partially offset by volume declines in OTW catheter products and lower average selling prices of angioplasty catheters. Guidant believes that angioplasty products may continue to experience pricing pressure. International volume declines in Guidant's atherectomy catheter products also negatively impacted overall sales growth. An initial stocking of product by its distributor in Japan, where Guidant commenced selling atherectomy products in 1993, as well as unusually high distributor purchase volume in the second half of 1993 resulting from an anticipated price increase, contributed to the international atherectomy catheter volume decline in 1994.

Net sales of CRM products grew $42.1 million or 13% in 1994 as compared to 1993 primarily due to the United States introduction of the VENTAK PRx tiered-therapy defibrillator in June 1994, sales of the ENDOTAK 70 endocardial defibrillation lead system introduced in the United States in August 1994, continued European sales growth led by the VENTAK PRx II which was commercially released in September 1993, and the European market releases of the VENTAK PRx III, VENTAK P3 and ENDOTAK DSP in October 1994. Guidant's pacemaker products also contributed to this growth with strong sales performance by the VIGOR product family in Europe, and with the United States market release of the VIGOR DDD in October 1994.

Net sales for MIS products for 1994 increased $12.7 million to $19.3 million as Guidant expanded the marketing of its innovative laparoscopic technologies including the ACUCLIP Endoscopic Multiple Clip Applier, PDBS Preperitoneal Distention Balloon Systems and the BLUNT-TIP TROCAR.

Guidant experienced sales growth both in the United States and international markets. Sales in the United States increased 4% to $593.1 million and international sales increased 20% to $269.3 million for 1994 as compared to 1993. United States net sales growth was primarily due to CRM sales of the VENTAK PRx and ENDOTAK 70, and vascular intervention sales of the AtheroCath GTO, the ACS RX

FLOWTRACK 40 and ACS RX ELIPSE. International net sales growth was primarily driven by CRM product sales due to the European and Japanese introduction of the VIGOR family of pacemakers in May 1993 and August 1994, respectively, as well as the continued strong sales of the VENTAK PRx II, introduced in the second half of 1993, and the European market releases of the VENTAK PRx III, VENTAK P3 and ENDOTAK DSP in October 1994. The VIGOR family of pacemakers, which includes conventional and adaptive-rate pacemaker products, has grown to represent a majority of Guidant's bradycardia revenues in Europe and Japan. Angioplasty sales in Germany and Japan also contributed to this international growth. In August 1993, Guidant acquired an interest in its distributor, Danimed GmbH und Co. KG ("Danimed") and began selling directly to its customers. As of December 31, 1994, Guidant had an 80% interest in this distributor.

Cost of sales, which increased 15% in 1994, represented 31% of net sales compared to 30% in 1993. This rise in costs of sales was largely attributable to: (i) increased distribution and warehousing expenses associated with changing from third-party distributors to direct sales in Germany, the United Kingdom, and Canada, (ii) conversion and utilization of certain facilities from development to manufacturing, and (iii) start-up costs related to a shift in mix to products with greater manufacturing complexity, such as the AtheroCath GTO, VENTAK PRx, and the VIGOR family of pacemakers. Lower average selling prices for certain vascular intervention products were largely offset by unit manufacturing cost reductions.

Guidant invests significant resources in research and development in order to remain competitive and develop new products which serve its global customers. Research and development expenses, which increased $1.8 million or 1% during 1994, represented 15% of net sales compared to 16% for 1993. Investments in CRM new product development, which included the VENTAK PRx III, VENTAK P3, and VENTAK MINI products, increased spending on regulatory compliance, and software design and validation were offset by a reduction in vascular intervention spending due to improved efficiency and streamlining initiatives. Guidant believes that its dedicated team approach to new product development will continue to result in efficient utilization of its research and development resources.

Sales, marketing and administrative expenses grew 5% for the year ended December 31, 1994 compared to 1993. These expenses represented 31% of net sales for 1994 compared to 32% for 1993. Sales and marketing expenses increased modestly in comparison to 1993, and less than the growth rate in net sales due, in large part, to the reorganization of Guidant's United States vascular intervention sales force in early 1994. Administrative expenses, however, grew at a rate greater than net sales primarily as a result of additional corporate expenses, one-time CRM software validation costs and increased expenses associated with the transition from the use of independent distributors to direct sales in Germany, the United Kingdom and Canada.

Total operating expenses, without the prior year effect of restructuring and special charges, increased 4% in 1994 and decreased to 46% of net sales compared to 48% in 1993.

Income from operations for 1994 of $191.7 million more than doubled from the previous year due primarily to restructuring and special charges in 1993. Income from operations, without considering the effect of restructuring and special charges, increased $17.4 million or 10% from 1993, a growth rate slightly greater than net sales.

For 1994, Guidant had net other expenses of $35.8 million as compared to $5.8 million for 1993. This increase was primarily a result of interest expense incurred by Guidant on long-term debt and reduced royalty income. Royalties included net royalty payments to Guidant of $4.5 million for 1994 and $18.3 million for 1993 related to licenses granted pursuant to settlements of patent lawsuits and the termination of a patent license. Excluding these royalty payments to Guidant, Guidant had net royalty expenses of $3.0 million in 1994 compared to $7.2 million in 1993. This decrease in net royalty expenses is due to growth in net royalty income excluding the aforementioned royalty payments.

Guidant's effective income tax rate for 1994 was 40.9%, compared to 39.8% in 1993. The increase for 1994 resulted from reduced benefits from Guidant's operations in Puerto Rico and lower amounts of available research tax credits.

Guidant's net income for 1994 was $92.1 million, an increase of approximately $41.5 million or 82% from 1993. This significant increase was caused by restructuring and special charges taken in 1993. Net income, without considering the effect of restructuring and special charges, would have decreased $7.6 million or 8% in 1994. Operating income growth of 10% was offset by net other expenses as discussed above.

In 1995, the full year impact of interest expense associated with long-term debt will have a negative impact on net income.

Guidant has reported 1994 earnings per share on a pro forma basis for 1995 comparisons. The pro forma amounts are based on historical results of operations adjusted to give effect to the following transactions as if they occurred on January 1, 1994: (i) borrowings under the Credit Agreements, (ii) dividends to Lilly and (iii) receipt of proceeds from the Offering. Pro forma net income and earnings per share were $76.2 million and $1.06 per share, respectively, for the year ended December 31, 1994. Historical earnings per share are not presented since such data is not meaningful because of the change in Guidant's capital structure and other transactions leading up to the Offering.

OPERATING RESULTS--YEAR ENDED DECEMBER 31, 1993 VERSUS YEAR ENDED DECEMBER 31, 1992

Guidant had worldwide sales of $794.7 million in 1993 reflecting an increase of 5% over 1992. Growth in unit volume and sales prices of 3% and 4%, respectively, increased worldwide sales, while exchange rates decreased sales by 2%.

Net sales of vascular intervention products in 1993 increased $27.9 million or 7% over 1992 primarily due to (i) the introduction of ACS RX FLOWTRACK 40 in March 1993, ACS EDGE in August 1993 and ACS RX ELIPSE in October 1993, (ii) a full year of sales of SCA-EX atherectomy catheters introduced in the third quarter of 1992, (iii) increased sales of guidewires and (iv) atherectomy product introductions in Japan in the first quarter of 1993. Vascular intervention net sales growth was partially offset by decreases in OTW catheters due to increased competition and pricing pressure, and decreased sales in fixed-wire catheters as customers continued switching to the technological improvements and flexibility available in other catheter categories. Worldwide vascular intervention products experienced increased unit volume sales which were slightly offset by the decrease in the OTW catheter unit sales.

Net sales in CRM products in 1993 increased $6.6 million or 2% over 1992 primarily due to the introduction of the ENDOTAK 60 endocardial defibrillation lead system in the United States in the third quarter of 1993. Increases in CRM net sales were partially offset by decreases in sales of Guidant's conventional pacemaker products due to the increased availability of competing dual chamber adaptive-rate products.

Net sales for MIS products in 1993 increased $5.4 million to $6.6 million due to Guidant's marketing of recently introduced products.

Sales in the United States increased 2% to $570.4 million in 1993 and international sales increased 14% to $224.3 million in 1993. International sales were primarily driven by increased vascular intervention product sales in Germany as Guidant acquired an interest in its distributor, Danimed, in 1993, and introduction of atherectomy products in Japan. CRM product sales also contributed to this increase due to continued growth of the VENTAK P2 following its European introduction in November 1992 and the launch of the VENTAK PRx II in Europe in the third quarter of 1993.

Cost of sales, which increased 12% in 1993, represented 30% of net sales compared to 28% in 1992. The rise in cost was largely driven by (i) increased start-up expenses associated with new product launches

including the ACS RX FLOWTRACK 40, ACS EDGE and ACS RX ELIPSE catheters, (ii) increased costs associated with responding to regulatory initiatives, including expanded process validation and GMP training and (iii) expanded manufacturing capacity.

Research and development expenses increased $11.2 million or 9% over 1992. The increase was primarily attributable to investments in CRM new product development, reflecting expanding activities in ablation systems, including the full year impact of these expenses.

Sales, marketing and administrative expenses increased 2% in 1993. These expenses represented 32% of net sales for 1993 compared to 33% for 1992. A 7% decline in administrative expenses resulting from expense controls and reduced litigation costs was offset by an 8% increase in sales and marketing expenses. The increase in sales and marketing expenses was primarily the result of early stage marketing for MIS products, sales force additions, costs associated with new product introductions such as the ACS RX FLOWTRACK 40, ACS EDGE, ACS RX ELIPSE and SCA-EX catheters as well as the 1993 acquisition of Danimed.

In 1993, Guidant's results reflected restructuring and special charges of $81.5 million, before tax. These charges were taken as part of Lilly's global restructuring and relate to various strategic actions taken by Guidant to enhance competitiveness in the rapidly changing health care market and to reduce costs and improve efficiencies. The expenses are principally related to strategic decisions to: (i) make a significant change in the manner of distributing Guidant's products in overseas markets, and (ii) consolidate and relocate certain manufacturing and administrative operations within the United States. The cash impact of these charges in 1993 was minimal. Substantially all the charges will result in cash outlays, principally in 1994 and 1995. While Guidant expects the restructuring actions to result in improved operating income, the amount and timing of such actions cannot be estimated at this time.

In 1993, Guidant had net other expenses of $5.8 million as compared to $20.1 million in 1992. Royalties included net royalty payments to Guidant of $18.3 million in 1993 and $13.6 million in 1992 relating to licenses granted pursuant to settlements of patent lawsuits and the termination of a patent license. Excluding these royalty payments to Guidant, net royalty expense decreased to $7.2 million in 1993 from $9.3 million in 1992. Patent amortization declined by approximately $9.0 million, due largely to the 1992 restructuring, which included the writedown of certain CRM patents. This decline in amortization was partially offset by increased goodwill amortization of $3.0 million in 1993.

Guidant's effective tax rate for 1993 was 39.8%, compared to 36.6% in 1992. The increase for 1993 reflected the impact of numerous factors including larger amounts of non-deductible goodwill amortization, reduced amounts of available research tax credits and the increased statutory corporate tax rate under the Omnibus Budget Reconciliation Act of 1993. These increases in the effective tax rate were partially offset by increased tax benefits from Guidant's operations in Puerto Rico.

Guidant's net income for 1993 was $50.6 million, a decline of approximately $26.2 million or 34% from 1992. The primary factors generating the decline were the restructuring and special charges. Net income would have decreased approximately $1.3 million or 1% from 1992 without considering the effect of restructuring and special charges in either year. This slight decline from 1992 was primarily due to increases in cost of sales, research and development expenses and the effective income tax rate.

QUARTERLY INFORMATION

The following table summarizes Guidant's operating results by quarter for 1994 and the three months ended March 31, and June 30, 1995:

	1995		1994			
	SECOND	FIRST	FOURTH	THIRD	SECOND	FIRST
	(IN MILLIONS) (UNAUDITED)					
Net sales:						
Vascular intervention	$111.0	$114.0	$122.0	$113.2	$113.8	$115.5
CRM	105.6	103.9	106.9	99.3	87.8	84.6
MIS	7.5	6.9	5.4	4.9	5.0	4.0
Total net sales	224.1	224.8	234.3	217.4	206.6	204.1
Cost of sales	73.6	70.8	71.6	66.4	69.3	63.6
Research and development	34.4	33.4	35.1	30.6	31.5	33.7
Sales, marketing and administrative	69.7	69.6	74.9	65.2	65.7	63.1
Income from operations	46.4	51.0	52.7	55.2	40.1	43.7
Other expenses--net	10.5	15.3	13.0	11.5	6.3	5.0
Income before income taxes	35.9	35.7	39.7	43.7	33.8	38.7
Income taxes	14.7	14.6	16.4	17.8	13.8	15.8
Net income	$ 21.2	$ 21.1	$ 23.3	$ 25.9	$ 20.0	$ 22.9

LIQUIDITY AND FINANCIAL CONDITION

Guidant generated cash flows which were more than sufficient to fund operations. For the six months ended June 30, 1995, cash provided by operating activities was $36.2 million compared to $12.5 million for the same period in 1994. This increase in cash provided by operating activities of $23.7 million is primarily due to the timing of various payments between Guidant and Lilly. For the year ended December 31, 1994, cash provided from operating activities was $175.9 million compared with $156.3 million in 1993 and $152.1 million in 1992.

Net cash used for investing activities totaled $36.1 million for the six months ended June 30, 1995, compared to $16.3 million for the same period in 1994. The most significant use of cash for investing activities related to net additions of property and equipment of $28.2 million. Net additions of property and equipment for the same period in the prior year were $13.2 million. This increase in additions of property and equipment was primarily due to the introduction of a new generation of CRM programmers. Guidant also paid approximately $9.4 million to complete the acquisitions of two European distributors during the period. Net cash used for investing activities totaled $71.7 million for the year ended December 31, 1994, compared to $44.4 million in 1993. The most significant use of cash for investing activities related to net additions of property and equipment of $51.1 million in 1994 compared to $43.5 million in 1993.

Net cash used for financing activities totaled $69.3 million for the six months ended June 30, 1995. Payments of its loans payable to affiliated companies of $54.3 million was Guidant's most significant use of cash for financing activities.

In June 1994, three subsidiaries of Guidant obtained separate credit facilities aggregating $700.0 million which permit borrowings through January 8, 1996. Borrowings under the Credit Agreements carry a variable interest rate. At June 30, 1995, the average interest rate was 6.44%. To lower the interest rate, Lilly has guaranteed the debt, but it is expected that this guarantee will be withdrawn in September 1995. The interest rate differential is not material. In 1994, Guidant incurred $648.0 million of debt under these facilities and used the proceeds to pay dividends to Lilly of $494.1 million, purchase certain United States assets from Lilly aggregating $102.5 million, and repay certain borrowings to Lilly of $46.4 million. In addition, Guidant

borrowed $57.0 million for the purchase of certain international assets from Lilly and $18.7 million to acquire an interest in Danimed under separate short-term agreements with an affiliate of Lilly.

Guidant consummated the Offering at a price of $14.50 per share in December 1994. Net proceeds from the Offering of $192.5 million were used to reduce long-term debt by $135.0 million and in early 1995 to repay indebtedness incurred for the purchase of certain international assets of $57.0 million. Guidant repaid an additional $40.0 million principal amount of its long-term debt in December 1994 using cash flow generated by operations. In addition, Guidant repaid $15.0 million principal amount on these borrowings in March 1995 using cash flow primarily generated by operations. At June 30, 1995, Guidant's outstanding borrowings under the Credit Agreements were $458.0 million. These borrowings, due January 8, 1996, are classified as a current liability. As a result, current liabilities exceed current assets by $308.5 million as of June 30, 1995. Working capital decreased $26.5 million to $116.8 million at December 31, 1994 from $143.3 million at December 31, 1993. The decrease in working capital was primarily due to increases in loans and other payables to affiliated companies.

Guidant expects its cash from operations combined with access to funding sources will be adequate to meet its obligations under the Credit Agreements and meet other anticipated needs including capital expenditures which are expected to be $60.0 million in 1995. Anticipated capital expenditures have increased from the first quarter of 1995 due primarily to the introduction of a new generation of CRM programmers. Guidant believes it will have the ability to obtain additional debt financing to refinance any borrowings which remain outstanding on January 8, 1996.

As a participant in Lilly's central cash management system, cash generated by Guidant since October 18, 1994 has been transferred to Lilly and the resulting receivable balance is classified as a cash equivalent at December 31, 1994. Effective February 1, 1995, Guidant commenced operation of its own cash management system and discontinued participation in Lilly's central cash management system. Prior to October 31, 1994, cash generated by Guidant was transferred to Lilly's central cash management system and classified as long-term advance to affiliated companies. During 1994, Guidant declared non-cash dividends to Lilly aggregating $444.5 million which were recorded as reductions of the long-term advances to affiliated companies.

Guidant has recognized net deferred tax assets aggregating $51.7 million at June 30, 1995 and $57.4 million at December 31, 1994, principally as a result of the 1993 and 1992 restructurings. In view of the extraordinary nature of the restructurings and the consistent profitability of Guidant's past operations, Guidant believes that substantially all these assets will be recovered and that no significant valuation allowance is necessary.

Lilly has routinely entered into foreign currency exchange contracts on behalf of Guidant to reduce exposure to foreign currency exchange rate changes. All contracts are entered into for purposes "other than trading" as defined by SFAS No. 119. Realized and unrealized foreign currency gains and losses are recognized in the same period as the transactions occur. Lilly's hedging program on behalf of Guidant historically has had an immaterial effect on Guidant's results of operations and liquidity. Following the consummation of the Transaction, Guidant intends to manage its hedging program consistent with the past practices of Lilly.

REGULATORY AND LEGAL MATTERS

Guidant's products are subject to extensive regulation by the FDA and, in some jurisdictions, by state and foreign governmental authorities. In particular, Guidant must obtain specific clearance from the FDA before it can market products in the United States. The process of obtaining such clearances can be time consuming and expensive, and there can be no assurance that all clearances sought by Guidant will be granted or that FDA review will not involve delays adversely affecting the marketing and sale of Guidant's products.

Recent developments such as the enactment of the Safe Medical Devices Act of 1990 and increased enforcement actions reflect a trend toward more stringent product regulation by the FDA. One result is that

the number of medical devices approved by the FDA for commercial release by all companies has decreased significantly in the past few years. In addition, rigorous enforcement action may be taken in response to deficiencies noted in inspections or to any product performance problems. The risks in the United States of lengthened introduction times for new products and additional expense have increased substantially. Furthermore, the new requirements for post-market surveillance and device tracking under the Safe Medical Devices Act will increase the expense of the regulatory process.

The operations of Guidant, like those of other medical device companies, involve the use of substances regulated under environmental laws, primarily in manufacturing and sterilization processes. While it is difficult to quantify, the potential impact of compliance will not, in the view of Guidant's management, have a material impact on Guidant's financial position.

Guidant operates in an industry susceptible to product liability claims. Product liability claims may be asserted against Guidant in the future related to events not known at the present time. Guidant has insurance coverage which it believes is adequate to protect against any material product liability losses. See "Risk Factors--Stringent Government Regulation," "--Cost Pressures on Medical Technology," "--Limitations on Third Party Reimbursement," "--Potential Impact of HHS Investigation Regarding Reimbursement Procedures," "--Potential Product Liability, Product Recalls" and "Business of Guidant--Product Liability and Insurance."

HEALTH CARE REFORM

Fundamental changes continue to reshape the traditional patterns of global health care delivery. Further changes are expected during the next several years. Price regulation and initiatives to reduce health care costs are in effect in many countries in which Guidant does business. In the United States, certain customers are exerting increasing pricing pressures on the medical device industry. A number of different comprehensive health care reform bills were introduced in Congress during 1994. With the failure of any of these bills to pass during 1994, efforts at the state level are gaining momentum. Many of these plans encourage an expanded role of managed care systems, technology assessment, and insurance purchasing pools. Potential ERISA changes will be required for states to implement many of these proposed plans. Because of the uncertainty as to any proposed changes, Guidant cannot predict the impact any such changes may have on future operating results. See "Business of Guidant--Health Care Reform; Third Party Reimbursement."

BUSINESS OF GUIDANT

Guidant was incorporated in Indiana on September 9, 1994 to be the parent of five of the nine businesses in the MDD Division of Lilly. Prior to the consummation of the Offering, Guidant was a wholly owned subsidiary of Lilly. Pursuant to the Offering, approximately 19.8% of Guidant Common Stock was issued to the public. Guidant is currently comprised of the following five businesses, each of which is a wholly owned subsidiary of Guidant: ACS, DVI, CPI, HRT and Origin. Guidant also conducts its business outside the United States through its various international subsidiaries.

Guidant designs, develops, manufactures and markets a broad range of products for use in vascular intervention primarily for the treatment of CAD, and CRM and MIS. Guidant is the worldwide leader, based on revenues, in PTCA and atherectomy, which are minimally invasive procedures used for opening blocked coronary arteries. In addition, Guidant has developed proprietary positions in atherectomy catheters, guidewires and perfusion catheters. Guidant is also the worldwide leader, based on revenues, in ICD systems. Guidant also designs, manufactures and markets a full line of implantable pacemaker systems used in the treatment of slow or irregular arrhythmias. In addition, Guidant develops, manufactures and markets products for use in MIS procedures with products for access, vision, dissection and retraction, focusing on laparoscopic market opportunities in cardiovascular, general, thoracic and urologic surgeries. Guidant's net sales for the year ended December 31, 1994 were $862.4 million.

HEALTH CARE TRENDS

Guidant considers its sales growth to have been a function of both innovative product development and marketing in an era of an evolving health care delivery environment. The health care industry is currently going through a period characterized by increasing cost consciousness and consolidation among hospitals and other health care providers. Guidant expects that these trends will lead to increasing centralization of purchasing decisions among providers and will increase the emphasis on the potential clinical benefits and cost-effectiveness of therapeutic products. Guidant believes that these changes will continue to increase demand in the health care industry for new approaches and alternatives to traditional invasive surgical techniques and the delivery of more cost-effective medical procedures.

Guidant believes that its therapeutic products and less invasive approaches reduce the overall cost of health care while providing important patient benefits. Less invasive procedures are generally associated with reduced risk and trauma, can often be performed at earlier stages in the disease process and generally result in less costly therapy. In addition, less invasive procedures are generally more cost-effective and involve shorter hospital stays, result in a quicker recuperation period and require fewer hospital support services.

In response to cost containment pressures and health care reform, Guidant believes a broad product offering in a particular treatment area will be important to offer customers single-source and innovative purchasing alternatives.

BUSINESS STRATEGY

Guidant's business strategy is to design, develop, manufacture and market innovative, high quality therapeutic products principally for use in treating cardiovascular disease and performing minimally invasive surgical procedures, resulting in improved quality of patient care and reduced treatment costs. Key elements of this strategy are:

Focus on Cardiovascular Therapeutic Markets. Cardiovascular disease is the leading cause of death in the United States. More than six million Americans have been diagnosed with CAD, which is the formation of blood flow restrictions (atherosclerotic lesions) within the coronary arteries. CAD interventions are the largest subset of the vascular intervention market. Guidant currently estimates that in 1994 the total number of catheter-based cardiovascular interventions performed in the United States was approximately 460,000 and worldwide was approximately 785,000. Guidant believes there is significant opportunity to provide cost-effective therapeutic treatments to improve outcomes and save lives. Such treatments generally result in significantly lower costs through shorter hospital stays, lower procedure costs and reduced patient mortality, complications and discomfort. Approximately one million people in the United States suffer every year from a significant tachyarrhythmia, which is an abnormally fast heart rate, with over 400,000 people experiencing a sudden cardiac death event. Guidant estimates that approximately 18,000 ICD systems were implanted in the United States during 1994, with approximately 22,200 implanted worldwide, to treat patients suffering from potentially fatal fast heart rhythms. Additionally, approximately 376,000 pacemaker systems were implanted worldwide in 1994 to treat patients suffering from abnormally slow, or irregular, heart rhythms.

Broad Product Offering. Guidant offers one of the most comprehensive product lines in the vascular intervention and CRM areas. Guidant believes that a broad product offering provides several benefits including the ability to (i) take advantage of its research and development expertise across product lines, (ii) improve manufacturing and administrative efficiency and expertise and (iii) offer innovative purchasing programs, particularly as customer purchasing decisions become more centralized.

Technology. Guidant intends to maintain a technological leadership position in the vascular intervention and CRM segments of the medical devices market, which are driven by technological innovation and new product development. Guidant has introduced several significant technological advances in the treatment of cardiovascular disease, including the first implantable defibrillator, the first catheter with perfusion capability to be marketed in the United States, the first atherectomy catheter and the first endocardial defibrillation system. As a result of these and other technological innovations, Guidant has a

leading position in RX catheters, perfusion catheters, atherectomy catheters, guidewires, ICDs, endocardial defibrillator leads and gasless laparoscopy systems. Continuing its focus on technology and new product development, Guidant has introduced several significant new products and product enhancements since the beginning of 1995 including the VENTAK P2, VIGOR SSI, ACS RX LIFESTREAM, ENDOTAK SQ LEAD ARRAY, VENTAK PRx II/PRx III AICD and 2950 programmer, ENDOTAK 115 (70cm LEAD) and AIRLIFT BALLOON, HERNIA MESH and PIXY INSTRUMENTS. Guidant intends to invest significantly in new product development and apply its existing technology and intellectual property base in order to enhance new product development. In addition, Guidant's strong relationships with its customers allow it to target unmet needs in new product development.

Cost Structure. Guidant expects to further enhance the utilization of its research, product development and manufacturing assets and resources and share technology and regulatory experience among its previously independently managed operations. Guidant has initiated the process of identifying and implementing several cost savings opportunities across its operations. In manufacturing, ACS continues to reduce its use of temporary and contract employees. DVI has announced a plan to move to Guidant facilities currently occupied by ACS to improve capacity utilization and productivity. This initiative should lead to cost savings beginning in 1996. Similarly, CPI has announced a reorganization of its manufacturing processes between Puerto Rico and St. Paul, Minnesota which is expected to be fully implemented in 1995 and is expected to result in productivity improvements.

Guidant has restructured its sales and marketing organizations to move to geographic-based organizations throughout the world. Guidant believes that this organizational structure should increase the responsiveness to customer demands, increase the ability to leverage Guidant's sales across product lines and increase operational efficiencies in sales and marketing over time. Guidant believes it can achieve cost savings by reducing corporate expenses, streamlining information reporting systems and eliminating duplicative finance and administrative activities across Guidant.

International Presence. Guidant's marketing strategy is to attain a significant worldwide presence in all the markets in which it serves, with the geographic-based sales organizations supporting this strategy. The markets for vascular intervention, CRM and MIS products are growing faster internationally than in the United States. As a result, Guidant believes that there is significant potential for growth in many areas outside the United States where vascular intervention, CRM and MIS procedures are not as widely performed by physicians. In addition, by broadening the markets where Guidant sells its products, Guidant will be able to serve more customers without increasing certain of its costs, such as research and development. Guidant often launches products in international markets first to generate revenue and to benefit from early clinical information which can assist Guidant in accelerating the commercialization of its products.

VASCULAR INTERVENTION

Guidant offers its customers a broad range of vascular intervention products, including dilatation catheters, atherectomy catheters, guidewires, guiding catheters and accessories. Vascular intervention procedures are primarily performed in cardiac catheterization labs in approximately 950 hospitals in the United States and approximately 1,600 hospitals outside the United States. There are over 3,500 practicing interventional cardiologists in the United States. Sales of Guidant's vascular intervention products, as a percentage of Guidant's total revenues for the years ended December 31, 1994, 1993 and 1992, were 54%, 57% and 56%, respectively.

Background

More than six million Americans have been diagnosed with CAD, which is the formation of blood flow restrictions (atherosclerotic lesions) within the coronary arteries. Atherosclerotic lesions can occur anywhere within the complex network of arteries that provide blood to the heart muscle and the composition of the lesions vary from extremely hard calcified lesions to soft fatty deposits. Lesions range from donut-shaped

concentric constrictions to highly eccentric blockages adhering to one side of the blood vessel. If untreated, CAD can lead to heart attack, or cause chest pain that may interfere with normal activities.

Over 1.7 million Americans underwent a diagnostic procedure in 1994 for the detection of coronary blockages, as compared to 1.1 million Americans in 1989. Of these 1.7 million patients, approximately 750,000 underwent either CABG or minimally invasive CAD interventions (angioplasty, atherectomy, ablation or stenting) and the remaining portion received non-invasive medical therapy or no further therapy. CAD interventions comprised approximately 60% and CABG comprised approximately 40% of these procedures performed in the United States in 1994.

CAD is a progressive disease and no drug treatment has been discovered to reverse blockages once they have formed. Guidant believes that patients currently on medical therapy may later require CABG or a CAD intervention. Further, due to the progressive nature of CAD, many recipients of interventional therapy may require future additional interventional procedures.

Prior to the 1980's, CABG was the only therapy for those patients undergoing interventional procedures. CABG is a highly invasive surgical procedure performed under general anesthesia. The surgeon gains access to the heart by sawing through the sternum and then grafts a blood vessel from the leg or chest of the patient, bypassing the site of the blockage. During this procedure, a cardiopulmonary heart/lung machine provides life support to the disabled heart and lungs. Due to the highly invasive nature of CABG, the patient generally remains in the hospital for one to two weeks and has a several week recuperation period after discharge. CABG is expensive, averaging approximately $33,000 per procedure in the United States, including the cost of personnel, hospitalization and supplies. The number of blood vessels suitable for grafting limits the number of times a CABG can be performed.

Guidant believes that the number of CABG procedures performed in the United States has grown to approximately 290,000 in 1994. The annual growth rate of CABG procedures in the United States over the last five years averaged approximately 4%. The number of CABG procedures performed worldwide in 1994 was approximately 540,000, and the annual worldwide growth rate over the last five years averaged approximately 5%.

Since its clinical introduction in 1978, PTCA ("angioplasty") has emerged as the principal less invasive alternative to CABG. In a PTCA procedure, a local anesthetic is administered and a small incision is made in the groin area to gain access to the femoral ("groin") artery. The physician inserts a guiding catheter through the femoral artery into the entrance of the coronary blood vessel and then advances a small guidewire through the inside of the guiding catheter, into the blood vessel and across the site of the blockage. Then a dilatation catheter is delivered over the guidewire through the inside of the guiding catheter into the blood vessel and across the site of the blockage. The balloon is then inflated to push against the blockage on the walls of the artery, thereby enlarging the opening of the vessel, increasing blood flow to the heart muscle. At the end of the PTCA procedure, all the equipment is withdrawn. The patient is usually discharged from the hospital within four to five days.

A major technological advance in PTCA intervention has been the development of perfusion capability in dilatation catheters. Perfusion catheters have holes in the catheter shaft on either side of the balloon, thereby allowing uninterrupted blood flow to the heart muscle during the time the balloon is inflated to dilate the blockage, significantly reducing patient chest pain during the procedure and allowing longer balloon inflations.

The less invasive nature of PTCA is associated with a lower cost of treatment, less trauma to the patient and generally improved patient outcomes. The cost of the PTCA procedure averages approximately $13,000 in the United States, including the cost of personnel, hospitalization and supplies. PTCA products represent approximately 10% to 15% of the cost of the procedure. Guidant currently estimates that the number of PTCA procedures in the United States has grown from approximately 250,000 in 1989 to approximately 435,000 in 1994, an annual growth rate over the last five years of approximately 12%. Guidant currently

estimates that the number of PTCA procedures performed worldwide in 1994 was approximately 735,000. PTCA therapy has become widely accepted due to its high clinical success rate, low complication rate and greater cost-effectiveness compared to CABG.

The major clinical challenge to PTCA is clinical restenosis, the renarrowing of the blood vessel at the site of the initial treatment requiring another intervention within six months of the initial procedure. Clinical restenosis occurs in approximately 20% to 30% of patients undergoing PTCA procedures. Secondary clinical challenges of PTCA include abrupt closure, where the blood vessel becomes totally blocked during a PTCA procedure, and highly calcified lesions, which are difficult to treat with PTCA. A number of other technologies have evolved to treat these conditions, often in combination with a PTCA catheter. The major other technologies which have evolved are atherectomy, mechanical or laser ablation and stenting.

Atherectomy is the excision and removal of blockages by catheters with miniature cutting systems. Ablation is the mechanical or laser reduction of blockages without the removal of the tissue. Stents are typically implantable metal devices that are delivered on a dilatation catheter and permanently deployed at the blockage to "scaffold" the artery. Each of these technologies has been found to be useful in treating certain limitations of angioplasty or in treating patients who otherwise would be referred to CABG. Guidant estimates that a majority of these procedures also use dilatation catheters. Like PTCA catheters, atherectomy catheters, ablation catheters and stents are delivered through a guiding catheter and over a guidewire. The cost of these other procedures is significantly lower than CABG.

While atherectomy and stents are capable of achieving similar acute results, atherectomy is perceived to be a more difficult technique, while stents are generally associated with longer hospital stays and higher cost. Since the introduction of the Palmaz-Schatz stent (which is manufactured by a competitor, Johnson & Johnson) in the United States in August 1994, physicians have been eager to use and gain experience with the product, which has reduced the usage of atherectomy. This has had an adverse effect on Guidant's sales of atherectomy products. In addition, the one year follow-up results from the Coronary Angioplasty Versus Excisional Atherectomy Trial (CAVEAT) have recently been published and have become the subject of press coverage. Coverage focused on unfavorable results for atherectomy which demonstrated a higher death rate from all causes at one year. Guidant believes that this coverage has also had an adverse effect on Guidant's sales of atherectomy products.

Combining atherectomy, ablation and stent procedures with PTCA, Guidant currently estimates the total number of CAD interventions performed in 1994 in the United States was approximately 460,000 and worldwide was approximately 785,000. Since 1989, the number of CAD interventions has grown at a rate of approximately 15% per year. Guidant believes that this growth will continue but at a reduced rate given the current widespread acceptance of CAD interventional procedures. Guidant believes growth will continue due to: (i) the aging population; (ii) the less invasive and more cost-effective nature of CAD intervention compared to CABG; (iii) the improving medical infrastructure in many emerging countries; (iv) better treatment of existing applications due to improved technology; and (v) new applications of CAD interventions, including the treatment of patients undergoing acute myocardial infarcts ("AMI" or heart attacks). Certain recent vascular interventional studies suggest that AMI patients treated with a CAD intervention have a better outcome than those treated with medical therapy.

Products

Guidant offers its customers a broad range of vascular intervention products, including dilatation catheters, atherectomy catheters, guidewires, guiding catheters and accessories. Guidant's key vascular intervention products include:

CATEGORY	DESCRIPTION	PRODUCT NAME	DATE OF U.S. COMMERCIAL RELEASE
Perfusion	Perfusion dilatation catheters allow continuous blood flow during the PTCA procedure, offering flexibility in inflation times. Perfusion catheters are available in RX and OTW configurations.	ACS RX LIFESTREAM	Mar. 1995
		ACS RX FLOWTRACK	Mar. 1993
		ACS RX PERFUSION	Dec. 1990
		STACK 40-S	Aug. 1991
		STACK PERFUSION	Nov. 1988
Rapid Exchange ("RX")	RX dilatation catheters allow for easy exchange of the catheter without removing the original guidewire.	ACS RX ELIPSE	Oct. 1993
		ACS RX PASSPORT	(1)
		ACS RX STREAK	Jan. 1992
Over-the-Wire ("OTW")	OTW dilatation catheters are delivered over a separate guidewire to position the balloon across the lesion.	ACS SOLEIL	(2)
		ACS AVANT EDGE	(2)
		ACS EDGE	Aug. 1993
		ACS OMEGA	Mar. 1992
		ACS PRISM	Oct. 1991
		PINKERTON .018	Sept. 1989
Fixed-Wire	Fixed-wire catheters permit access through tortuous and very small vessels.	SLALOM PLUS	Jan. 1991
Atherectomy products	Catheters which allow for the excision and removal of atherosclerotic plaque.	AtheroCath GTO(3)	Sept. 1994
		AtheroCath SCA-EX	Sept. 1992
		AtheroCath SCA-I	Sept. 1990
Guidewires	Individual guidewires are inserted through coronary and peripheral vessels before the dilatation catheter, facilitating the placement of the dilatation catheter or atherectomy catheter.	HI-TORQUE BALANCE	Oct. 1994
		ACS HI-TORQUE EXTRA S'PORT	Sept. 1994
		HI-TORQUE APPROACH	Apr. 1992
		HI-TORQUE EXTRA SUPPORT	Feb. 1992
		HI-TORQUE TRAVERSE	Nov. 1991
		DOC	Feb. 1988
		HI-TORQUE FLOPPY II	June 1986

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(1) This product is specifically designed for the European market.
(2) This product is released in select international markets.
(3) Guidant voluntarily stopped shipment of this product in the United States on May 17, 1995 and resumed shipment of this product on June 21, 1995.

PTCA Catheters

Since the type, shape and composition of lesions vary greatly, the cardiologist requires a high degree of flexibility when performing angioplasty. There are four basic types of catheters that have evolved to perform PTCA procedures: perfusion, RX, OTW and fixed-wire. Perfusion catheters are available in both OTW and RX configurations. Currently, Guidant is the only company with perfusion catheters approved for commercial marketing in the United States. Due to ongoing improvements, catheters with perfusion capability have evolved from a secondary to primary treatment and have become Guidant's fastest growing PTCA catheter segment.

Perfusion Catheters. Perfusion catheters are designed to allow blood to continuously flow to the heart during the balloon inflation. The perfusion feature also allows the physician flexibility in balloon inflation since the heart still receives blood flow regardless of the length of time the balloon is left in place. Perfusion catheters are available in either RX or OTW configurations and offer either 40cc or 60cc of blood flow per minute during inflation of the catheter.

- The ACS RX LIFESTREAM is the first high performance, low profile perfusion catheter with extended pressure capability.

- The ACS RX FLOWTRACK is designed to improve lesion accessibility. It offers 40cc of blood flow per minute.

- The ACS RX PERFUSION offers 60cc of blood flow per minute for larger arteries or other coronary anatomy where more blood flow is desired.

- The STACK 40-S is an OTW catheter that offers 40cc of blood flow per minute with lower profiles than the STACK PERFUSION catheter.

- The STACK PERFUSION was the first perfusion catheter in the United States which allows blood to flow continuously through the artery during dilatation. It is an OTW catheter that offers 60cc of blood flow per minute.

Rapid exchange catheters. RX dilatation catheters, also known as the monorail or rail segment, allow for easier exchange of the dilatation catheter during a procedure. PTCA procedures in the United States require an average of approximately 1.5 dilatation catheters. The RX catheter simplifies procedures for which multiple balloons are necessary and eliminates the need for an additional operator to maintain the guidewire's position. Other product advantages include increased operator control and convenience, reduction of the cost and time associated with exchanging dilatation catheters and less exposure to x-rays.

Guidant pioneered the development of RX technology and its product line includes the following features:

- The ACS RX ELIPSE, a unique elliptically shaped catheter, provides a clinician with force of delivery and maneuverability needed to reach and dilate most lesions.

- The ACS RX PASSPORT is a catheter specifically designed to meet European customer preference for an easy-to-handle shaft design.

- The ACS RX STREAK catheter provides for ease of use during dilatations at multiple sites.

Over-the-wire catheters. OTW dilatation catheters are delivered over a separate guidewire to position the balloon across the lesion. These catheters are available in a variety of balloon diameters and lengths, and are known for their ability to follow the guidewire through coronary arteries, a characteristic called trackability. Approximately 50% of all PTCA procedures use OTW dilatation catheters. The advantages of the OTW catheter are that, in contrast to the fixed-wire catheter, the guidewire can be easily removed and reinserted or replaced, if necessary, during the procedure and the guidewire can be independently steered in the artery. Guidant's OTW product line includes the following features:

- The ACS SOLEIL is designed to improve the ability to cross lesions through enhanced catheter and tip characteristics.

- The ACS AVANT EDGE has a modified tip configuration to enhance crossing potential.

- The ACS EDGE catheter has enhanced maneuverability which provides for easier access to the lesion site.

- The ACS OMEGA is Guidant's smallest OTW catheter, allowing access to small and/or curved arteries. This further expands the lesion locations reachable by the clinician during PTCA.

- The ACS PRISM provides the clinician with a catheter which can be used multiple times within the same patient due to enhanced balloon performance characteristics.

- The PINKERTON .018 provides for clinician flexibility on the choice of guidewire diameters available for use.

Fixed-wire catheters. Fixed-wire catheters are dilatation catheters with a wire fixed to the tip of the catheter so that the wire is unable to be advanced independent of the balloon and cannot be exchanged. These systems are used where vessels are tortuous or very small. Fixed-wire products have experienced a decline in sales due to customer preference for the technological improvements and superior flexibility available in the other categories.

- The SLALOM Coronary Dilatation Catheter with TRACKING SHEATH Hemostat Device is Guidant's smallest-sized catheter, allowing access to small vessels and those in the farthest parts of the coronary arteries.

Atherectomy Catheters

Atherectomy products excise and remove atherosclerotic plaque blocking the coronary artery, frequently leaving less residual blockage and a larger opening in the artery than PTCA procedures. Approximately 50% of the atherectomy procedures performed in the United States in 1994 used a dilatation catheter to further minimize residual blockage following initial atherectomy treatments. Atherectomy products enable physicians to treat certain lesions not treatable by PTCA that were previously referred to CABG. Certain clinical studies have shown a trend toward lower restenosis for atherectomy as compared to PTCA.

AtheroCath Catheters. The primary component of Guidant's atherectomy system is the AtheroCath catheter. This is an OTW catheter with a mechanical, rotating cutting system located in a tubular metal housing containing a side-directed window. The design of the AtheroCath catheter allows a physician to direct the window toward the obstructive tissue. A hollow nosecone at the end of the housing captures and allows removal of the tissue. A low pressure balloon is attached to the housing directly opposite the window and serves to hold the housing stable in the vessel during each cut. Tissue can be removed either selectively or around the full circumference of the vessel. The cutting system is activated by turning on a battery powered, disposable, motor drive unit.

Guidant introduced the first atherectomy products and is the worldwide market leader in this segment. Its atherectomy products include:

- AtheroCath GTO catheters retain the improvements of Guidant's earlier catheters while adding a stronger and more precisely controlled shaft system. The improved shaft provides the physician with greater control for easier, more precise plaque removal.

- SCA-EX catheters allow easier crossing of more narrowed lesions in the artery due to a smaller diameter than the SCA-I catheter, and provides greater flexibility and less trauma to the vessel wall due to their softer nosecone. The SCA-EX is available in a variety of sizes with a 9 mm (standard) housing window or a 5 mm window (SCA-EX ShortCutter). The SCA-EX ShortCutter allows the catheter to navigate through more tortuous vessels.

- The SCA-I was the first atherectomy catheter.

DVI voluntarily stopped shipment of the AtheroCath GTO catheter in the United States on May 17, 1995 as a result of a meeting initiated by DVI with the FDA, where certain modifications to the product and other regulatory issues were discussed. DVI voluntarily informed the FDA of the modifications to the AtheroCath GTO catheter in order to obtain the agency's interpretation of the requirements. As a result, DVI submitted to the FDA a Pre-Market Approval ("PMA") supplement in May 1995 covering the modifications for the FDA's review. DVI received FDA approval of these modifications in June 1995 and resumed shipment of the AtheroCath GTO on June 21, 1995. DVI anticipates having ongoing discussions with the FDA regarding the regulatory issues raised by DVI, and expects to work closely with the FDA to meet all applicable regulatory obligations.

Guidewires

Guidant is the worldwide leader in guidewire design and sales. Guidant believes that its guidewires are used in over two-thirds of all CAD intervention procedures performed worldwide. Guidant manufactures

guidewires in a variety of sizes and degrees of stiffness such that the physician can select the appropriate guidewire for the patient's anatomy. For example, Guidant produces a specialty guidewire ACS HI-TORQUE EXTRA S'PORT, for use with atherectomy catheters, stents and other procedures where extra support is desired in a guidewire. Following dilatation catheters, guidewires are the largest source of vascular interventional product revenue for Guidant.

Guiding Catheters

Guidant manufactures and markets the POWERBASE line of guiding catheters for use with dilatation catheters, as well as a family of specialty guiding catheters for use with atherectomy and other technologies. Guidant has a leadership position in specialty guiding catheters which are priced at a significant premium to PTCA guiding catheters.

Accessories

Guidant manufactures and markets balloon inflation devices for use with PTCA and atherectomy catheters. It also manufactures and markets specialty valves attached to the guiding catheter. These accessories can be used with Guidant's products as well as those manufactured by others. Guidant also manufactures battery powered, disposable, motor drive units which activate the cutting system of Guidant's atherectomy catheters.

New Products

Guidant will continue to introduce enhancements and new platforms in each of its major product segments. These product enhancements are directed at five major areas: (i) increasing product application to current clinical challenges; (ii) increasing the ease of use of Guidant's products; (iii) decreasing manufacturing costs; (iv) expanding Guidant's product portfolio; and (v) expanding product applications to new indications such as AMI.

In addition to continuing design enhancements to its existing product segments, Guidant is developing several technologies targeted towards clinical challenges in CAD interventions, including restenosis. Metal stents have been found to lower restenosis. However, this reduction in restenosis with the use of stents is accompanied by higher procedural cost and other complications due to the need to aggressively diminish the patient's blood clotting caused by the implant as the body recognizes the stent as a foreign material. There are currently efforts underway in the industry to design stents that have fewer complications and reduce the procedural cost.

Guidant has a significant development effort underway in the area of coronary stenting. The stent program leverages Guidant's competencies in balloon systems (for stent deployment), metallurgy and knowledge of treating vessel narrowings. Guidant's metal stent is in clinical trials in Europe and Japan. Guidant's first human implant of a stent occurred in Europe in late 1994. Guidant also has an early development project underway combining the application of stenting with the ability to deliver drug therapy directly to the site of the blockage. Such drug delivery in combination with stenting may provide a further pharmaceutical benefit in reducing restenosis.

As a result of Guidant's pioneer role in the development of PTCA and atherectomy products, Guidant has developed a strong relationship with clinicians performing vascular interventions. This relationship, combined with Guidant's history of product innovation to meet clinical and customer needs, has enabled Guidant to establish and maintain a leading position in vascular intervention.

CARDIAC RHYTHM MANAGEMENT

Guidant is a significant competitor in the implantable CRM market. In this market, implantable device systems are used to detect and treat abnormally fast and abnormally slow or irregular heart rhythms.

Guidant's CRM product line is organized into two major product categories. The Tachy (as defined herein) product category includes ICDs, endocardial defibrillation leads, programmers and accessories used primarily in the treatment of fast arrhythmias. The Brady (as defined herein) product category includes pacemaker pulse generators, endocardial pacing leads, programmers and accessories used primarily in the treatment of slow or irregular arrhythmias. Customers for Brady and Tachy products include electrophysiologists, implanting cardiologists and cardiovascular surgeons. Domestically, these customers represent approximately 2,800 hospitals; however, the majority of devices are implanted in 1,000 hospitals. CRM products, as a percentage of Guidant's total revenues for the years ended December 31, 1994, 1993 and 1992, were 44%, 42% and 44%, respectively.

TACHYCARDIA ("TACHY")

Background

ICD systems, or Tachy products, are used to detect and treat potentially fatal, abnormally fast heart rhythms by delivering electrical energy to the heart and in so doing, restoring the heart's normal rhythm. In the United States, approximately one million patients experience clinically significant tachyarrhythmias. Prior to the introduction of implantable defibrillator systems, the treatment options available for tachyarrhythmias were antiarrhythmic drug therapy, which is associated with significant side effects, occasionally posing life threatening toxicity and requiring lifetime treatment, or antiarrhythmic surgery, which is highly invasive, requiring an open chest procedure, and associated with substantial patient discomfort and mortality.

Tachyarrhythmias often result from the presence of abnormal cardiac tissues. These tissues interfere with the normal electrical activity of the heart. ICDs are most commonly implanted in individuals who fit one of the following three indications: patients who have survived at least one episode of cardiac arrest presumably due to ventricular tachyarrhythmias ("VTs"); patients with poorly tolerated, sustained VTs and/or ventricular fibrillation ("VF") that occurs spontaneously; and patients in whom antiarrhythmic drug therapy is not effective or produces undesirable side effects.

Traditional ICD implantation techniques required open chest surgery in order to attach defibrillation electrodes to the surface of the heart. Endocardial lead systems, first introduced in the United States in 1993, represent a revolutionary development in the Tachy market, as they allow for less invasive implantation. Guidant is the pioneer, and holds the leading worldwide position in, endocardial defibrillation lead systems. Endocardial leads allow the defibrillation electrodes to be inserted through a vein, eliminating the need to open the chest, and thereby reducing the mortality rate for the implantation from approximately 5% to less than 1%. Endocardial defibrillation leads also generally reduce the post-operative hospital stay from approximately 7 to 3 days, which substantially increases post-operative patient comfort and mobility while reducing procedure costs.

Tachy products range from shock-only devices to more complex devices and systems, including tiered-therapy devices offering multiple therapeutic options. Tiered-therapy devices were commercially introduced in Europe in 1991 and in the United States in 1993. Tiered-therapy devices use a staged process for treating multiple arrhythmias by first providing lower intensity pacing pulses, or antitachycardia pacing, to the patient in an attempt to correct the abnormal rhythm. If antitachycardia pacing is unsuccessful or if the arrhythmia requires more aggressive therapy, then the device can progress to low or high energy shocks.

Another important technological differentiation within the ICD segment is the electrical waveform used to deliver high energy shocks to the patient, which can be delivered in either a monophasic or biphasic pattern. Biphasic systems facilitate the implantation of endocardial lead systems in certain patients by lowering the energy required to successfully terminate an arrhythmia. The ability to store intracardiac electrograms is another distinguishing feature among ICDs. Storage of intracardiac electrograms along with advanced diagnostics is considered important as the combination of the two provides data on the stability of a patient's heart rhythm over time and allows physicians to program the ICD optimally. Finally, product

size and weight provide for differentiation among ICDs. ICD size and weight will become increasingly important over time as size and weight reductions result in improved patient comfort and reduced complications and reduced length of hospital stays. In addition, size and weight reductions are also becoming increasingly important as they allow ICDs to be implanted in the pectoral, as opposed to the abdominal, region.

The Tachy market has experienced solid growth since the introduction of the first implantable defibrillation system approved by the FDA for commercial market release in the United States in 1985 to an estimated $485 million worldwide market in 1994. Approximately 22,200 ICDs were implanted worldwide during 1994. This compares to an estimated $365 million worldwide market level in 1993 with approximately 17,000 device implants during that year. The Tachy market is one in which companies compete primarily on the basis of technology-driven product features.

Products

Guidant offers a broad array of Tachy products ranging from shock-only devices to more complex devices and systems offering multiple therapeutic options as set forth in the following chart. Guidant's key Tachy products include:

CATEGORY	DESCRIPTION	PRODUCT NAMES	DATE OF COMMERCIAL RELEASE	
			U.S.	FIRST INTERNATIONAL RELEASE
Shock-Only	ICDs that provide low and high energy shock therapy but do not provide antitachycardia pacing. Devices may or may not provide Brady pacing.	VENTAK P3	Submitted, Nov. 1994(1)	Oct. 1994
		VENTAK P2	March 1995	Nov. 1992
		VENTAK P	May 1991	Oct. 1990
Tiered-Therapy	ICDs that provide low and high energy shock therapy, Brady pacing and antitachycardia pacing.	VENTAK PRx III	May 1995	Oct. 1994
		VENTAK PRx II	May 1995	Sept. 1993
		VENTAK PRx	June 1994	Dec. 1991
Endocardial Defibrillation Leads	Insulated wires, inserted through a vein into the heart, which allow energy to be transmitted to and from the implanted ICD, allowing arrhythmias to be detected and treated.	ENDOTAK DSP	Submitted, April 1995(1)	Oct. 1994
		ENDOTAK 70 Series	Aug. 1994	Nov. 1992
		ENDOTAK 60 Series	Aug. 1993	Dec. 1991

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(1) These products are not currently commercially available in the United States and there can be no assurance that these products will obtain the regulatory approval necessary for commercial marketing in the United States.

Implantable Tachy products. Guidant's most advanced market released tiered-therapy device is the VENTAK PRx III. The VENTAK PRx III was market released in the United States in May 1995 and in Europe in October 1994. The VENTAK PRx III is approximately 30% smaller than the VENTAK PRx II, which was market released in the United States in May 1995 and in Europe in September 1993, and offers an equivalent set of features including a biphasic waveform, expanded diagnostics (including stored intracardiac electrograms) and advanced arrhythmia discrimination algorithms. Both the VENTAK PRx III and VENTAK PRx II can store data for over 65 patient episodes, providing the physician with diagnostic quality electrograms used to produce detailed therapy history reports and a quick and simple method for implanting and following the ICD. Both the VENTAK PRx III and VENTAK PRx II are programmed with Guidant's new Model 2950 PRM. The PRM provides the physician with an easy to use programmer and an enhanced

graphical user interface, along with implant support and follow-up features, which reduce the implant, testing and follow-up time required. The VENTAK PRx II complements Guidant's broad product line and allows Guidant to compete in price sensitive and replacement ICD segments.

In March 1995, Guidant received FDA approval for commercial market release in the United States for the VENTAK P2 system, comprised of the VENTAK P2 pulse generator and the Model 2035 programmer. The VENTAK P2 is a two zone device designed to treat patients whose arrhythmias can be converted with low energy or high energy shocks. This device offers both monophasic and biphasic defibrillation waveforms, standard bradycardia pacing and post-shock pacing, and storage of 2 1/2 minutes of diagnostic quality electrograms to enhance a physician's ability to determine episode cause and the course of follow-up therapy. The Model 2035 hand held programmer offers the physician a simple user interface for patient follow-up examinations.

In June 1994, Guidant received FDA approval for commercial market release for the VENTAK PRx system, Guidant's first tiered-therapy ICD system approved for use in the United States. The VENTAK PRx system is composed of the VENTAK PRx pulse generator and the PRESCRIPTOR programmer. The VENTAK PRx incorporates advanced arrhythmia discrimination algorithms, prescription flexibility and comprehensive patient and device diagnostics. These features enable the VENTAK PRx to be used in patients with multiple or complex arrhythmias, and allow the physician to fine-tune device therapy to a patient's individual needs. In August 1994, the FDA approved the VENTAK PRx system for use with the ENDOTAK 70 series endocardial defibrillation lead, making the combination the first single lead tiered-therapy transvenous ICD system approved for use in the United States.

In May 1991, Guidant released the VENTAK P in the United States, a cost-effective ICD which has programmable first shock delay, first shock energy and low energy shock therapy. The VENTAK P provides an easy to use ICD for patients who do not require tiered-therapy.

In 1990, Guidant began clinical evaluation of its first endocardial lead system for its Tachy products. Endocardial defibrillation leads provide a significant advance over traditional implantation techniques by eliminating the need for an open-chest procedure. Guidant's first endocardial lead, the ENDOTAK 60 series, was market released in Europe in December 1991, and received United States FDA approval in August 1993 for use with the VENTAK P and VENTAK 1555. Since its introduction, the ENDOTAK lead system has emerged as the endocardial lead of choice, which Guidant believes was chosen in over 70% of all initial ICD implants worldwide in 1994. In November 1992, Guidant market released an enhanced version of its endocardial lead, the ENDOTAK 70 series, into the European market. The ENDOTAK 70 series offers increased defibrillation electrode surface area as well as optimized electrode positioning. The ENDOTAK 70 series was approved by the FDA for commercial market release in the United States in August 1994.

New Products. Guidant began European clinical evaluation of its next generation endocardial defibrillation lead, the ENDOTAK DSP, in June 1994 and market released the ENDOTAK DSP in Europe in October 1994 for use with all of Guidant's ICD devices. The ENDOTAK DSP is approximately 20% smaller in diameter than the ENDOTAK 60 and 70 series leads. This size reduction substantially enhances lead handling and maneuverability, making implantation more like that of a standard Brady pacing lead. This improvement should reduce implantation time, complications and cost. The ENDOTAK DSP is currently undergoing FDA clinical evaluation in the United States. A PMA supplement requesting FDA approval for United States commercial market release for the ENDOTAK DSP was submitted in April 1995.

Guidant also has several Tachy products in development. Tachy products currently under development include the VENTAK MINI and VENTAK AV projects. The VENTAK MINI product family will include both a shock-only and tiered-therapy model, and will be approximately 30% smaller and lighter than the VENTAK P3 and VENTAK PRx III products. A PMA Supplement requesting FDA approval for United States commercial market release for the VENTAK MINI was submitted in June 1995. The first human

implant of the VENTAK MINI is expected to occur in the third or fourth quarter of 1995. The VENTAK AV product family will be an advanced device platform that includes dual chamber pacing, advanced tachyarrhythmia therapy options, and enhanced diagnostics, electrophysiology testing and reporting capabilities.

Guidant is also developing electrophysiology ("EP") catheters and systems used to diagnose and treat cardiac arrhythmias using minimally invasive procedures. Guidant believes that these systems, which include EP catheters, energy systems and related products, will be able to cure certain types of tachyarrhythmias by locating and destroying the tissue that causes the arrhythmia. This type of arrhythmia ablation is designed to lower the risk of complications, decrease hospital length of stay and reduce the cost of treatment when compared to conventional surgery, drug treatment or ICD therapy. However, there can be no assurance that Guidant will obtain the regulatory approvals necessary for commercial marketing of these products, or that these products will successfully cure certain types of tachyarrhythmias.

BRADYCARDIA ("BRADY")

Background

Cardiac pacemaker systems, or Brady pacing products, are generally used to manage a slow or irregular heartbeat caused by disorders that disrupt the heart's normal electrical conduction system. This often results in a heart rate insufficient to provide adequate blood flow through the body, creating symptoms including fatigue, dizziness and fainting. Brady products range from conventional single chamber devices to more sophisticated adaptive-rate dual chamber devices.

The Brady worldwide market is the largest implantable device market, based on revenues, estimated by Guidant to be approximately $1.83 billion in 1994 with approximately 376,000 pacemakers implanted worldwide. It is estimated that in 1994, dual chamber pacing devices accounted for approximately 60% of pacing unit sales in the United States, and approximately 35% of unit sales internationally. Adaptive-rate pacemakers represented approximately 70% of the units sold in the United States in 1994 and approximately 30% of the international market. An ongoing trend toward the use of dual chamber pacemakers is expected to continue for at least the next several years. In the Brady market, companies compete primarily on the basis of product features, customer support, field service and cost-effectiveness.

Brady products are used to treat patients whose natural pacemaker, the sinus node, is malfunctioning or patients suffering from a disruption in the electrical conduction system. Normally, the sinus node, located in the upper atrial portion of the heart, sends electrical signals to the atrioventricular ("AV") node, which in turn sends signals down to the lower (ventricular) chambers of the heart. The patient population needing pacemakers can be divided roughly in half: those with malfunctioning sinus nodes, or Sick Sinus Syndrome, and those suffering from malfunctioning AV nodes, or AV Block.

Products

Guidant offers an array of Brady products ranging from conventional single chamber devices to more sophisticated adaptive-rate, dual chamber devices as set forth in the following chart. Guidant's key Brady products include:

CATEGORY	DESCRIPTION	PRODUCT NAMES	DATE OF COMMERCIAL RELEASE	
			U.S.	FIRST INTERNATIONAL RELEASE
Single Chamber (SSI)	Pacemakers that pace one chamber of the heart, typically the ventricle, at a programmed rate.	VIGOR SSI	March 1995	May 1993
		VISTA VVI	Apr. 1988	Dec. 1987
Single Chamber Adaptive-Rate (SSIR)	Pacemakers that pace one chamber of the heart, and incorporate a sensor that modifies the pacing rate in response to physical activity.	VIGOR SR	June 1995	May 1993
		TRIUMPH VR	Dec. 1991	--
Dual Chamber (DDD)	Pacemakers that pace both chambers of the heart, thereby improving heart synchronization and cardiac output.	VIGOR DDD	Oct. 1994	May 1993
		VISTA DDD	June 1990	Oct. 1989
Dual Chamber Adaptive-Rate (DDDR)	Pacemakers that pace both chambers of the heart, and incorporate a sensor that modifies the pacing rate in response to physical activity.	VIGOR DR	June 1995	May 1993
		PRELUDE DR	July 1992	--

Implantable Brady products. In May 1993, Guidant market released the VIGOR pacemaker family in Europe. The VIGOR family, which includes product offerings in all four product segments (single and dual chamber conventional and single and dual chamber adaptive-rate) provides advanced pacing algorithms along with an enhanced range and resolution of programming options and extensive diagnostics. Since its release in Europe in May 1993, the VIGOR family has grown to more than 55% of Guidant's European Brady unit sales.

Guidant received FDA approval for commercial market release in the United States for the VIGOR DDD in October 1994, and the VIGOR SSI in March 1995. These two products combine their small size and programming flexibility with a unique set of features not found in other pacemakers. Most notable is the combination of mode switching, which is the ability of a dual chamber pacemaker to automatically change pacing modes in the presence of an atrial arrhythmia, with dynamic AV delay and rate smoothing in the VIGOR DDD. This combination of features positions the VIGOR DDD as one of the most advanced dual chamber conventional pacemakers in the market.

Both the VIGOR SR, a single chamber adaptive-rate pacemaker, and the VIGOR DR, a dual chamber adaptive-rate pacemaker, were market released in the United States in June 1995. The VIGOR adaptive-rate pacemakers utilize an advanced sensor technology, called an accelerometer, to adjust the pacing rate in response to physical activity. An accelerometer offers many clinical advantages over sensor technology used in most competing pacemakers, including a more predictable and linear response to exercise and easier programming.

The VISTA, offered in both single and dual chamber conventional versions, provides the physician with a small, easy to use, reliable pacemaker. In 1994, the VISTA family represented approximately 34% of Guidant's Brady revenues. In addition to the VISTA family, Guidant markets both the TRIUMPH VR, a single chamber adaptive-rate pacemaker, and the PRELUDE DR, a dual chamber adaptive-rate pacemaker, in the United States under an original equipment manufacturer ("OEM") agreement with an unaffiliated third party. The TRIUMPH and PRELUDE product families offer proven sensor technology for the adaptive-rate product segments and compete favorably on the basis of device longevity, programmable product features and cost-effectiveness.

In addition to its pacemaker products, Guidant currently sells Brady pacing leads that are recognized for their clinical performance and reliability. In 1994, Brady leads represented approximately 18% of Guidant's Brady revenues. In August 1993, Guidant began United States clinical evaluation of the SELUTE steroid eluting ventricular pacing lead. The SELUTE lead is designed to lower both acute and chronic pacing thresholds, thereby improving the longevity of the attached pacemaker. The SELUTE lead was market released in Europe in May of 1993 and a PMA was filed with the FDA in January 1995. While there can be no assurance that this product will ever receive FDA approval, Guidant expects FDA approval of the SELUTE lead for commercial market release in the United States in late 1995 or early 1996.

New Products. Brady products under development include the ABD NxT project. Guidant believes that the result of this project will be a single Brady product platform capable of delivering several innovative and differentiated pacemaker models to the market. These pacemakers include conventional as well as single and dual sensor adaptive-rate models with advanced system diagnostics, follow-up and reporting capabilities. The ABD NxT products will be approximately 15% smaller than the VIGOR family, while providing significantly more functionality and longevity at a substantially reduced production cost.

MINIMALLY INVASIVE SURGERY

Guidant is involved in the development and marketing of innovative, cost-effective surgical devices and systems which alter the surgeon's approach to operating procedures and may provide improved clinical benefit, reduced operative time and better patient outcomes. The primary customers for Guidant's MIS products are surgeons who specialize in general, gynecologic, thoracic, urologic and vascular surgery. MIS as a percentage of Guidant's total revenues for the years ended December 31, 1994 was less than 3%. However, revenues generated from the sales of these products increased 192% in 1994 to $19.3 million. Certain of these devices were developed for and manufactured under OEM distribution arrangements.

Background

MIS uses small incisions to gain access to the surgical site. Minimally invasive surgical techniques significantly decrease the patient's post-operative pain, hospital stay and recovery period by limiting the size of incisions required to gain access to the primary surgical site as well as reducing the resulting trauma caused by more invasive procedures. Guidant focuses on laparoscopy, which is a minimally invasive surgical market that has undergone rapid growth and change. Guidant estimates that in 1994 the worldwide market for laparoscopic procedures was over $1.0 billion. Guidant's strategy is to focus on certain niches in this market.

Laparoscopy is the technique of inserting a viewing endoscope and small diameter surgical instruments into the abdominal cavity through multiple small incisions to perform procedures which previously required large abdominal incisions. The abdominal wall is lifted away from the underlying bowel and other vital abdominal organs to create a working space. This has traditionally been done by expanding the abdominal wall using carbon dioxide gas insufflation. Trocars, instruments with a sharp point and a detachable sleeve, are used to make incisions in the abdominal wall. The sleeve is positioned in the incisions for use in passing surgical instruments and laparoscopes into the abdomen and employs a valve that serves to maintain gas insufflation by preventing gas from escaping from the abdominal cavity during surgery.

Products

Set forth below is a description of several of Guidant's MIS products:

GASLESS laparoscopy system. Guidant pioneered GASLESS laparoscopy with its introduction of the first powered mechanical lifting system to displace the abdominal wall and allow laparoscopic surgery to be performed without gas insufflation. Guidant's LAPAROLIFT and disposable LAPAROFAN are used to lift the abdominal wall and create a working space between the abdominal wall and vital organs. Conventional open surgical instruments may be inserted through small incisions to perform laparoscopic surgery sometimes without the use of trocars, since gas sealing trocar sleeves are not required. The GASLESS system has enabled certain laparoscopic procedures to be performed under local anesthesia in selected patients using conventional open surgical instruments, further reducing the procedure cost and the potential anesthetic risk while increasing surgeon control.

PD BALLOON system. Guidant developed and is marketing an innovative PD BALLOON system, which is used to form a working extraperitoneal space (outside the abdominal cavity) for performing hernia repair, bladder incontinence surgery, lymph node dissection and kidney surgery. The extraperitoneal approach has a number of potential clinical benefits compared to the conventional transabdominal laparoscopic approach, including the potential use of regional anesthesia instead of general anesthesia and reduction in postoperative complications and morbidity.

PIXIE fiberoptic scope and ENVIEW camera system. Guidant markets a small diameter, 1.7mm fiberoptic PIXIE scope, which may be introduced through a small diameter needle. Guidant believes this innovation is an important advance in surgical miniaturization. A needle-sized scope system creates the potential for incision-less surgery through multiple needles, instead of through larger 5mm and 10mm trocar incisions.

Trocars and accessories. Guidant markets a broad line of trocars and accessories, including the CLASSIC TIP trocars for secondary incisions, blunt tip balloon trocars, thoracic trocars, safety trocars, gasless trocars and the ACUCLIP clip applier.

SALES AND MARKETING

Guidant has a broad product line which requires a sales and marketing strategy that is tailored to its customers in order to deliver high quality, cost-effective products and services to all of its customer segments worldwide. Because of the diverse needs of the global market that Guidant serves, Guidant's distribution system includes direct sales forces and independent distributors. Guidant utilizes separate sales forces to sell its broad line of vascular intervention and CRM products in order to take advantage of its highly educated sales personnel who have specific clinical and technical expertise with respect to the products it sells. In many cases, members of the sales forces are present during procedures in order to provide technical consultation to the physician in the use of Guidant's products. Guidant is not dependent on any single customer and no single customer accounted for more than 4% of Guidant's net sales in 1994.

UNITED STATES

Guidant sells its products in the United States substantially through its direct sales forces. The different uses of Guidant's product lines and the different physicians performing these procedures necessitate focused sales organizations that can utilize their specific clinical and technical knowledge. In 1994, 69% of Guidant's net sales were derived from sales in the United States, and at June 30, 1995, Guidant employed 285 sales representatives and 48 sales managers in the United States.

In February 1995, Guidant announced the restructuring of its United States sales operations. This restructuring included the formation of three geographical areas within the United States, reporting under a single management structure, to which all sales and distribution operations report. This geographic

organizational structure provides the opportunity to leverage Guidant's resources across the individual business unit sales organizations and retain its customer clinical focus, and facilitates rapid decision making and the development of sales and marketing strategies at the customer level.

In the currently evolving health care environment in the United States, there is a growing trend towards participation in the purchasing decisions by hospital administrators, purchasing managers and buying groups. Guidant's breadth and depth of product offerings in the vascular intervention and CRM markets allows Guidant to be innovative in designing purchasing programs for its customers. The new worldwide geographic-based sales organization will enable Guidant to better leverage the broad product line. Additionally, it will increase local responsiveness by moving the decision-making closer to the customer.

INTERNATIONAL

In 1994, 31% of Guidant's net sales were derived from its international markets through its direct sales forces and independent distributors. At June 30, 1995, the international sales force was comprised of 181 employees. Guidant sells its products in 67 countries. Major international markets for Guidant's products include: Germany, Japan, France, Spain, Italy, Belgium, Holland, the United Kingdom and Canada. The sales and marketing approach to these markets varies depending on market size and stage of development, and the new geographic-based sales organization will give Guidant greater flexibility to respond in each of these markets. Guidant recently expanded its direct sales organization in Germany (through the acquisition of its distributor, Danimed GmbH und Co. KG), the United Kingdom, Italy, Canada and Japan. Guidant continues to evaluate opportunities to sell directly in additional markets outside the United States.

TRAINING, CUSTOMER SERVICE AND MARKETING

All of Guidant's sales personnel are trained in the use, applications and advantages of the products they sell. This training is conducted at the commencement of their employment and continues on an ongoing basis at regular intervals. For example, within the CRM product segment, a sales representative must pass a series of examinations prior to reaching the mandatory certification level required to provide technical consultation on a specific product. In the vascular intervention area, field personnel participate in a training process ranging from courses on the cardiovascular anatomy, technical training on angiography and product design and use. CRM field representatives participate in formal training classes, followed by extensive field training before assuming responsibility for accounts. Ongoing training includes training on the latest practices in interventional cardiology and CRM, consultative selling skills and management training on administrative issues. Guidant also provides education, training and consulting services to the sales personnel of its distributors.

Sales personnel work closely with the primary decision makers who purchase their products, whether physicians, materials managers, biomedical staff, hospital administrators or purchasing managers. Additionally, the sales forces actively pursue approval as qualified vendors for hospital group purchasing organizations that negotiate contracts with suppliers of medical products. Guidant already has contracts with a number of national buying groups and is working with a growing number of regional buying groups that are emerging in response to cost containment pressures and health care reform. In addition, Guidant has contracted with a number of hospitals to provide interventional cardiology products under a predictable procedural cost program. This type of contract, made possible by the breadth and depth of Guidant's product line, is an innovative risk sharing partnership between the hospital and Guidant in response to cost containment trends and health care reform.

Guidant's marketing staff works closely with sales personnel and distributors to collect and analyze customer responses to new and existing products. These customer responses, along with market research and analysis, serve as input into new product planning and research and development project prioritization. In addition, the marketing staff supports Guidant's selling efforts with various pricing, promotional and technical support programs. These programs include the preparation and distribution of periodic newsletters

and other sales literature, the production of instructional slides and videos, the sponsorship of educational and hands-on training programs for physicians, the production of follow-up and support materials for patient management and patient education, and active participation at exhibit booths at medical meetings, conventions and trade shows. Further, the marketing staff works closely with members of the research and development staff in prioritizing new products.

The sales organization compensation and incentive package includes a mix of base salary, commissions and a bonus plan that is based upon specific targets and/or corporate goals and is tailored to meet local market needs and business practices.

RESEARCH AND DEVELOPMENT

Guidant is engaged in ongoing research and development to introduce clinically advanced new products, to enhance the effectiveness, ease of use, safety and reliability of its existing products and to expand the applications for which the use of its products is appropriate. Guidant is dedicated to developing novel technologies that will furnish health care providers with a more complete line of products to treat medical conditions through minimally invasive procedures. Guidant's various operations intend to continue to capitalize on the research and development efforts of the other operating units of Guidant.

Guidant's research and development activities are carried out in facilities located in Santa Clara, Menlo Park, Redwood City and Temecula, California; St. Paul, Minnesota; and Basingstoke, England. As of June 30, 1995, Guidant had an in-house research and development staff of 773 engineers, technicians and scientists. Guidant's research and development staff is focused on product design and development, quality, clinical research and regulatory compliance.

Guidant's research and development efforts use a clinically driven process to identify and prioritize projects. This process, called product mapping, uses input from several sources to make decisions about future products. Key sources of input include physician advisory councils made up of an international group of physicians. The research and development programs also utilize feedback from Guidant's field sales organization, clinical research findings, customer feedback and internal experts to determine clinical and product opportunities for Guidant. In addition, Guidant prepares analyses of business and market opportunities, competition and technologies accessible to Guidant to identify future projects and current priorities. The portfolio of projects and priorities are reviewed regularly by the management staff.

New products are generally developed by a project team. A typical project team consists of a project manager, engineers and technicians and marketing, clinical research, quality and regulatory and manufacturing personnel. Team members generally stay with the project from inception through design, process development and tooling, until the product is successfully transferred to production and achieves quality goals such as clinical performance, production yield and line production volume. As a result of this team approach, there has been a reduction in the time Guidant takes to submit certain new products for regulatory approval.

To pursue primary research efforts, Guidant has developed alliances with several leading research institutions and universities. Currently, Guidant supports the efforts of several such institutions for fundamental research in the areas of arrhythmia detection and prevention, arrhythmia mapping and ablation, targeted drug delivery treatment and vascular intervention. While most of this basic research occurs on a contracted basis, the coordinated efforts with the scientists at Guidant foster a culture focused on product development and innovation. This culture has yielded a number of inventions which have led to patents and patent applications.

Guidant is also involved in working with clinicians around the world in the conduct of scientific studies on Guidant's products. Certain of these studies include clinical trials which provide data for use in regulatory submissions, and other studies consist of post-market approval studies involving applications of Guidant's

products. As an example, Guidant is a sponsor of several large studies investigating the use of CAD intervention in AMI patients, and the use of Tachy products for new indications.

Guidant evaluates developing technologies in areas where it may have technological or marketing expertise for possible investment or acquisition. Guidant has invested in several start-up ventures in the areas of vascular intervention and MIS. In return for funding and technology, Guidant has received equity interests in these ventures.

MANUFACTURING

Guidant's manufacturing strategy has four primary goals: to provide global customers with high quality products and services; to enhance the performance of products over time through design and manufacturing innovation; to continuously optimize manufacturing efficiency and lower costs; and to improve product quality. Guidant's production operations are supported by engineering groups that provide direct line support, develop cost, quality and efficiency improvements, support rapid product technology transfers and provide for the rapid, efficient transfer of new products from pilot production to full scale, high volume production. In addition, manufacturing personnel have direct influence over the product design process to provide cost-effective, high quality manufacturable products.

Guidant's manufacturing operations are carried out in facilities in Menlo Park, Redwood City, Santa Clara and Temecula, California; St. Paul, Minnesota; Dorado, Puerto Rico; and Basingstoke, England.

In general, Guidant's production activities occur in a controlled environment setting or "cleanroom." Such a manufacturing environment helps ensure that products meet all cleanliness standards and requirements. Guidant automates many of its production activities for efficiency and quality. In fact, certain operations can be conducted without an operator in attendance. Throughout its operations, Guidant uses state-of-the-art manufacturing systems to manage and control production operations. These systems include Statistical Process Controls ("SPC"), Manufacturing Resource Planning II ("MRPII") and Total Quality Management ("TQM") principles. Where appropriate, Guidant utilizes Just-In-Time ("JIT") manufacturing, work teams and other manufacturing systems. As a result of these manufacturing systems and other efforts, Guidant is able to maintain a high service level. Guidant uses high technology equipment and processes in the fabrication, testing and sterilization of its products. Many of Guidant's production processes are computer controlled to provide high quality and rapid and repeatable production. Products and production operations are tested at various points during and after production to confirm that the product meets all specifications.

Manufacturing employees are trained in the necessary production operations and in GMP requirements applicable to the production process. Often, production operators must obtain an appropriate certification prior to commencing operations. Such certification requires completion of designated training programs and demonstration of the ability to perform the necessary operations. Many employees are trained in multiple operations to provide manufacturing flexibility and efficiency. Guidant uses various production and quality performance measures to attempt to provide high manufacturing quality and efficiency.

Guidant vertically integrates its operations where such integration provides cost, supply or quality benefits. In some areas, Guidant is highly vertically integrated. For example, Guidant fabricates nearly all of the components for its PTCA products. In other cases, Guidant will purchase components such as batteries. In all cases, Guidant attempts to work closely with its suppliers to ensure the cost-effective delivery of high quality materials and components. The major factors used in the selection and retention of suppliers are supplier technology, quality, reliability, consistent on-time deliveries, value-added services and cost. Guidant tries to select and build long-term relationships with suppliers who have demonstrated a commitment to these factors. To date, Guidant has been able to obtain all required components and materials for all market released products and for all products under development.

Guidant believes that there are significant operating efficiencies among the manufacturing operations of Guidant's subsidiaries that will allow Guidant to improve the quality and efficiency of its product processes. For example, Guidant's subsidiaries have exchanged information and expertise on sterilization operations and

on the laser welding of CRM leads and PTCA catheters. Additional collaborations are in process and such efforts are expected to continue and expand. ACS has initiated a program to reduce its use of temporary and contract employees. Guidant is analyzing additional cost savings initiatives in its manufacturing operations, which include better capacity utilization in certain facilities, streamlined manufacturing of similar accessories, external sourcing of several items and cross-application of scientific knowledge. ACS and DVI are consolidating their manufacturing facilities to improve capacity utilization and productivity. This initiative should lead to cost savings beginning in 1996. Similarly, CPI has announced a reorganization of its manufacturing processes between Puerto Rico and St. Paul which is expected to be fully implemented in 1995 and is expected to result in productivity improvements.

QUALITY CONTROL SYSTEMS

Guidant is committed to providing high quality products to its customers. To meet this commitment, Guidant has implemented modern quality systems and concepts throughout the organization. Guidant's quality system starts with the initial product specification and continues through the design of the product, component specification process and the manufacturing, sales and servicing of the product. The quality system is designed to build in quality and to utilize continuous improvement concepts throughout the product life. The program utilizes, as appropriate, quality tools such as SPC, Quality Assurance audits, work teams, JIT manufacturing and system engineering concepts.

Certain of Guidant's operations are certified under ISO 9001 and 9002. ISO 9001 and 9002 are quality systems that include a quality system audit and certification program. ISO 9001 and 9002 require, among other items, an implemented quality system that applies to component quality, supplier control and manufacturing operations. In addition, ISO 9001 requires an implemented quality system that applies to product design. Such certification can be obtained only after a complete audit of a company's quality system by an independent outside auditor. Guidant's CRM facilities have already been audited by British Standards Institute and have obtained and continue to maintain ISO 9001 and 9002 certification. This certification requires that these facilities undergo periodic reexamination. Guidant's PTCA facilities in California and England have been audited and approved for ISO 9001 certification.

Employee training and involvement is a key part of Guidant's quality system. Employees are trained in the relevant portions of Guidant's quality system, TQM principles, problem solving skills and continuous improvement systems. In addition, Guidant sponsors various employee incentive programs and suggestion programs that encourage and reward quality and productivity improvements. Guidant also sponsors "quality awareness" programs which include interaction with panels of patients and quality activities.

Guidant extends its quality program to its suppliers. Guidant encourages and supports supplier quality programs and ISO certification. Supplier performance is regularly reviewed to ensure that the components or materials being supplied meet all product specifications and quality standards.

COMPETITION

The medical devices market is highly competitive. Guidant competes with many companies, some of which may have access to greater financial and other resources than Guidant. Furthermore, the medical devices market is characterized by rapid product development and technological change. The present or future products of Guidant could be rendered obsolete or uneconomic by technological advances by one or more of Guidant's present or future competitors or by other therapies such as drugs. Guidant's future success will depend upon its ability to remain competitive with other developers of such medical devices and therapies.

Guidant faces substantial competition from a number of other companies in the markets for its products. Guidant's primary competitors in vascular intervention are SciMed Life Systems, Inc. (Boston Scientific), Cordis Corporation, Schneider (Pfizer), USCI (C.R. Bard, Inc.) Medtronic, Inc., Johnson & Johnson Interventional Systems and Heart Technology, Inc. In the Brady pacemaker market, Guidant's main

competitors are Medtronic, Inc., Pacesetter, Inc. (St. Jude Medical, Inc.), Intermedics, Inc. (Sulzer Brothers Ltd.) and Telectronics Pacing Systems (Pacific Dunlop Ltd.). In the Tachy field, Guidant competes primarily with Medtronic, Inc. in the production of endocardial defibrillation lead systems and implantable defibrillators. Ventritex, Inc. markets competing defibrillation products. With respect to MIS devices, the principal competitors of Guidant are United States Surgical Corporation and Ethicon Endo-Surgery, Inc., a unit of Johnson & Johnson. Guidant believes that it competes primarily on the basis of product differentiation, product quality, customer support, field services and cost-effectiveness.

PATENTS, TRADEMARKS, PROPRIETARY RIGHTS AND LICENSES

Guidant believes that patents and other proprietary rights are important to its business. Guidant also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. Guidant reviews third party patents and patent applications in an effort to develop an effective patent strategy, to identify licensing opportunities and to monitor the patent claims of others.

Guidant owns numerous patents in the United States and in certain foreign countries which relate to aspects of the technology used in many of Guidant's products and has numerous patent applications pending. In addition, Guidant is a party to several license agreements with unrelated third parties pursuant to which it has obtained, for varying terms, the exclusive or non-exclusive rights to certain patents held by such third parties in consideration for cross-licensing rights or royalty payments. Guidant has also granted rights in its own patents to others under license agreements.

As of June 30, 1995, Guidant owned 288 United States patents and had 257 United States patent applications pending. Guidant's policy is to generally file patent applications in foreign countries where rights are available and Guidant believes it is commercially advantageous to do so.

From time to time, Guidant is subject to claims of, and legal actions alleging, infringement by Guidant of the patent rights of others. Guidant believes that it has been vigilant in reviewing its patents and licensed patent rights for infringement. Guidant actively monitors the products of its competitors for possible infringement of Guidant's owned and/or licensed patents and plans to continue to defend and prosecute its rights with respect to such patents. There can be no assurance, however, that Guidant's efforts in this regard will be successful. An adverse outcome with respect to any one or more of these claims or actions could have a material adverse effect on Guidant.

Guidant also relies upon trade secrets and proprietary technology for protection of its confidential and proprietary information. There can be no assurance that others will not independently develop substantially equivalent proprietary information or techniques or that third parties will not otherwise gain access to Guidant's trade secrets.

It is Guidant's policy to require certain of its employees, consultants and other parties to execute confidentiality agreements upon the commencement of employment or consulting relationships with Guidant. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with Guidant is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements generally provide that all confidential technology and information relating to Guidant's business, whether conceived or prepared by the individual or otherwise coming into his or her possession while rendering services to Guidant, shall be the exclusive property of Guidant. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for Guidant's trade secrets in the event of unauthorized use or disclosure of such information.

Guidant has trademarks in the following names and products that are referred to herein: ACS, ACS RX STREAK, ACS EDGE, ACS OMEGA, ACS PRISM, ACS RX ELIPSE, ACS RX PASSPORT, ACUCLIP, AtheroCath, CPI, DOC, DVI, ENDOTAK, HI-TORQUE APPROACH, HI-TORQUE FLOPPY II, JOYSTICK, LAPAROLIFT, ORIGIN, PIXIE, POWERGUIDE, PRELUDE, PRESCRIPTOR, PRx,

SELUTE, SLALOM, STACK PERFUSION, SWEET TIP, TRIUMPH, ULTRAX, VENTAK, VIGOR and VISTA. The following are pending trademark registrations of Guidant: ACS RX FLOWTRACK, ACS RX FLOWTRACK LONG, ACS RX LIFESTREAM, ACS RX PERFUSION, ACS HI-TORQUE EXTRA S'PORT, AtheroCath GTO, AtheroCath SCA-I, ENDOTAK DSP, ENDUCTOR, ENVIEW, GASLESS, GET THE RIGHT ANGLE, GUIDANT, HI-TORQUE TRAVERSE, HI-TORQUE BALANCE, LAPAROFAN, NEEDLE ENDOSCOPY, NO STITCH, PDB, PINKERTON .018, ShortCutter, STACK 40-S, VENTAK MINI, THE KINDER CUT, TRACKING SHEATH and VLIS.

GOVERNMENTAL REGULATION

As a manufacturer of medical devices, Guidant is subject to extensive regulation by the FDA and, in some jurisdictions, by state and foreign governmental authorities. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the manufacture, testing and labeling of such devices, the maintenance of certain records, the ability to track devices and the reporting of potential product defects and other matters. These regulations may have a material impact on Guidant. Recent developments such as the enactment of the Safe Medical Devices Act of 1990 reflect a trend toward more stringent product regulation by the FDA. Recently, the FDA has pursued a more rigorous enforcement program to ensure that regulated businesses, like Guidant's, comply with applicable laws and regulations. Guidant believes that it is in substantial compliance with such governmental regulations.

All of Guidant's medical devices introduced in the United States market since 1976, which includes substantially all of Guidant's products, are required by the FDA, as a condition of marketing, to secure either a premarket notification clearance pursuant to Section 510(k) of the federal Food, Drug and Cosmetic Act, an approved PMA application or a supplemental PMA. Obtaining a PMA or even a supplemental PMA can take up to several years and can involve preclinical studies and clinical testing. In contrast, the process of obtaining a 510(k) premarket notification clearance requires the submission of substantially less data and generally involves a shorter review period. A 510(k) premarket notification clearance indicates that the FDA agrees with an applicant's determination that the product for which clearance has been sought is substantially equivalent to another medical device that has been previously marketed. An approved PMA application indicates that the FDA has approved a product for marketing. In addition to requiring clearance for new products, FDA rules may require a filing and FDA approval, usually through a PMA supplement, prior to marketing products that are modifications of existing products.

Guidant's existing products have obtained FDA marketing clearances in the United States through either the 510(k) process, the PMA process or PMA supplement clearance. No assurance can be given that marketing clearances for Guidant's future products will be obtained on a timely basis, if at all. Moreover, after clearance is given, the FDA or foreign regulatory agencies have the power to withdraw the clearance or require Guidant to change the device or its manufacturing process or labeling, to supply additional proof of its safety and effectiveness or to recall, repair, replace or refund the cost of the medical device, if it is shown to be hazardous or defective. Any of the foregoing could have a material adverse impact on Guidant.

There can be no assurance that all the necessary approvals, including approval for product improvements and new products, will be granted on a timely basis or at all. Delays in receipt of or failure to receive such approvals could have a material adverse effect on Guidant's business.

Guidant is also required to register with the FDA as a device manufacturer. As such, Guidant is subject to periodic inspection by the FDA for compliance with the FDA's GMP and other regulations. These regulations require that Guidant manufacture its products and maintain its documents in a prescribed manner with respect to manufacturing, testing and control activities. Further, Guidant is required to comply with various FDA requirements for labeling. The Medical Device Reporting regulation requires that Guidant provide information to the FDA whenever there is evidence to reasonably suggest that one of its devices may have caused or contributed to a death or serious injury, or a device malfunction would be likely to cause or contribute to a death or serious injury if the malfunction were to recur. In addition, the FDA prohibits

Guidant from marketing approved devices for unapproved indications. If the FDA believes that a company is not in compliance with applicable regulations, it can institute proceedings to detain or seize products, issue a recall, impose operating restrictions, enjoin future violations and assess civil and criminal penalties against the company, its officers or its employees and can recommend criminal prosecution to the Department of Justice. Other regulatory agencies may have similar powers. Failure to comply with regulatory requirements could have a material adverse effect on Guidant's business.

From time to time, Guidant has received notifications, including warning letters, from the FDA of alleged deficiencies in Guidant's compliance with FDA requirements. To date, Guidant has been able to address or correct such deficiencies to the satisfaction of the FDA and, to the extent deficiencies arise in the future, Guidant expects to be able to so correct them, but there can be no assurance that this will be the case. In addition, from time to time Guidant has recalled, or issued safety alerts on, certain of its products. To date, no such recall or safety alert has had a material adverse effect on Guidant, but there can be no assurance that a future recall or safety alert would not have such an effect.

Medical device laws are also in effect in many of the countries in which Guidant does business outside the United States. These range from comprehensive device approval requirements for some or all of Guidant's medical device products to simpler requests for product data or certifications. The number and scope of these requirements are increasing. In addition, international sales of medical devices manufactured in the United States but not approved by the FDA for distribution in the United States are subject to FDA export requirements, which require Guidant to obtain documentation from the medical device regulatory authority of the destination country stating that the sale of the device is not in violation of that country's medical device laws. This documentation is then submitted to the FDA with a request for a permit for export to that country.

In addition, federal, state and foreign regulations regarding the manufacture and sale of medical devices are subject to future changes. For example, the FDA is currently considering significant changes to its GMP regulations. Guidant cannot predict what impact, if any, such changes might have on its business. However, such changes could have a material impact on Guidant's business.

In February 1993, CPI entered into a consent decree with the FDA and paid $500,000 to reimburse the FDA for the cost of its investigation. The investigation focused upon certain manufacturing activities that took place at CPI in the late 1980s and very early 1990s. Under the terms of the consent decree, CPI agreed to revise certain procedures relating to product failure investigation and reporting and agreed to have these revised procedures reviewed by the FDA. These steps were completed in mid-1993. CPI has an ongoing duty under the consent decree to follow these revised procedures. CPI may petition the court after February 19, 1996 to terminate the consent decree.

HEALTH CARE REFORM; THIRD PARTY REIMBURSEMENT

During the past several years, the major third party payors of hospital services (Medicare, Medicaid, private health care insurance and managed care plans) have substantially revised their policies, methodologies and formulae to contain health care costs. The introduction of various Medicare cost containment incentives, combined with closer scrutiny of health care expenditures by both private health insurers and employers, has resulted in increased contractual adjustments and discounts in hospital charges for services performed and in the shifting of services from inpatient to outpatient settings. If hospitals respond to such pressures by substituting lower cost products or therapies for Guidant's products, Guidant could be adversely affected. Moreover, third party payors may deny reimbursement if they determine that a device was not used in accordance with cost-effective treatment methods as determined by the payor, was experimental, or for other reasons.

During the past year, several comprehensive health care reform proposals were introduced in the United States Congress. The intent of the proposals was, generally, to expand health care coverage for the uninsured and reduce total health care expenditures. Various provisions contained in these proposals would have

dramatically altered health care delivery and payment in the United States. None of the proposals were brought to a floor vote before the 103rd Congress adjourned.

It is expected that future health care reform will be proposed in more of a "piecemeal" approach brought together during the budget reconciliation process. Specific areas that may be addressed include insurance market reforms, medical and product liability, fraud and abuse statutes and administrative simplification.

Certain states have already made significant changes to their Medicaid programs and have also adopted health care reform. Efforts by individual states to expand coverage and/or reduce costs are expected to accelerate during 1995 and 1996. Features of such state proposals could include state single payer plans, global budgets, technology assessment panels, creation of large purchasing pools or mandates on employers to provide coverage. The success of many state initiatives will rest on overcoming regulations imposed by ERISA. Among other things, ERISA regulates health insurance programs offered by multi-state employers who are self insured. In order to enact certain reforms, states would be required to seek modifications to ERISA itself. A few other states have reform proposals under consideration. Similar initiatives to limit the growth of health care costs, including price regulation, are also underway in several other countries in which Guidant does business.

Implementation of health care reform may limit the price of, or the level at which reimbursement is provided for, Guidant's products. In addition, health care reform may accelerate the growing trend toward involvement by hospital administrators, purchasing managers and buying groups in purchasing decisions. This trend would likely include increased emphasis on the cost-effectiveness of any treatment regimen. These changes may also cause the marketplace in general to place increased emphasis on the utilization of minimally invasive surgical procedures and the delivery of more cost-effective medical therapies. Regardless of which additional reform proposals, if any, are ultimately adopted, the trend toward cost controls and the requirement of more efficient utilization of medical therapies and procedures will continue and accelerate. Guidant is unable at this time to predict whether any such additional health care initiatives will be enacted, the final form such reforms will take or when such reforms would be implemented.

The ability of customers to obtain appropriate reimbursement for their products and services from government and third party payors is critical to the success of all medical device companies around the world. Several foreign governments (most notably Germany and Spain) have attempted to reshape reimbursement policies affecting medical devices. In the United States, recent investigations by the OIG have had a negative effect on reimbursement for products used as part of FDA approved clinical trials. Further, Congress is currently considering legislation that would apply certain health care fraud and abuse statutes to all payors. Restrictions on reimbursement of Guidant's customers will likely have an impact on the products purchased by customers and the prices they are willing to pay.

The OIG is currently conducting an investigation regarding the possible submission of false or improper claims to the Medicare/Medicaid programs for reimbursement for procedures using cardiovascular medical devices that were not approved for marketing by the FDA at the time of use. Several medical devices companies, including CPI and DVI, have received subpoenas from the OIG for records relating to the distribution to hospitals of products under clinical study. Beginning in June 1994, approximately 130 hospitals received subpoenas from HHS seeking information specific to practices in seeking reimbursement from Medicare/Medicaid for procedures using cardiovascular medical devices (including those manufactured by CPI, ACS and DVI, as well as numerous other manufacturers) that were not approved for marketing by the FDA at the time of use. The subpoenas sent to hospitals also seek information regarding various types of remuneration, including payments, gifts, stock and stock options, received by the hospital or its employees from manufacturers of medical devices. Significant sanctions may be imposed against any person, including a health care provider or medical devices manufacturer, that makes or causes to be made, a false claim for Medicare or Medicaid payment. These sanctions may include civil fines and penalties, criminal penalties, remedies under the Program Fraud Remedies Act of 1986, the False Claims Act and the Medicare Fraud and Abuse Act, state disciplinary proceedings and, in the case of providers, exclusion from the Medicare and Medicaid programs. The OIG's investigation and any related change in reimbursement practices could cause

hospitals to decide not to participate in clinical trials or to treat Medicare and Medicaid patients only with medical devices that have been cleared for marketing by the FDA. This action would likely limit the scope of clinical trials in the United States, force more clinical research to be conducted in non-United States markets and increase the cost and time required to complete clinical evaluations in the United States for all companies in the medical devices industry. Guidant believes that it is too early for it to be able to predict the potential outcome of this matter or when it will be resolved. There can be no assurance that the OIG's investigation or any changes in third party payors' reimbursement practices will not materially adversely affect the medical devices industry in general, or Guidant in particular.

PRODUCT LIABILITY AND INSURANCE

The design, manufacture and marketing of medical devices of the types produced by Guidant entail an inherent risk of product liability. Guidant's products are often used in intensive care settings with seriously ill patients. While the amount of product liability insurance maintained by Guidant has been adequate in relation to claims made against Guidant in the past, there can be no assurance that the amount of such insurance will be adequate to satisfy claims made against Guidant in the future or that Guidant will be able to obtain insurance in the future at satisfactory rates or in adequate amounts. Product liability insurance in the past was obtained through Lilly and will be replaced by Guidant's insurance policies in 1995. Product liability claims or product recalls could have a material adverse effect on the business and financial condition of Guidant.

ENVIRONMENTAL COMPLIANCE

Guidant is subject to various federal, state and local laws and regulations relating to the protection of the environment. In the course of its business, Guidant is involved in the handling, storing and disposal of certain chemicals. Guidant is also in the process of eliminating the chlorofluorocarbons used in its manufacturing and sterilization operations. While Guidant continues to make capital and operational expenditures for protection of the environment, it does not anticipate that those expenditures will have a material adverse effect on its business.

PROPERTIES

As of June 30, 1995, Guidant owned or leased the following facilities:

LOCATION	TYPE OF FACILITY	APPROXIMATE SQUARE FEET	LEASED OR OWNED
Temecula, CA.....	ACS manufacturing; HRT manufacturing, research and development and administration	500,000	Owned
Santa Clara, CA.....	ACS research and development, administration, sales and marketing and manufacturing	370,000	Owned
Basingstoke, UK.....	Administrative and ACS product development	24,000	Leased
Temecula, CA.....	DVI manufacturing	60,000	Leased
Redwood City, CA.....	DVI research and development, administration, sales and marketing and manufacturing	56,000	Leased
St. Paul, MN.....	CPI manufacturing, research and development, administration and sales and marketing	308,000	Owned
St. Paul, MN.....	CPI receiving, assembly and administration	94,000	Leased
St. Paul, MN.....	CPI packaging, shipping and warehouse	25,000	Leased
Dorado, PR.....	CPI manufacturing, research and administration	54,000	Owned
Menlo Park, CA.....	Origin research and development, administration, sales and marketing and warehouse	63,000	Leased
Indianapolis, IN.....	Administrative	18,000	Leased

Guidant maintains its executive offices at 111 Monument Circle, 29th Floor, Indianapolis, Indiana. Guidant believes that its facilities are adequate to meet its present and reasonably foreseeable needs.

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

EMPLOYEES

As of June 30, 1995, Guidant had 4,494 full-time employees. Of these employees, 2,414 were engaged in manufacturing and quality assurance, 873 were engaged in sales, marketing and customer service, 773 were engaged in research and development, and 434 were engaged in finance, systems, administration and office clerical and support positions. Guidant maintains compensation, benefit, equity participation and work environment policies intended to assist in attracting and retaining qualified personnel. Guidant believes that the success of its business will depend, in significant part, on its ability to attract and retain such personnel. Guidant contracted the services of an average of 517 individuals on a monthly basis in 1994. The contract labor provides management with flexibility in dealing with fluctuations in volume during periods of high sales growth and through new product transfers to manufacturing.

None of Guidant's employees are represented by a labor union. Guidant has never experienced an organized work stoppage or strike and considers its relations with its employees to be excellent.

LEGAL PROCEEDINGS

On May 3, 1994, SciMed Life Systems, Inc. ("SciMed") filed suit against ACS in the Northern District of California, San Francisco Division, alleging that the ACS RX FLOWTRACK 40 and ACS RX ELIPSE catheters infringed certain SciMed patents and seeking injunctive relief and unspecified monetary damages. ACS contended that SciMed's claims were subject to an arbitration provision under a prior settlement agreement between ACS and SciMed. The court has postponed the suit at the request of ACS, and ACS has commenced an arbitration proceeding against SciMed. Guidant believes that it has meritorious defenses against the claims of patent infringement. However, there can be no assurance that Guidant will prevail in this proceeding. An adverse outcome could have a material adverse effect on Guidant.

On May 15, 1995, Intermedics, Inc., a division of Sulzermedica USA, Inc. ("Intermedics"), filed suit against CPI in the United States District Court for the Southern District of Texas, Galveston Division. The complaint alleges infringement of certain Intermedics patents by CPI products, including unspecified defibrillator models bearing the VENTAK and/or PRx trademark(s); unspecified pacemaker models bearing the VIGOR trademark; and unspecified pacemaker models bearing the EXCEL trademark (which models are not currently manufactured by CPI). Intermedics is seeking injunctive and monetary relief of an unspecified amount. All of the Intermedics patents asserted against CPI defibrillators are the subject of pending litigation by Intermedics against Medtronic, Inc. and Ventritex, Inc. CPI may or may not benefit from rulings, if any, in those litigations which are adverse to Intermedics and address the validity or enforceability of any of the defibrillator patents. Independent of any other litigation, Guidant believes that it has substantial and meritorious defenses against all claims brought by Intermedics. Guidant has answered the complaint accordingly and will continue to defend its position vigorously. However, there can be no assurance that Guidant will prevail in this proceeding. An adverse outcome could have a material adverse effect upon Guidant.

Guidant is a party to certain other legal actions arising in the ordinary course of its business. Guidant believes that the ultimate outcome of these other actions will not result in any liability that would have a material adverse effect on Guidant.

MANAGEMENT OF GUIDANT

DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of Guidant and their ages and positions are:

NAME	POSITION	AGE
James M. Cornelius(2)...	Chairman of the Board and Director	51
Ronald W. Dollens(3)....	President, Chief Executive Officer and Director	48
J.B. King(1).....	Vice President, General Counsel, Secretary and Director	65
Keith E. Brauer.....	Vice President, Finance and Chief Financial Officer	47
A. Jay Graf.....	Vice President and President, CPI	48
William A. Hawkins III..	Vice President and President, DVI	41
Ginger L. Howard.....	Vice President and President, ACS	39
F. Thomas Watkins III...	Vice President and President, Origin and HRT	43
Richard M. van Oostrom..	Vice President and President, European Operations	50
James R. Baumgardt.....	Vice President, Corporate Resources	47
Cynthia L. Lucchese.....	Treasurer	35
Roger Marchetti.....	Chief Accounting Officer	37
Steven C. Beering, M.D.(3).....	Director	62
Maurice A. Cox, Jr.(3)..	Director	45
James W. Cozad(1).....	Director	68
Karen N. Horn, Ph.D.(2).	Director	51
Mark Novitch, M.D.(2)...	Director	63
Eugene L. Step(2).....	Director	66
Randall L. Tobias(1)....	Director	53
Alva O. Way(3).....	Director	66

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(1) Term expires in 1996.
(2) Term expires in 1997.
(3) Term expires in 1998.

MANAGEMENT BIOGRAPHIES

JAMES M. CORNELIUS Mr. Cornelius is Chairman of the Board of Directors and a Director of Guidant. He is also Vice President, Finance and Chief Financial Officer of Lilly, a position he has held since 1983. Mr. Cornelius has indicated that he will retire from Lilly as an employee and director effective October 1, 1995. Mr. Cornelius joined Lilly in 1967 and has served as Treasurer of Lilly and as President of IVAC Corporation ("IVAC"), a former Lilly medical device subsidiary. Mr. Cornelius is a director of Lilly and The National Bank of Indianapolis. Mr. Cornelius also serves on the Advisory Board of The Walker Group and as a trustee of the University of Indianapolis.

RONALD W. DOLLENS Mr. Dollens is President, Chief Executive Officer and a Director of Guidant. He has served as President of Lilly's MDD Division since 1991. He previously served as Vice President of the MDD Division and Chairman of ACS since 1990. From 1988 to 1990, he held the position of President and Chief Executive Officer of ACS. Mr. Dollens joined Lilly in 1972. Mr. Dollens is a director of the Children's Museum of Indianapolis and the Health Industry Manufacturers Association.

J.B. KING Mr. King is Vice President, General Counsel, Secretary and a Director of Guidant. Mr. King also acts as counsel to the law firm of Baker & Daniels, which provides legal services to Guidant. He previously was Vice President and General Counsel for Lilly, a position he held from 1987 until he retired in 1995. Before joining Lilly, Mr. King was a partner and chairman of the management committee of Baker & Daniels. Mr. King is a director of Bank One, Indianapolis, N.A.; the Indiana Legal Foundation; the Indianapolis Water Company; and Riley Hospital Memorial Association.

KEITH E. BRAUER Mr. Brauer is Vice President, Finance and Chief Financial Officer for Guidant. He served as executive director of finance and Chief Accounting Officer of Lilly from 1992 to 1994. Mr. Brauer was executive director of international finance of Lilly from 1988 to 1992 and director of corporate affairs of Lilly from 1986 to 1988. Additionally, he held the position of Vice President of finance and Treasurer for Physio-Control Corporation, a former Lilly subsidiary. Mr. Brauer joined Lilly in 1974. Mr. Brauer is a director of the Indiana Chamber of Commerce. Mr. Brauer also serves on the University of Michigan Business School Corporate Advisory Board and the Washington Township Schools Foundation.

A. JAY GRAF Mr. Graf is a Vice President of Guidant and President of CPI. He has been President and Chief Executive Officer of CPI since 1991. He joined CPI as Executive Vice President and Chief Operating Officer in 1990. Prior to that, he held the position of Senior Vice President of operations at Physio-Control Corporation, a former Lilly subsidiary. Additionally, Mr. Graf held the positions of Vice President of sales and technical services, and Vice President of marketing and communications at Physio-Control Corporation. Mr. Graf joined Lilly in 1976. Mr. Graf is a director of the St. Paul Area United Way.

WILLIAM A. HAWKINS III Mr. Hawkins is a Vice President of Guidant and President of DVI. He has been a Vice President of Guidant since February 1995 and has held the position of President of DVI since January 1995. Prior to that, he was President and Chief Executive Officer of IVAC Corporation, a former Lilly subsidiary, from 1991 to 1994. Additionally, Mr. Hawkins was Senior Vice President of Operations for Physio-Control Corporation from 1990 to 1991, and was Director of Marketing for Lilly's MDD Division in Europe from 1986 to 1990. He joined Lilly's MDD Division in 1982. Mr. Hawkins is Vice President of the Biomedical Industry Council in San Diego and a member of the California Governor's Council on Biotechnology.

GINGER L. HOWARD Ms. Howard is a Vice President of Guidant and President of ACS. She has been President of ACS since 1993. She served as director of pharmaceutical sales for Lilly in 1992 and was director of corporate pharmaceutical strategic planning from 1989 to 1991. Ms. Howard joined Lilly in 1979. Ms. Howard is a director of the California Healthcare Institute. Ms. Howard also serves on the advisory board for the California Institute for Federal Policy Research and is a member of the Committee of 200.

F. THOMAS WATKINS III Mr. Watkins is a Vice President of Guidant and President of Origin and HRT, positions he has held since May 1995. He has previously served as Executive Vice President and Chief Operating Officer of Origin. Mr. Watkins joined Origin in 1989. Previously he has served in management positions in several start-up companies, including Microgenics Corporation, and was a consultant with the international consulting firm of McKinsey & Company, Inc.

RICHARD M. VAN OOSTROM Mr. van Oostrom is a Vice President of Guidant and President of European Operations for Guidant. He served as Vice President of European operations for Lilly's MDD Division from 1984 to 1994. Mr. van Oostrom was an executive director of marketing from 1981 to 1984 and President and general manager of Eli Lilly Canada Inc. from 1980 to 1981. He joined Lilly in 1971. Mr. van Oostrom is a board member of the European trade association for medical prosthesis manufacturers.

JAMES R. BAUMGARDT Mr. Baumgardt is Vice President, Corporate Resources for Guidant. He served as executive director of human resources and business development for Lilly's MDD Division since 1994 and executive director of business development of Lilly since 1992. Mr. Baumgardt was director of personnel from 1990 to 1992 and director of sales for Lilly's select product division from 1988 to 1990. He joined Lilly in 1970. Mr. Baumgardt is a director of the Rose-Hulman Institute of Technology.

CYNTHIA L. LUCCHESE Ms. Lucchese is Treasurer of Guidant, a position she has held since February 1995. She served as Worldwide Treasury Manager for Lilly from 1992 to 1994. She served as Administrative Audit Manager from 1990 to 1992. Ms. Lucchese joined Lilly in 1987. Prior to joining Lilly, she was a senior auditor for Ernst & Young LLP from 1982 to 1986. Ms. Lucchese is a Certified Public Accountant.

ROGER MARCHETTI Mr. Marchetti is director of corporate accounting and Chief Accounting Officer of Guidant. He served as manager of finance for Lilly's Indianapolis pharmaceutical manufacturing operations from 1992 to 1994, and manufacturing controller for ACS from 1990 to 1992. Mr. Marchetti joined ACS in November 1988 as general accounting manager. Prior to joining Lilly, Mr. Marchetti was on the audit staff of Touche Ross & Co. (currently Deloitte & Touche LLP) from 1980 to 1986. Mr. Marchetti is a Certified Public Accountant.

STEVEN C. BEERING, M.D. Dr. Beering has served as President of Purdue University since 1983. He served as Dean of the Indiana School of Medicine and Director of the Indiana University Medical Center from 1974 until 1983. Dr. Beering is a fellow of the American College of Physicians and the Royal Society of Medicine and a member of the National Academy of Sciences Institute of Medicine. He is a director of American United Life Insurance Company; Arvin Industries, Inc.; Lilly; and NIPSCO Industries, Inc. Dr. Beering is also a director of the Indiana Business Modernization and Technical Corporation; the Corporation of Innovative Development; and the Indiana State Chamber of Commerce.

MAURICE A. COX, JR. Mr. Cox has served as President and Chief Executive Officer of Dispatch Venture Capital (a subsidiary of Dispatch Printing Company) since July 1995. Previously, he served as President and Chief Executive Officer of CompuServe Incorporated (an information services company) from 1990 to June 1995. Mr. Cox joined CompuServe in 1979 and has served as Vice President, Product Management and as Executive Vice President of CompuServe's Information Services Division. He is also a director of Huntington National Bank.

JAMES W. COZAD Mr. Cozad served as Chairman of the Board and Chief Executive Officer of Whitman Corporation, a diversified manufacturing corporation, from 1990 until his retirement in 1992. Prior to assuming that position, he served as Vice Chairman of the Board and as a Vice President of Amoco Corporation. Mr. Cozad is a director of GATX Corporation; Inland Steel Industries, Inc.; Lilly; Sears Roebuck & Co.; and Whitman Corporation. He is also a director of the Chicago Medical School and the Indiana University Foundation. Mr. Cozad is a trustee of the Northern Funds.

KAREN N. HORN, PH.D. Mrs. Horn has served as Chairman of the Board and Chief Executive Officer of Bank One, Cleveland, N.A. since 1987. Prior to joining Bank One, she served as President of the Federal Reserve Bank of Cleveland, Treasurer of Bell of Pennsylvania and Vice President of The First National Bank of Boston. Mrs. Horn is a director of Lilly; Rubbermaid Incorporated; The British Petroleum Company p.l.c.; and TRW, Inc. She also serves as Vice Chairman of the Board of Trustees of Case Western Reserve University and as a trustee of the Rockefeller Foundation and the Cleveland Clinic Foundation.

MARK NOVITCH, M.D. Dr. Novitch has been Professor of Health Care Sciences at George Washington University Medical Center since 1994. Prior to that, he retired as Vice Chairman of the Board and Chief Compliance Officer of The Upjohn Company in December 1993. Prior to joining Upjohn in 1985, Dr. Novitch was Deputy Commissioner of the FDA from 1981 until 1985. He served as Acting Commissioner from 1983 to 1984. Dr. Novitch is currently serving a five-year term as Trustee and Past President of the U.S. Pharmacopeial Convention. He is also a member of the Biomedical Services Board of the American Red Cross. Dr. Novitch is a director of Osiris Therapeutics, Inc., Neurogen Corporation and Alteon, Inc.

EUGENE L. STEP Mr. Step served as a Director and Executive Vice President of Lilly until his retirement in 1992. He joined Lilly in 1956 and has served as President of Lilly's Pharmaceutical Division and as a member of Lilly's Executive Committee. Mr. Step is a director of Scios-Nova, Inc.; Cell Genesys, Inc.; Medco Research, Inc.; Pathogenesis, Inc.; and GMIS, Inc.

RANDALL L. TOBIAS Mr. Tobias has served as Chairman of the Board and Chief Executive Officer of Lilly since 1993. Prior to assuming this position, he served as Vice Chairman of the Board of American Telephone and Telegraph Company ("AT&T") from 1986 until 1993. In addition, Mr. Tobias served as Chairman and Chief Executive Officer of AT&T International (an AT&T subsidiary) from 1991 to 1993. Mr. Tobias is a director of DowElanco; Kimberly-Clark Corporation; Knight-Ridder, Inc.; Lilly; and Phillips Petroleum Company. He also serves as Vice Chairman of the Board of Trustees of Duke University; a trustee of the Colonial Williamsburg Foundation; and a director of the Indiana University Foundation.

ALVA O. WAY Mr. Way became Chairman of the Board of IBJ Schroder Bank & Trust Company in 1986. He also serves as a director of and consultant to Schroder plc, London, and related companies. Mr. Way previously served as President of both The Travelers Corporation and American Express Company and served in executive positions at General Electric Company. He is a director of Gould, Inc.; Lilly; McGraw-Hill, Inc.; Ryder System, Inc.; and Schroder plc. Mr. Way also serves as a member of the Board of Trustees and as Chancellor of Brown University.

OWNERSHIP OF GUIDANT COMMON STOCK BY DIRECTORS AND OFFICERS OF GUIDANT

The following table sets forth the number of shares of Guidant Common Stock beneficially owned by the directors of Guidant, and the chief executive officer and the next four most highly compensated officers of Guidant for the year ended December 31, 1994 (the "Named Executive Officers"), and all directors and executive officers of Guidant as a group, as of July 31, 1995.

NAME OF INDIVIDUALS OR IDENTITY OF GROUP	SHARES OWNED BENEFICIALLY(1)
Steven C. Beering, M.D.	0
James M. Cornelius	50,000
Maurice A. Cox, Jr.	5,000
James W. Cozad	0
Ronald W. Dollens	1,000
A. Jay Graf	1,000
Karen N. Horn, Ph.D.	0
J.B. King	2,000(2)
Mark Novitch, M.D.	2,000
Eugene L. Step	1,000
Randall L. Tobias	2,000
Richard M. van Oostrom	1,000
Alva O. Way	0
All directors and executive officers as a group (20 persons)	69,300

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(1) Unless otherwise indicated in a footnote, each person listed in the table possesses sole voting and sole investment power with respect to the shares shown in the table to be owned by that person. No person listed in the table owns more than .070% of the outstanding shares of Guidant Common Stock. All directors and executive officers of Guidant as a group own .096% of the outstanding shares of Guidant Common Stock.

(2) Mr. King's wife owns 1,000 shares of those shown in the table, and he disclaims any beneficial ownership therein.

OWNERSHIP OF LILLY COMMON STOCK BY DIRECTORS AND OFFICERS OF GUIDANT

The following table sets forth the number of shares of Lilly Common Stock beneficially owned by the directors of Guidant and the Named Executive Officers and all directors and executive officers of Guidant as a group, as of July 31, 1995.

NAME OF INDIVIDUALS OR IDENTITY OF GROUP	SHARES OWNED BENEFICIALLY(1)
Steven C. Beering, M.D.	2,773
James M. Cornelius	85,433(2)
Maurice A. Cox, Jr	0
James W. Cozad	2,600
Ronald W. Dollens	19,159(3)
A. Jay Graf	5,401(4)
Karen N. Horn, Ph.D	2,500
J.B. King	34,446(5)
Mark Novitch, M.D	0
Eugene L. Step	184,542(6)
Randall L. Tobias	61,123(7)
Richard M. van Oostrom	30,905(8)
Alva O. Way	3,180(9)
All directors and executive officers as a group (20 persons)	456,739

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(1) Unless otherwise indicated in a footnote, each person listed in the table possesses sole voting and sole investment power with respect to the shares shown in the table to be owned by that person. The shares shown do not include the following shares that may be purchased pursuant to stock options that are exercisable within 60 days of July 31, 1995: Mr. Cornelius, 64,800 shares; Mr. Dollens, 11,800 shares; Mr. Graf, 4,800 shares; Mr. King, 88,840 shares; Mr. Step, 124,142 shares; Mr. van Oostrom, 8,800 shares; and all directors and executive officers as a group, 335,382 shares. The shares shown include shares credited to the accounts of certain of those persons listed in the table under The Lilly Employee Savings Plan (the "Savings Plan"). No person listed in the table owns more than .063% of the outstanding shares of Lilly Common Stock. All directors and executive officers of Guidant as a group own .16% of the outstanding shares of Lilly Common Stock.

(2) Mr. Cornelius' wife owns 8,028 shares of those shown in the table, and he disclaims any beneficial interest therein. The shares shown for Mr. Cornelius include 6,429 shares credited to his account under the Savings Plan.

(3) The shares shown for Mr. Dollens include 3,864 shares credited to his account under the Savings Plan.

(4) The shares shown for Mr. Graf include 2,907 shares credited to his account under the Savings Plan.

(5) The shares shown for Mr. King include 1,110 shares credited to his account under the Savings Plan.

(6) Mr. Step's wife owns 10,588 shares of those shown in the table, and he disclaims any beneficial ownership therein.

(7) Mr. Tobias has shared voting power and shared investment power with respect to 15,000 shares that are included in the table and are owned by a family foundation of which he is a director. Mr. Tobias disclaims beneficial ownership of 8,400 shares included in the table, including 7,600 shares held by his wife in a revocable trust and 800 shares in family trusts as to which his wife is a co-trustee. The shares shown for Mr. Tobias include 223 shares credited to his account under the Savings Plan.

(8) The shares shown for Mr. van Oostrom include 3,353 shares credited to his account under the Savings Plan.

(9) Mr. Way's wife owns 180 shares of those shown in the table, and he disclaims any beneficial interest therein.

TERMS OF DIRECTORS AND OFFICERS

Guidant's Articles of Incorporation provide for Guidant's Board of Directors to consist of between 7 and 19 persons, as fixed by the Board (currently there are eleven), and to be divided into three classes, with each class to be as nearly equal in number of directors as possible. The term of office of the directors in each of the three classes expires at the annual meetings of shareholders in 1996 through 1998, respectively. At each annual meeting, the successors to the class of directors whose term expires at that time are to be elected

to hold office for a term of three years, and until their respective successors are elected and qualified, so that the term of one class of directors expires at each such annual meeting. In the case of any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, the vacancy will be filled by election of the Board of Directors, with the director so elected to serve for the remainder of the term of the director being replaced; any newly-created directorships or decreases in directorships are to be assigned by the Board so as to make all classes as nearly equal in number as possible. Directors may be removed with or without cause and only upon the affirmative vote of 80% of the outstanding voting power of Guidant. See "Description of Guidant Capital Stock--Certain Articles of Incorporation and By-laws Provisions and Indiana Anti-Takeover Provisions." Officers are elected annually and serve at the discretion of the Board of Directors.

TRANSITIONAL BOARD

Dr. Beering, Mr. Cozad, Mrs. Horn, Mr. Tobias and Mr. Way, each of whom are also directors of Lilly, were appointed to the Guidant Board of Directors in connection with the Offering as part of a transitional Board. As contemplated, Dr. Beering, Mr. Cozad, Mrs. Horn, Mr. Tobias and Mr. Way will resign from the Guidant Board of Directors effective as of the consummation of the Transaction. In addition, the Board of Directors of Guidant has appointed Mr. Enrique C. Falla, Mr. J. Kevin Moore and Dr. Ruedi E. Wager to the Board, effective as of October 1, 1995.

Mr. Falla is Executive Vice President and Chief Financial Officer for The Dow Chemical Company, positions he has held since 1991 and 1987, respectively. He joined The Dow Chemical Company in 1967 and is the chairman of its Finance Committee and a member of the Investment Policy, Operating and Executive Committees. Mr. Falla is a director of The Dow Chemical Company, Dow Corning Corporation and Kmart Corporation, and is a member of the Board of Trustees of the University of Miami.

Mr. Moore is Associate Chief Operating Officer for Duke University Medical Center, a position he has held since March 1994. Prior to assuming this position, he served as Assistant Director, Surgical Private Diagnostic Clinics, and Adjunct Associate Professor, Graduate School of Health Administration, from April 1989 to March 1994. Mr. Moore served as Assistant Director for Duke Hospital from May 1988 to April 1989 and served as Director of Management Services, Medical Center Administration, and Adjunct Assistant Professor, Graduate School of Health Administration, from May 1984 to April 1988. Mr. Moore is a director of the American Red Cross Regional Chapter and a member of the Board of Trustees for Duke University.

Dr. Wager is President and Chief Executive Officer of ZLB Central Laboratory Blood Transfusion Service SRC (a plasma fractionation business in Switzerland), a position he has held since February 1994. Prior to assuming this position, he served as Senior Vice-President at Sandoz Pharma Ltd. (a multinational pharmaceutical company) from March 1989 to January 1994. From January 1993 to January 1994, Dr. Wager served as Head of Corporate Project Management and member of the Executive Committee at Sandoz Pharma Ltd., and from March 1989 to December 1993, he served as Head of Worldwide Marketing and member of the Executive Committee at Sandoz Pharma Ltd. Dr. Wager joined Sandoz Ltd. in 1973. Dr. Wager is a director of Portescap SA and Portescap International SA.

COMMITTEES OF THE BOARD

Guidant's Board of Directors currently has four committees, the principal functions of which are described below.

The Audit Committee annually recommends independent auditors for appointment by the Board of Directors, reviews the services to be performed by the independent auditors and receives and reviews the reports submitted by them. It also determines the duties and responsibilities of the internal auditors, reviews the internal audit program and receives and reviews reports submitted by the internal auditing staff. The members of the Audit Committee are Mr. Way, who acts as Chairman of the Committee, and Dr. Beering, Mr. Cozad, Mrs. Horn and Mr. Step.

The Compensation Committee fixes the compensation of executive officers and administers the Guidant Corporation 1994 Stock Plan. The members of the Compensation Committee are Mr. Cozad, who acts as Chairman of the Committee, and Dr. Beering, Mrs. Horn and Mr. Way.

The Corporate Governance Committee recommends to the Board of Directors the size and composition of the Board and proposes candidates for director to be recommended by the Board to the shareholders of Guidant and oversees matters of corporate governance. The members of the Corporate Governance Committee are Mrs. Horn, who acts as Chairman of the Committee, and Dr. Beering, Mr. Cox, Mr. Cozad and Mr. Way.

The Compliance Committee oversees adherence to regulatory policy and procedures for the design, manufacture, registration and clinical testing of Guidant's products. The members of the Compliance Committee are Dr. Beering, who acts as Chairman of the Committee, and Mr. Cozad, Mrs. Horn, Dr. Novitch and Mr. Way.

COMPENSATION OF DIRECTORS

Guidant's directors who are not officers or employees of Guidant or Lilly will receive a quarterly retainer fee of $5,000 for board membership and a fee of $1,500 for attendance at each Board meeting and each committee meeting which is not held on the same date as a Board meeting. Directors are reimbursed for reasonable expenses incurred in connection with attending Board and Committee meetings.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following Summary Compensation Table shows the annual compensation paid by Guidant and Lilly to Mr. Dollens, who served as Chief Executive Officer of Guidant for 1994, and each of the four most highly compensated executive officers other than Mr. Dollens, who were serving as executive officers as of December 31, 1994 (the "Named Executive Officers"). Guidant is currently an 80.2% owned subsidiary of Lilly, and was a wholly owned subsidiary of Lilly prior to the consummation of the Offering on December 20, 1994. Accordingly, the compensation of Guidant's executive officers was determined in accordance with policies established by Lilly. The compensation of the Named Executive Officers is reported for each of the last two years.

SUMMARY COMPENSATION TABLE

					LONG-TERM COMPENSATION		
		ANNUAL COMPENSATION			AWARDS(1)	PAYOUTS(2)	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	LONG-TERM INCENTIVE PLAN PAYOUT	ALL OTHER COMPENSATION
Ronald W. Dollens	1994	$290,040	$152,399(3)	$ 247	80,000(4)	$274,161	$17,402(5)
Chief Executive Officer and President	1993	260,040	144,043(3)	0	20,000(6)	0	22,484
James M. Cornelius(7)	1994	555,900	339,771(3)	10,271	25,000(6)	442,622	33,354(8)
Chairman of the Board	1993	537,900	321,140(3)	386	35,000(6)	0	57,198
J.B. King	1994	438,600	222,065(3)	17,374	40,000(4)	340,224	26,316(9)
Vice President, GeneralCounsel and Secretary	1993	423,600	209,888(3)	251	30,000(6)	0	37,202
A. Jay Graf	1994	227,040	30,600(10)	22,994(11)	40,000(4)	112,307	13,260(12)
Vice President and President, CPI	1993	215,040	19,008(10)	28,189(11)	6,000(6)	0	9,216
Richard M. van Oostrom	1994	182,118	39,316(10)	0	40,000(4)	148,642	13,795(13)
Vice President and President European Operations	1993	198,598	54,561(10)	36,520(11)	6,000(6)	0	14,733

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(1) During the years indicated, restricted stock was not awarded and stock appreciation rights were not granted. Mr. King held 6,000 shares of restricted stock of Lilly valued at $393,750 as of December 31, 1994.
(2) Amounts paid in Lilly Common Stock (except for amounts paid in cash to satisfy federal income tax withholding requirements) in February 1995 under the Lilly performance award program for the period January 1, 1993 through December 31, 1994.
(3) Includes amounts awarded in cash under Lilly's Senior Executive Bonus Plan.
(4) Options to acquire Guidant Common Stock.
(5) Contribution by Lilly to Mr. Dollens' account in the Savings Plan.
(6) Options to acquire Lilly Common Stock.
(7) Lilly currently pays Mr. Cornelius' salary and will continue to pay his salary until he retires from Lilly effective October 1, 1995.
(8) Contribution by Lilly to Mr. Cornelius' account in the Savings Plan.
(9) Contribution by Lilly to Mr. King's account in the Savings Plan.
(10) Includes cash payments under other bonus programs.
(11) Relocation allowances.
(12) Contribution by Lilly to Mr. Graf's account in the Savings Plan.
(13) Contribution by Lilly to Mr. van Oostrom's account in the Savings Plan.

Stock Option Grants

The following table provides information on options to purchase Guidant Common Stock granted in 1994 to the Named Executive Officers pursuant to the 1994 Plan, except for Mr. Cornelius, who received an option to purchase Lilly Common Stock granted by Lilly pursuant to the 1994 Lilly Stock Plan. No Guidant stock options were exercised during 1994.

OPTION SHARES GRANTED IN LAST FISCAL YEAR(1)

INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTION SHARES GRANTED TO EMPLOYEES IN FISCAL YEAR(2)	EXERCISE OR BASE PRICE PER SHARE	EXPIRATION DATE	GRANT DATE PRESENT VALUE(3)
Ronald W. Dollens.....	80,000	9.51	$14.50(4)	12/13/04	$652,000
James M. Cornelius (Lilly Shares).....	25,000	1.04	58.63(5)	10/15/04	389,500
J.B. King.....	40,000	4.75	14.50(4)	12/13/04	326,000
A. Jay Graf.....	40,000	4.75	14.50(4)	12/13/04	326,000
Richard M. van Oostrom..	40,000	4.75	14.50(4)	12/13/04	326,000

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(1) Stock appreciation rights were not granted during 1994.

(2) Percent of total Guidant option shares or Lilly option shares, as applicable.

(3) These values were established using the Black-Scholes stock option valuation model that was modified to include dividends. Assumptions used to calculate the Grant Date Present Value of option shares granted during 1994 were:

GUIDANT OPTION SHARES

(a) Expected Volatility--The average variance in the percent change in daily stock prices of eight companies in the medical device industry during the six-month period immediately preceding the grant, which was 31.66%. The price of Guidant Common Stock was not used because the stock was not publicly traded prior to the grant of the option.

(b) Risk Free Rate of Return--The average monthly rate for 10-year U.S. Treasury obligations during the month of grant as published in the Federal Reserve Statistical Release, which was 7.81%.

(c) Dividend Yield--The yield calculated by dividing the anticipated annualized dividend rate of Guidant Common Stock in the amount of $.10 per share by the fair market value of the stock on the date of grant, which resulted in an assumed dividend yield of .69%.

(d) Time of Exercise--The maximum exercise period for each grant at the time of the grant, which was 10 years.

LILLY OPTION SHARES

(a) Expected Volatility--The variance in the percent change in daily stock price during the six-month period immediately preceding each grant, which was 23.24%.

(b) Risk Free Rate of Return--The average monthly rate for 10-year U.S. Treasury obligations during the month of grant as published in the Federal Reserve Statistical Release, which was 7.74%.

(c) Dividend Yield--The yield calculated by dividing the annualized dividend rate of Lilly Common Stock in the amount of $2.50 per share by the fair market value of the stock on the date of grant, which resulted in an assumed dividend yield of 4.26%.

(d) Time of Exercise--The maximum exercise period for each grant at the time of the grant, which was 10 years.

The valuation model was not adjusted for non-transferability, risk of forfeiture or the vesting restrictions of the options. Guidant does not believe that the Black-Scholes model, whether modified or not modified, or any other valuation model, is a reliable method of computing the present value of Guidant's or Lilly's employee stock options. The value ultimately realized, if any, will depend on the amount that the market price of the stock exceeds the exercise price on the date of exercise.

(4) Initial public offering price of Guidant Common Stock. These options will become exercisable on December 15, 1997.

(5) This option will become exercisable on October 17, 1997.

Stock Option Exercises and Option Values

The following table contains information concerning Guidant stock options unexercised at the end of 1994 with respect to the Named Executive Officers. No Guidant stock options were exercisable during 1994.

AGGREGATED OPTION SHARES FISCAL YEAR END VALUES(1)

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISABLE OPTIONS AT FISCAL YEAR END	VALUE OF UNEXERCISABLE OPTIONS AT FISCAL YEAR END(2)
Ronald W. Dollens	80,000	$120,000
James M. Cornelius	0	0
J.B. King	40,000	60,000
A. Jay Graf	40,000	60,000
Richard M. van Oostrom	40,000	60,000

(1) No stock appreciation rights were outstanding during 1994.
(2) Represents the amount by which the market price of Guidant Common Stock exceeded the exercise prices of unexercised options on December 31, 1994.

The following table contains information concerning Lilly stock options exercised during 1994 and Lilly stock options unexercised at the end of 1994 with respect to the Named Executive Officers.

AGGREGATED OPTION SHARES EXERCISED IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES(1)

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Ronald W. Dollens	--	$ --	12,400	25,000	$ 278,046	$ 373,800
James M. Cornelius	6,200	96,535	46,800	78,000	365,618	832,150
J.B. King	2,836	46,440	51,164	42,000	801,622	560,700
A. Jay Graf	--	--	8,200	7,800	129,600	112,140
Richard M. van Oostrom	3,000	62,340	6,800	8,000	67,122	112,140

(1) Lilly stock appreciation rights were not exercised during 1994 and no Lilly stock appreciation rights were outstanding on December 31, 1994.
(2) Represents the amount by which the market price of Lilly Common Stock exceeded the exercise prices of unexercised options on December 31, 1994.

Long-Term Incentive Awards

The following table provides information on long-term performance awards granted in 1994 to the Named Executive Officers pursuant to the 1994 Lilly Stock Plan.

LONG-TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR

NAME	NUMBER OF SHARES AWARDED	PERFORMANCE PERIOD UNTIL PAYOUT	ESTIMATED FUTURE PAYMENT UNDER NON-STOCK PRICE BASED PLANS(1)		
			THRESHOLD # SHARES	TARGET # SHARES	MAXIMUM # SHARES
Ronald W. Dollens	1,550(2)	2 years	1,100	1,550	5,575
James M. Cornelius	3,100(2)	2 years	2,150	3,100	8,700
	3,100(3)	2 years	2,150	3,100	8,700
J.B. King	2,075(2)	2 years	1,350	2,075	7,000
A. Jay Graf	575(2)	2 years	425	575	2,340
Richard M. van Oostrom	750(2)	2 years	550	750	3,125

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(1) Payouts are denominated in shares of Lilly Common Stock and are determined by the aggregate earnings per share ("EPS") level of Lilly for the award period. The target amount will be paid for each award period in which 100% of the targeted EPS is achieved; the threshold amount will be paid for the 1994-1995 award period if at least 96% of the targeted EPS is achieved and for the 1995-1996 award period if at least 95% of the targeted EPS is achieved; and the maximum amount will be paid for the 1994-1995 award period if 112% or more of the targeted EPS is achieved and for the 1995-1996 award period if 114% or more of the targeted EPS is achieved. No payment will be made for the 1994-1995 award period unless at least 96% of the targeted EPS level is achieved and no payment will be made for the 1995-1996 award period unless at least 95% of the targeted EPS is achieved.

(2) Represents the targeted award amount payable in February 1996 if earned for the fiscal years 1994-1995 award period.

(3) Represents the targeted award amount payable in February 1997 if earned for the fiscal years 1995-1996 award period.

Retirement Plan

PENSION PLAN TABLE

AVERAGE ANNUAL EARNINGS (HIGHEST 5 OF LAST 10 YEARS)	YEARS OF SERVICE					
	5	10	15	20	25	30
$ 375,000	$ 25,410	$ 50,820	$ 76,230	$101,640	$127,050	$152,460
525,000	35,945	71,885	107,830	143,770	179,715	215,655
675,000	46,475	92,950	139,425	185,900	232,375	278,850
825,000	57,010	114,015	171,025	228,030	285,040	342,045
975,000	67,540	135,080	202,620	270,160	337,700	405,240
1,125,000	78,075	156,145	234,220	312,290	390,365	468,435
1,275,000	88,605	177,210	265,815	354,420	443,025	531,630
1,425,000	99,140	198,275	297,415	396,550	495,690	594,825
1,575,000	109,670	219,340	329,010	438,680	548,350	658,020
1,725,000	120,205	240,405	360,610	480,810	601,015	721,215

Messrs. Dollens, Cornelius, King and van Oostrom are entitled to receive retirement benefits under Lilly pension plans. The Pension Plan Table sets forth a range of annual retirement benefits for graduated levels of average annual earnings (consisting of Salary, Bonus and Long-Term Incentive Plan Payouts as set forth in the Summary Compensation Table) and years of service for the life of a retired employee of Lilly, assuming retirement at age 65 with a 50% survivor income benefit. The amounts shown in the table are not subject to deduction for social security benefits.

The years of service credited to the Named Executive Officers are Mr. Dollens, 23 years; Mr. Cornelius, 28 years; Mr. King, 7 years; and Mr. van Oostrom, 24 years.

Pursuant to the Cardiac Pacemakers, Inc. Retirement Plan (the "CPI Retirement Plan") and its associated excess plan, upon Mr. Graf's normal retirement at the age of 65, based upon Mr. Graf's current annual salary and bonus, Mr. Graf would be entitled to an annual pension benefit of $162,635.

Section 415 of the Code generally places a limit of $120,000 on the amount of annual pension benefits that may be paid at age 65 from plans such as Lilly's and CPI's Retirement Plans. The Code also places a $9,240 limit, subject to adjustment by the IRS, on annual contributions by an employee to Lilly's or Guidant's Savings Plan and, in addition, imposes a combined limitation when an employee is covered by both types of plans. Under an unfunded plan adopted in 1975, however, Lilly will make payments as permitted by the Code to any employee who is a participant in the Lilly Retirement Plan or the Lilly Savings Plan in an amount equal to the difference, if any, between the benefits that would have been payable under such plans without regard to the limitations imposed by the Code and the actual benefits payable under such plans as so limited.

Change in Control Severance Pay Plan

Guidant has adopted a change-in-control severance pay program ("Program") covering most employees of Guidant and its subsidiaries, including Guidant's executive officers. In general, the Program would provide severance payments and benefits to eligible employees and executive officers in the event of their termination of employment under certain circumstances within fixed periods of time following a change-in-control. A "change-in-control" would occur if 20% or more of Guidant's voting stock were acquired by an entity other than Guidant, a subsidiary, an employee benefit plan of Guidant or Lilly Endowment. There are additional conditions that could result in a change-in-control event. The Transaction will not constitute a change-in-control for purposes of the Program. The Program would not be subject to amendment by the Board, whether prior to or following a change-in-control, in any manner adverse to a participant without his or her prior written consent.

Under the portion of the Program covering the Named Executive Officers, each would be entitled to severance payments and benefits in the event that his or her employment is terminated following a change-in-control (i) without "cause" by Guidant; (ii) for "good reason" by the executive officer, each as defined in the Program; or (iii) for a limited period of time, for any reason by the executive officer. In such case, the executive officer would be entitled to a severance payment equal to three times his or her current annual cash compensation and bonuses, including performance awards. Additional benefits would include a pension supplement and full and immediate vesting of all stock options and other equity incentives. In the event that any payments made in connection with the change-in-control would be subject to the excise tax imposed under Section 4999 of the Code as a result of the aggregate compensation payments and benefits made to the individual, under the Program or otherwise, in connection with a change-in-control, Guidant is obligated to make whole the individual with respect to such excise tax.

PRINCIPAL SHAREHOLDER OF GUIDANT COMMON STOCK

Prior to the Transaction, the only person who beneficially owned more than 5% of any class of Guidant voting stock was Lilly. As of the date of this Offering Circular - Prospectus, Lilly owns beneficially and of record 57,600,000 shares of Guidant Common Stock, representing 80.2% of the outstanding Guidant Common Stock. Lilly has sole voting and sole investment power with respect to these shares. Lilly is deemed to be a parent of Guidant as that term is defined for purposes of the Securities Act. After the consummation of the Transaction, Lilly will no longer own any interest in Guidant.

PRINCIPAL SHAREHOLDERS OF LILLY COMMON STOCK

To the best of Lilly's knowledge, and except as set out below, Lilly Endowment is the only beneficial owner of more than 5% of the outstanding shares of Lilly Common Stock. The following table sets forth information regarding this ownership as of July 31, 1995:

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Lilly Endowment, Inc. ..... 2801 North Meridian Street Indianapolis, Indiana 46208	46,847,342	16.043

Lilly Endowment has sole voting and sole investment power with respect to these shares. Lilly Endowment may be deemed to be a parent of Lilly as that term is defined for purposes of the Securities Act. The Board of Directors of Lilly Endowment is composed of Mr. Thomas H. Lake, Honorary Chairman; Mr. Thomas M. Lofton, Chairman; Otis R. Bowen, M.D.; Drs. William G. Enright, Earl B. Herr, Jr. and Herman B. Wells; and Messrs. Byron P. Hollett, Eli Lilly II and Eugene F. Ratliff. Drs. Bowen and Herr and Messrs. Hollett, Lake, Lilly, Lofton and Ratliff are shareholders of Lilly. Lilly Endowment and Guidant have entered into a Registration Rights Agreement that provides Lilly Endowment with certain registration rights with respect to shares of Guidant Common Stock it may acquire pursuant to the Transaction.

As of July 31, 1995, National City Bank, Indiana ("NCBI"), held 19,723,033 shares of Lilly Common Stock (6.754% of the outstanding shares) in various fiduciary capacities. Over half of the shares are held by it as trustee under The Lilly Employee Savings Plan (the "Savings Plan"), savings plans of affiliated companies and the employee stock ownership plan. In addition, NCBI holds such shares for various parties in personal trusts, agency and custodial accounts, pension accounts, estates and guardianships. NCBI has sole voting power with respect to 7,588,329 shares, shared voting power with respect to 1,000 shares, sole investment power with respect to 1,222,325 shares, shared investment power with respect to 3,314,649 shares and the right to vote an additional 9,114,234 shares in the savings plans to the extent it is not instructed on how to vote such shares by plan participants.

DESCRIPTION OF GUIDANT CAPITAL STOCK

The authorized capital stock of Guidant consists of 250,000,000 shares of Guidant Common Stock, without par value, 71,860,000 shares of which are outstanding and 50,000,000 shares of preferred stock, without par value (the "Preferred Stock"), no shares of which are outstanding. All outstanding shares of Guidant Common Stock are duly authorized, validly issued, fully paid and non-assessable. The following summary description of the capital stock of Guidant is qualified in its entirety by reference to the Articles of Incorporation, the material provisions of which are set forth herein and a copy of which is filed as an exhibit to the Registration Statement.

COMMON STOCK

The holders of shares of Guidant Common Stock are entitled to one vote per share on all matters to be voted on by shareholders. The holders of shares of Guidant Common Stock are not entitled to cumulate their votes in the election of directors, which means that holders of more than half the outstanding shares of Guidant Common Stock can elect all the directors of Guidant. The holders of shares of Guidant Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors, in its discretion, from any assets legally available therefor.

The holders of Guidant Common Stock are not entitled to preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions applicable to Guidant Common Stock. The holders of Guidant Common Stock are not subject to further calls or assessments by Guidant. Upon liquidation of Guidant, after payment or provision for payment of all of Guidant's obligations and any liquidation preference of any outstanding preferred stock, the holders of Guidant Common Stock are entitled to share ratably in the remaining assets of Guidant.

PREFERRED STOCK

Guidant currently has no shares of Preferred Stock outstanding. Guidant's Board of Directors, without further approval of the shareholders, is vested with broad authority with respect to the Preferred Stock to establish and designate series, fix the number of shares to be included in each series, provide for a sinking fund for the purchase or redemption of shares or a purchase fund for the purchase of shares of such series, and to determine the relative rights, preferences and limitations of each series, including but not limited to the dividend and voting rights of such Preferred Stock and the preferential amounts payable to the holders of Preferred Stock on liquidation. The Board of Directors will also determine whether such Preferred Stock will be convertible into other securities of Guidant, including Guidant Common Stock. Accordingly, the issuance of Preferred Stock, while promoting flexibility in connection with possible acquisitions and other corporate purposes, could adversely affect the voting rights of the holders of, or the market price of, Guidant Common Stock and, under certain circumstances, make it more difficult for a third party to gain control of Guidant. The holders of Preferred Stock also have the right to vote separately as a class on any proposal involving fundamental changes in the rights of holders of Preferred Stock pursuant to the Indiana Business Corporation Law.

In connection with Guidant's Shareholder Rights Plan (the "Rights Agreement"), the Board of Directors has authorized the issuance of up to 1,500,000 shares of Series A Participating Preferred Stock ("Series A Preferred Stock") upon exercise of rights issued under the Rights Agreement. See "--Shareholder Rights Plan" for a description of the rights of Series A Preferred Stock.

CERTAIN ARTICLES OF INCORPORATION AND BY-LAWS PROVISIONS AND INDIANA ANTI-TAKEOVER PROVISIONS

Under the Indiana Business Corporation Law, directors are required to discharge their duties (i) in good faith; (ii) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (iii) in a manner the directors reasonably believe to be in the best interests of the company. However, the Indiana Business Corporation Law exonerates directors from liability for breach of these standards of conduct unless the breach constitutes willful misconduct or recklessness. This exoneration from liability may not affect the availability of equitable relief, including injunctions. Furthermore, the exoneration from liability under Indiana law does not affect the liability of directors for violations of the federal securities laws.

Article 6 of the Articles of Incorporation provides for higher shareholder voting requirements for certain transactions (such as business combinations) with or otherwise involving a Related Person (as defined below).

Instead of a majority vote requirement (or the absence of any vote requirement), transactions covered by Article 6 require the approval of the holders of 80% of Guidant's outstanding voting power, unless the transaction is approved by a majority of a Board and a majority of the Continuing Directors (as defined below), in which case the requirements of Indiana law otherwise applicable govern.

Transactions covered by Article 6 include mergers of Guidant with a Related Person, sales of all or any substantial part of the assets of Guidant to a Related Person, the issuance or delivery of Voting Stock to a Related Person, any voluntary dissolution or liquidation of Guidant (if a Related Person exists at the time of such dissolution or liquidation), a reclassification of securities or recapitalization of Guidant (if such reclassification or recapitalization results in the Related Person increasing its proportionate share of any class of Guidant's stock) or any agreement, contract, or other arrangement to do any of the foregoing. Article 6 does not alter the additional requirements regarding class votes available to holders of Preferred Stock, if any, which arise under Indiana law and the Articles of Incorporation.

Article 6 also prohibits a Related Person from acquiring any newly-issued or treasury shares of capital stock from Guidant, or from receiving the benefit of any loan, advance or guarantee, pledge or other financial assistance or tax credit provided by Guidant, and requires that the Related Person ensure that the Board of Directors includes representation by Continuing Directors at least proportionate to the voting power of Guidant's shareholders other than the Related Person. In addition, in connection with a transaction with a Related Person, Guidant must send shareholders a proxy statement prepared in accordance with the Exchange Act. These requirements are inapplicable if the approval of a majority of the Continuing Directors is obtained.

Article 6 also requires that the Board of Directors, when deciding whether or not to approve certain transactions with Related Persons, consider all relevant factors, including, without limitation, the effects on shareholders, employees, suppliers and customers of Guidant, and communities in which offices or other facilities of Guidant are located, and any other factors a director considers pertinent.

A "Related Person" is defined as any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the voting stock of Guidant, and any affiliate or associate of a Related Person. Specifically excluded from the definition of Related Person are (i) Guidant and any of its subsidiaries, (ii) any profit-sharing, employee stock ownership or other employee benefit plan of Guidant, or trustees for such plans, when acting as such, (iii) Lilly Endowment and (iv) Lilly. In addition, the definition provides that a corporation, person, or entity is not to be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly.

A "Continuing Director" is defined as a director who is not an Affiliate or Associate or representative of a Related Person, and who was a member of the Board of Directors prior to the time that any Related Person involved in the transactions being considered became a Related Person, or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors.

Article 6 may not be altered, amended, or repealed except by the affirmative vote of the holders of 80% of Guidant's outstanding voting power.

The provisions of Guidant's Articles of Incorporation providing for the classification of the Board of Directors into three classes and providing that directors may be removed by vote of 80% of Guidant's outstanding voting power, the provisions of the Articles of Incorporation authorizing the board to issue Preferred Stock without shareholder approval and the other provisions of the Articles of Incorporation described above could have the effect of delaying, deferring or preventing a change in control of Guidant or the removal of existing management. See "Management--Terms of Directors and Officers." Additionally, the provisions in the Indiana Business Corporation Law relating to exculpation of directors may discourage shareholders from bringing a lawsuit against directors for breach of their fiduciary duty and may also have the effect of reducing the likelihood of derived litigation against directors and officers, even though such an action, if successful, might otherwise have benefited Guidant and its shareholders. A shareholder's investment in Guidant may be adversely affected to the extent that litigation costs and damage awards against Guidant's directors and officers are paid by Guidant pursuant to the indemnification provisions described above.

Indiana Code (S) 23-1-42 (the "Control Share Act"), provides that any person or group of persons that acquires the power to vote more than one-fifth of Guidant's shares shall not have the right to vote such shares unless granted voting rights by the holders of a majority of the outstanding shares of Guidant and by the holders of a majority of the outstanding shares excluding "Interested Shares." Interested Shares are those shares held by the acquiring person, officers of Guidant and employees of Guidant who are also directors of Guidant. If the approval of voting power for the shares is obtained, additional shareholder approvals are required when a shareholder acquires the power to vote one-third or more and a majority or more of the voting power of Guidant's shares. In the absence of such approval, the additional shares acquired by the shareholder may not be voted.

The Control Share Act also provides that if the shareholders grant voting rights to the shares after a shareholder has acquired a majority or more of the voting power, all shareholders of Guidant are entitled to exercise statutory dissenters' rights and to demand the value of the shares in cash from Guidant. If voting rights are not accorded to the shares, Guidant may have the right to redeem them. The provisions of the Control Share Act do not apply to acquisitions of voting power pursuant to a merger or share exchange agreement to which Guidant is a party.

Pursuant to Indiana law, Guidant is subject to the Indiana Control Share Act. Pursuant to the Indiana Control Share Act, Guidant can elect to not be subject to such act by adopting a By-law provision to that effect. Such By-law provision may be amended by the Board of Directors without a shareholder vote.

Indiana Code (S) 23-1-43 (the "Business Combination Act") prohibits a person who acquires beneficial ownership of 10% or more of Guidant's shares (an "Interested Shareholder"), or any affiliate or associate of an Interested Shareholder, from effecting a merger or other business combination with Guidant for a period of five years from the date on which the person became an Interested Shareholder, unless the transactions in which the person became an Interested Shareholder was approved in advance by Guidant's Board of Directors. Following the five-year period, a merger or other business combination may be effected with an Interested Shareholder only if (i) the business combination is approved by Guidant's shareholders excluding the Interested Shareholder and any of its affiliates or associates, or (ii) the consideration to be received by shareholders in the business combination is at least equal to the highest price paid by the Interested Shareholder in acquiring its interest in Guidant, with certain adjustments, and certain other requirements

are met. The Business Combination Act broadly defines the term "business combination" to include mergers, sales or leases of assets, transfers of shares of Guidant, proposals for liquidation and the receipt by an Interested Shareholder of any financial assistance or tax advantage from Guidant, except proportionately as a shareholder of Guidant.

The overall effect of the above provisions may be to render more difficult or to discourage a merger, a tender offer, a proxy contest, or the assumption of control of Guidant by a holder of a large block of Guidant's stock or other person, or the removal of incumbent management, even if such actions may be beneficial to Guidant's shareholders generally.

SHAREHOLDER RIGHTS PLAN

On October 17, 1994, the Board of Directors of Guidant declared a dividend distribution of one Preferred Stock purchase right (a "Right") for each outstanding share of Guidant Common Stock and, in addition, authorized the issuance of one Right with respect to each share of Guidant Common Stock that becomes outstanding thereafter, and until the earlier of the Distribution Date, Rights Expiration Date (as defined below) or the date on which Rights may be redeemed. When exercisable, each Right entitles the registered holder to purchase from Guidant one one-hundredth of a share of a series of Guidant's Series A Preferred Stock at a price of $43.50 per one-hundredth of a share (the "Purchase Price"), subject to adjustment. The terms of the Rights are set forth in a Rights Agreement between Guidant and Bank One, Indianapolis, N.A., as Rights Agent (the "Rights Agent").

Up to and including the Distribution Date, the Rights will be evidenced by Guidant Common Stock certificates, and the Rights will be transferred with and only with Guidant Common Stock. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of Guidant Common Stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

Under the Rights Agreement, the Distribution Date is defined as the earlier of the tenth business day after (i) the commencement of a tender or exchange offer by any person (other than Guidant, any subsidiary of Guidant, Lilly, Lilly Endowment or any employee benefit plan or employee stock plan of Guidant or of any subsidiary of Guidant) for a number of the outstanding shares of Guidant's stock having in the aggregate 30% or more of the general voting power of Guidant or (ii) the date of a public announcement by Guidant or an Acquiring Person that an Acquiring Person has become such (the "Stock Acquisition Date") unless, in either case, the Board extends such date to a later date. In general, an Acquiring Person is a person or group of affiliated or associated persons (other than Guidant, Lilly, Lilly Endowment, any subsidiary of Guidant, any employee benefit plan or employee stock plan of Guidant or of any subsidiary of Guidant or any person who acquires shares of Guidant's stock having in the aggregate 10% or more of the general voting power of Guidant in connection with a transaction or series of transactions approved in advance by the Board) who has acquired or obtained the right to acquire beneficial ownership of a number of the outstanding shares of Guidant's stock having in the aggregate 10% or more of the general voting power of Guidant (or which would have such voting power but for the application of the Indiana Control Share Act).

The Rights are not exercisable until after the date on which Guidant's right to redeem has expired. The Rights will expire on October 17, 2004 (the "Rights Expiration Date"), unless earlier redeemed by Guidant as described below.

The Series A Preferred Stock will be non-redeemable and will rank on a parity in respect of the preference as to dividends and the distribution of assets with all other classes or series of Guidant's preferred stock, unless the terms of another class or series shall provide otherwise. The Series A Preferred Stock may not be issued except upon exercise of the Rights. Each share of Series A Preferred Stock will have a minimum preferential quarterly dividend rate of $0.05 per share but will be entitled to an aggregate of 100 times the cash and non-cash (payable in kind) dividends and distributions (other than dividends and distributions

payable in Guidant Common Stock) declared on Guidant Common Stock. In the event of liquidation, the holders of Series A Preferred Stock will be entitled to receive a liquidation payment in an amount equal to the greater of $100 per share or 100 times the payment made per share of Guidant Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon. Shares of Series A Preferred Stock will have voting rights only in the event of certain arrearages in dividends, and as required by applicable law. In the event of any merger, consolidation or other transactions in which shares of Guidant Common Stock are exchanged, each share of Series A Preferred Stock will be entitled to receive 100 times the amount received per share of Guidant Common Stock. The rights of the Series A Preferred Stock as to dividends and liquidation and voting are protected by antidilution provisions.

The Purchase Price payable, and number of shares of Series A Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on Guidant Common Stock, or a subdivision, combination or reclassification of Guidant Common Stock or Series A Preferred Stock, (ii) upon the grant to holders of Guidant Common Stock of certain rights or warrants to subscribe for Guidant Common Stock or convertible securities at less than the current market price of Guidant Common Stock, or (iii) upon the distribution to holders of Guidant Common Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends out of earnings or retained earnings at a rate not in excess of 130% of the rate of the last cash dividend theretofore paid or dividends payable in Guidant Common Stock) or of subscription rights or warrants earlier than those referred to above.

In the event that, on or at any time after a Stock Acquisition Date, Guidant is acquired in a merger or other business combination transactions (in which any shares of Guidant Common Stock are changed or exchanged for other securities or assets) or 50% or more of the assets or earning power of Guidant and its subsidiaries (taken as a whole) are sold, proper provision will be made so that each holder of a Right (except as noted below) will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transactions would have a market value (determined as provided in the Rights Agreement) of two times the Purchase Price.

In the event that, on or at any time after a Stock Acquisition Date, (i) Guidant is the surviving corporation in a merger or other business combination and Guidant Common Stock remains outstanding and unchanged, (ii) an Acquiring Person engages in one or more self-dealing transactions specified in the Rights Agreement, (iii) a person (other than Guidant, Lilly, Lilly Endowment, any subsidiary of Guidant, any employee benefit plan or employee stock plan of Guidant or of any subsidiary of Guidant, or a person who acquires 10% or more of the general voting power of Guidant in connection with a transaction or series of transactions approved prior to such transaction or transactions by the Board of Directors of Guidant) alone, or together with his, her or its affiliates or associates, becomes the beneficial owner of a number of the outstanding shares of Guidant's stock having in the aggregate 15% or more of the general voting power of Guidant or (iv) during such time as there is an Acquiring Person, any of certain events specified in the Rights Agreement occurs which results in such Acquiring Person's ownership interest being increased by more than 1%, then, and in each such case, proper provision will be made so that each holder of a Right (except as noted below) will thereafter have the right to receive, upon payment of the Purchase Price, that number of shares of Guidant Common Stock having a market value (determined as provided in the Rights Agreement) as of the date of occurrence of any such event of two times the Purchase Price.

The holder of any Rights that are, or were, beneficially owned by an Acquiring Person or an affiliate or associate thereof or certain transferees thereof which engaged in, or realized the benefit of, an event or transaction or transactions described in either of the preceding two paragraphs, will not be entitled to the benefit of the adjustment with respect to the number of shares described in either of the preceding two paragraphs. Rights are not exercisable until such time as the Rights are no longer redeemable by Guidant as described below.

Up to and including the tenth business day after a Stock Acquisition Date or such later date as may be determined by the Board of Directors, Guidant may redeem the rights in whole, but not in part, at a price of $0.01 per Right, which amount may be adjusted as provided in the Rights Agreement (the "Redemption Price"). Under certain circumstances set forth in the Rights Agreement, the decision to redeem or extend the redemption period shall require the concurrence of a majority of the Continuing Directors.

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

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

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

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire Guidant on terms not approved by Guidant's Board of Directors. The Rights should not interfere with any merger or other business combination approved by the Board since the Rights may be redeemed by Guidant at any time up to and including the tenth business day (subject to extension in the discretion of the Board of Directors) after a Stock Acquisition Date.

LISTING

Guidant Common Stock is listed on the NYSE and the PSE under the symbol, "GDT."

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for Guidant Common Stock is The First National Bank of Boston. Its address for such purposes is 160 Federal Street, Boston, Massachusetts 02106-2016.

SHARES ELIGIBLE FOR FUTURE SALE

Shares of Guidant Common Stock distributed to Lilly shareholders will be freely transferable, except for shares received by persons who may be deemed to be "affiliates" of Guidant under the Securities Act. Persons who may be deemed to be affiliates of Guidant after the expiration of the Exchange Offer generally include individuals or entities that control, are controlled by, or are under common control with, Guidant, and will include the directors and principal executive officers of Guidant as well as any principal shareholder of Guidant. Persons who are affiliates of Guidant will be permitted to sell their shares of Guidant Common Stock only pursuant to an effective registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act, such as the exemption afforded by Rule 144 under the Securities Act. As of July 31, 1995, Lilly Endowment owned 46,847,342 shares (approximately 16.043%) of Lilly Common Stock. If Lilly Endowment receives shares of Guidant Common Stock in connection with the Transaction, Lilly Endowment will have certain rights to register such shares for possible resale under federal and state securities laws.

DESCRIPTION OF THE GUIDANT CREDIT AGREEMENTS

Certain of Guidant's subsidiaries have entered into Credit Agreements with certain banks (the "Banks") and Morgan Guaranty Trust Company of New York, as agent, dated as of June 8, 1994, as amended, pursuant to which the Banks have committed to make loans to such subsidiaries of up to $700.0 million. At June 30, 1995, $458.0 million of aggregate borrowings were outstanding under the Credit Agreements. The information set forth below relating to the Credit Agreements and the Affiliate Guaranties and the Lilly Guaranty (each as defined herein) is qualified in its entirety by reference to the complete text of such documents, the material features of which are set forth herein and copies of which are filed as exhibits to the Registration Statement. Each subsidiary that has entered into a Credit Agreement is referred to below as a "Borrower."

Each loan under a Credit Agreement bears interest at a variable rate equal to, at the Borrower's option, (i) a base rate (generally defined as the greater of the prime rate or the federal funds rate), (ii) a certificate of deposit rate or (iii) a London interbank offered rate ("LIBOR"), plus in each case an interest rate margin that varies depending upon the type of loan selected, the rating of Guidant's senior unsecured long-term debt (or, if none exists, its ratio of cash flow to outstanding debt), and whether the loan is guaranteed by Lilly. Each Borrower may also request the Banks to offer to make money market loans to the Borrower at either a fixed interest rate or a rate based on LIBOR.

Each of the Borrowers has entered into a Guaranty Agreement (the "Affiliate Guaranties") with the Banks guaranteeing the full and punctual payment of all amounts payable by the other Borrowers under their respective Credit Agreements. In addition, Lilly has guaranteed the existing borrowings under the Credit Agreements and may, but is not obligated to, guarantee any future borrowings (the "Lilly Guaranty"). Borrowings that are guaranteed by Lilly bear interest at a slightly lower rate than borrowings that are not guaranteed by Lilly, which interest rate differential is not material. The Credit Agreements were amended in August 1995 to provide for a guarantee by Guidant of the borrowings under the Credit Agreements. The amendment also allows for certain financial information to be provided to the Banks based on consolidated financial information of Guidant and for certain covenants and representations to be based on Guidant's consolidated financial information. It is expected that Lilly will withdraw its guarantee in September 1995.

Each of the Credit Agreements contains financial, affirmative and negative covenants that are customary in similar financings. Among other things, the Borrowers are required to maintain certain ratios of (i) adjusted cash flow to consolidated debt, (ii) consolidated current assets to consolidated current liabilities and (iii) consolidated net income plus consolidated interest expense and consolidated income taxes to consolidated interest expense. The Credit Agreements also contain customary events of defaults including (i) a default in the payment of principal or interest on the loans under the Credit Agreements, (ii) the failure to comply with the covenants in the Credit Agreements, subject in certain instances to grace periods, (iii) the failure of any representation or warranty made by a Borrower or Lilly in connection with the Credit Agreements or related documents to be true and correct in any material respect when made, (iv) a default in the payment of certain other financial obligations of a Borrower or subsidiary thereof in excess of $5 million, (v) the occurrence of any event or condition which results in an acceleration of the maturity of indebtedness of a Borrower or subsidiary thereof in excess of $5 million or which enables the holder of such indebtedness to accelerate the maturity thereof, (vi) certain events of liquidation, reorganization, bankruptcy or insolvency, (vii) failure to satisfy any judgment in excess of $25 million and (viii) certain events resulting in a change in control of a Borrower or its parent.

Each individual loan under a Credit Agreement is generally payable in full by the Borrower within one, two, three or six months (depending on the interest option selected by the Borrower) after the date the loan was originally incurred. The final maturity date of all unpaid Credit Agreement borrowings is January 8, 1996. There are no scheduled reductions of availability under the Credit Agreements prior to such date. Subject to the satisfaction of certain conditions (including the absence of any events of default under the

relevant Credit Agreement and the requirement that certain representations and warranties of the Borrower contained in the Credit Agreement be true and correct on the date a loan is incurred), a Borrower may borrow or reborrow under the relevant Credit Agreement at any time prior to such final maturity date. If, as expected, Lilly elects to terminate its Guaranty with respect to a particular Borrower, that Borrower will be required to additionally represent at the time of the borrowing that there has been no material adverse change in the Borrower's business since December 31, 1993 and that there is no new litigation pending that could have a material adverse effect on the Borrower.

COMPARISON OF RIGHTS OF SHAREHOLDERS OF LILLY AND GUIDANT

Both Lilly and Guidant are incorporated under the laws of the state of Indiana. The articles of incorporation and by-laws of Guidant are substantially similar to those of Lilly. In addition, both Lilly and Guidant have adopted shareholder rights plans with substantially similar terms. As a result, there are no material differences between the rights of holders of Lilly Common Stock and the rights of holders of Guidant Common Stock.

RELATIONSHIP BETWEEN GUIDANT AND LILLY

Transactions

On May 25, 1994, ACS, CPI and DVI declared dividends to Lilly equal to the portion of their noncurrent receivables from Lilly arising from their participation in Lilly's central cash management system. This non-cash transaction aggregated approximately $415.5 million. On June 16, 1994, ACS, CPI and DVI declared cash dividends totalling $318.0 million to Lilly. These subsidiaries entered into the Credit Agreements in order to fund this distribution.

On October 18, 1994, (i) Lilly sold certain patent rights to CPI for $37.7 million, (ii) ACS purchased certain real estate from Lilly for approximately $1.1 million and (iii) ACS was granted an option to purchase additional real estate from Lilly. These items were funded through additional borrowings under the Credit Agreements. During the third and fourth quarters of 1994, Guidant cancelled net receivables from Lilly of $31.4 million representing reversal of earlier billings by Lilly to Guidant for Guidant's participation in Lilly's foreign sales corporation.

On October 31, 1994, ACS purchased from Lilly all of the capital stock of Origin and HRT for $63.6 million and Guidant repaid certain advances from Lilly of $46.4 million.

On November 30, 1994, Guidant paid cash dividends of $176.1 million to Lilly which were funded by borrowings under the Credit Agreements. In addition, Guidant cancelled certain advances to Lilly in an aggregate amount of $38.0 million, which includes a dividend of $25.8 million declared on October 18, 1994 related to Guidant's participation in Lilly's central cash management system. This noncash transaction resulted in a reduction in shareholders' equity for Guidant.

In November 1994, Guidant purchased certain assets used in Guidant's international businesses for $57.0 million. The purchase of the international assets was funded by borrowings from Lilly. These borrowings were repaid by Guidant in March 1995 from proceeds received in connection with the Offering.

In August 1995, Guidant expects to complete the acquisition of Danimed, its distributor in Germany. The final step in the acquisition includes the purchase of the remaining 20% ownership interest in the distributorship, distribution of earnings to the prior partners and the possible purchase of certain related real estate. This transaction will include payments of up to approximately $49.8 million, of which $26.0 million will be funded by a capital contribution to Guidant by Lilly.

Guarantees by Lilly

CPI has entered into agreements with certain suppliers of materials and components used in its business pursuant to which it has agreed to indemnify such suppliers against potential product liability exposure. Lilly has guaranteed the performance by CPI of certain of these indemnification obligations. Lilly has agreed with Guidant, pursuant to the Transfer Agreement described below, that Lilly will not terminate its guarantee obligations for any such supply agreements to which it is a party prior to December 1997, unless the suppliers have consented to the termination or assignment of such obligations.

In addition, Lilly has guaranteed the existing borrowings under the Credit Agreements and may, but is not obligated to, guarantee any future borrowings under the Credit Agreements. It is expected that Lilly will withdraw its guarantee in September 1995.

Lilly has guaranteed the payment obligations of Guidant Japan K.K. in connection with a (Yen)300.0 million line of credit from The Mitsubishi Bank, Limited. This guarantee will be withdrawn upon the consummation of the Exchange Offer.

Agreements

Set forth below are descriptions of certain agreements between Guidant and Lilly which are currently in place. Guidant has adopted a policy that all future agreements between Guidant and Lilly and its affiliates will be on terms that Guidant believes are no less favorable to Guidant than terms Guidant believes would be available from unaffiliated parties.

Transfer Agreement. Guidant and Lilly entered into a Transfer Agreement (the "Transfer Agreement") pursuant to which Lilly has transferred all of the outstanding capital stock of ACS, CPI and DVI to Guidant in exchange for 57,599,900 shares of Guidant Common Stock. In addition, Guidant agreed to indemnify Lilly for any losses arising out of or otherwise related to the ownership or operation at any time of the business conducted by Guidant, whether occurring prior to, or after, the consummation of the Offering. Lilly has agreed to indemnify Guidant for any losses arising out of the pharmaceutical or other businesses of Lilly which are not being transferred to Guidant. Guidant has agreed to indemnify Lilly for any losses arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in, or the omission or alleged omission of a material fact from, the prospectus delivered in connection with the Offering. The Transfer Agreement also provides Lilly with certain demand and incidental registration rights with respect to its ownership of Guidant Common Stock.

Tax Sharing Agreement. Through the date of consummation of the Offering (the "Closing Date"), the results of the operations of Guidant and its subsidiaries (the "Company Group") were included in Lilly's consolidated United States federal income tax returns ("Lilly Consolidated Federal Returns"). In connection with the Offering, Lilly and Guidant entered into a Tax Sharing Agreement which provides, among other things, for the allocation between Lilly and Guidant of federal, state, local and foreign tax liabilities for all periods through the Closing Date and thereafter so long as Lilly is required to include the Company Group in the Lilly Consolidated Federal Return or any Lilly State Combined Return (defined below). In general, the Tax Sharing Agreement provides that Guidant will pay Lilly with respect to federal income taxes for each period that the Company Group is included in Lilly's Consolidated Federal Return an amount in lieu of such taxes computed in a manner that is consistent with the methodology used by Lilly to allocate such taxes in prior years. Similarly, with respect to state corporate franchise or income taxes for those states where Lilly files a combined or consolidated state return that includes any member of the Company Group (a "State Combined Return"), Guidant has agreed to pay Lilly an amount in lieu of such taxes computed in a manner that is consistent with the methodology used by Lilly to allocate such taxes in prior years. Generally, with respect to Lilly's Consolidated Federal Returns and State Combined Returns, Lilly or Guidant, as the case may be, will be responsible for the portion of any deficiencies attributable to its respective businesses that are assessed with respect to such returns subsequent to their being filed, except that Lilly will be responsible for any federal tax deficiencies attributable to Guidant's business for periods prior to and including the date as of

which the Transaction is consummated (the "Transaction Date") that result in a permanent increase in Guidant's tax. Similarly, Lilly or Guidant, as the case may be, will be entitled to any portion of any refunds attributable to its respective businesses paid with respect to such returns except that Lilly will be entitled to any refunds of federal tax with respect to adjustments for periods prior to and including the Transaction Date that result in a permanent reduction in Guidant's tax. Guidant will also be responsible for all other taxes, including assessments, if any, for prior years, payable by Guidant or any of its subsidiaries. Furthermore, the Tax Sharing Agreement provides that should Lilly distribute its shares of Guidant Common Stock to its shareholders in a distribution intended to qualify under section 355 of the Code (the "355 Distribution"), and the 355 Distribution subsequently fails to qualify under section 355 as a result of any event wholly or partially within the control of any member of the Company Group involving either the stock or assets (or any combination thereof) of any member of the Company Group within three years of the date of the 355 Distribution, then Guidant is obligated to indemnify and to hold Lilly harmless from any tax liability imposed upon it in connection with the 355 Distribution, which liability would be material. The Tax Sharing Agreement also provides that Lilly and Guidant will indemnify and hold each other harmless for any tax liability of Guidant or Lilly, respectively, arising under Treasury Regulation Section 1.1502-6 or any similar provision under state or local law. In addition, the Tax Sharing Agreement provides that Guidant will pay to Lilly an amount equal to the tax benefits, if any, received by the Company Group that are attributable to transactions under the 1989 Lilly Stock Plan, the 1994 Lilly Stock Plan and the GlobalShares Stock Plan. Though valid as between Guidant and Lilly, the Tax Sharing Agreement is not binding on the IRS or any other taxing authority and does not affect the several liability of Guidant, Lilly and their respective subsidiaries to the IRS for all federal income taxes with respect to Lilly's Consolidated Federal Returns that include the Company Group.

Services Agreements. Guidant and Lilly have entered into Services Agreements (the "Services Agreements") relating to the provision of certain services by Lilly to Guidant which generally expire in mid 1996, unless otherwise terminated by Guidant. The services covered by the Services Agreements include: facilities, information systems, payroll and benefits administration, legal services, financial services, insurance, trademark services, treasury services, financial accounting and collection of accounts receivables. Management of Guidant believes that upon expiration of the Services Agreements, Guidant will be able to obtain such services on terms comparable to those contained in the Services Agreements or perform comparable services internally.

Non-Compete with Physio Control Holding Corp. Guidant has agreed with Physio Control Holding Corp., as part of a sale of a former subsidiary of Lilly to an unaffiliated buyer in 1994, that through July 29, 1996, CPI will not engage in the management and/or operation of any entity that engages in any business of manufacturing, selling and servicing of external defibrillators, disposable electrodes used in connection with such defibrillators and other related products and accessories. The parties have agreed that CPI is not currently in such businesses. In addition, Guidant has, with certain exceptions, agreed not to solicit employees of Physio Control Holding Corp. until July 29, 1999.

Non-Solicitation with Respect to IVAC Corporation. Guidant has agreed with the purchasers of IVAC (the "IVAC Purchasers"), a former subsidiary of Lilly which was sold in November 1994, that through November 21, 1996, Guidant will not, with certain exceptions, (i) induce, or attempt to induce, any employee of IVAC to terminate his or her employment with IVAC, (ii) hire any person who, to Guidant's knowledge, was designated above a certain employment level "manager" by IVAC within sixty days prior to the time such person was hired by such party or (iii) induce, or attempt to induce, any customer, supplier, licensee or other business relation of IVAC to cease doing business with IVAC. The IVAC Purchasers have agreed to similar restrictions with respect to Guidant and its employees. IVAC manufactures and sells infusion therapy and vital signs measurement devices, a business in which Guidant does not currently operate. Upon the consummation of the Transaction, these restrictions will no longer be binding.

Lilly and ACS ReoPro (TM) Alliance. ACS and Lilly entered into an agreement relating to Lilly's cardiovascular drug ReoPro (TM) (abciximab). Under the terms of the agreement, ACS will provide certain services and information with respect to ReoPro (TM), such as customer education, to interventional cardiology customers in the United States.

OTHER

Neither Lilly, nor any subsidiary of Lilly, nor, to Lilly's knowledge, any of Lilly's executive officers or directors or associates of any of the foregoing, has engaged in any transaction involving shares of Lilly Common Stock during the period of forty business days prior to the date hereof, except for the following transactions by certain executive officers of Lilly:

NAME	TYPE OF TRANSACTION	DATE
James M. Cornelius	disposed of 100 shares by gift	August 9, 1995
Michael L. Eagle	sold 120 shares on behalf of minor daughter at $77.875 per share	July 20, 1995
Brendan P. Fox	sold 2,000 shares at $78.50 per share	June 23, 1995
Pedro P. Granadillo	acquired 1,310 shares upon exercise of employee stock option at $20.9525 per share	June 29, 1995
Michael E. Hanson	disposed of 25 shares by gift	June 29, 1995
James A. Harper	disposed of 30 shares by gift	July 10, 1995
	acquired 3,200 shares upon exercise of employee stock option at $20.9525 per share	July 11, 1995

Non-employee directors of Lilly are prohibited by the short-swing profit rules under the Exchange Act from tendering shares of Lilly Common Stock pursuant to the Exchange Offer because of their participation in The Lilly Non-Employee Directors' Deferred Stock Plan.

As of July 31, 1995, directors, executive officers and affiliates of Lilly owned 47,393,854 shares of Lilly Common Stock (16.23% of the outstanding shares of Lilly Common Stock). Certain of such persons have indicated to Lilly that they intend to tender an aggregate of approximately 30,295 shares of Lilly Common Stock (0.01% of the outstanding shares of Lilly Common Stock) pursuant to the Exchange Offer as follows:

NAME	APPROXIMATE NUMBER OF SHARES
James M. Cornelius	15,000
Ronald W. Dollens	15,295
Total	30,295

As of August 1, 1995, 11,683,042 shares of Lilly Common Stock were owned beneficially by The Lilly Employee Savings Plan. Under the terms of The Lilly Employee Savings Plan, the Trustee is prohibited from tendering any such shares in connection with the Exchange Offer. In addition, under the terms of the DowElanco Employee Savings Plan, The Hybritech Incorporated Employee Savings Plan and The Savings Plan For Eli Lilly Affiliate Employees In Puerto Rico, which, as of August 1, 1995, beneficially owned an aggregate of 622,977 shares of Lilly Common Stock, the respective Trustees will be prohibited from tendering the shares of Lilly Common Stock in connection with the Exchange Offer.

As of August 1, 1995, 441,065 shares of Lilly Common Stock were owned beneficially by the Guidant ESOP, and it is expected that prior to the expiration of the Exchange Offer approximately 24,000 additional shares of Lilly Common Stock will be transferred from The Lilly Employee Savings Plan to the Guidant ESOP. The Trustee of the Guidant ESOP is required under the terms of the Guidant ESOP to tender all of its shares of Lilly Common Stock in connection with the Exchange Offer. The Employees' 401(k) Plan of Devices for Vascular Intervention, Inc. will also tender all of its shares of Lilly Common Stock in connection with the Exchange Offer.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the material United States federal income tax consequences relating to the Transaction. The discussion contained in this Offering Circular - Prospectus is based on the law in effect as of the date of this Offering Circular - Prospectus. Lilly shareholders are urged to consult their own tax advisors as to the particular tax consequences to them of the Transaction.

IRS Ruling Letter and Federal Income Tax Consequences. The IRS issued the Ruling Letter to Lilly stating that, for federal income tax purposes, the Transaction will qualify under Sections 355 and 368 of the Code as a distribution that is tax-free to Lilly's shareholders (except with respect to cash received in lieu of fractional shares) and, in general, is tax-free to Lilly. The Ruling Letter, while generally binding on the IRS, is subject to certain factual representations and assumptions. If any such factual representations or assumptions are incorrect or untrue in any material respect, Lilly may not be able to rely on the Ruling Letter. Lilly is not aware of any facts or circumstances which would cause any such representations or assumptions to be incorrect or untrue in any material respect. Nevertheless, if Lilly consummates the Transaction and the Transaction is held to be taxable, both Lilly and its shareholders could be subject to tax on the Transaction, which tax could be material.

The Ruling Letter provides that (i) no gain or loss will be recognized to (and no amount will be included in the income of) the Lilly shareholders upon their receipt of shares of Guidant Common Stock pursuant to the Transaction (including any fractional share interests to which they may be entitled); (ii) for those Lilly shareholders that surrender all of their Lilly Common Stock in the Exchange Offer, the aggregate tax basis of the shares of Guidant Common Stock held by the Lilly shareholders after the Exchange Offer (including any fractional share interests) will be the same as the aggregate tax basis of the shares of Lilly Common Stock exchanged pursuant to the Exchange Offer; (iii) for those Lilly shareholders that do not surrender all of their Lilly Common Stock in the Exchange Offer, each such shareholder's aggregate tax basis in the Lilly Common Stock held before the consummation of the Exchange Offer will be allocated between the Lilly Common Stock and the Guidant Common Stock (including any fractional share interests) held by such shareholder after the Transaction in proportion to their relative fair market values, pursuant to Treasury Regulation section 1.358-2; (iv) the holding period of the shares of Guidant Common Stock received by the Lilly shareholders pursuant to the Transaction (including any fractional share interests) will include the holding period of the shares of Lilly Common Stock with respect to which the shares of Guidant Common Stock were received, provided that the shares of Lilly Common Stock are held as a capital asset on the date of the Transaction; and (v) the payment of cash in lieu of fractional share interests in Guidant Common Stock will be treated for federal income tax purposes as having been received in full payment for such fractional shares.

The Ruling Letter does not specifically address tax basis issues with respect to holders of Lilly Common Stock who have blocks of Lilly Common Stock with different per share tax bases. Such holders are encouraged to consult their own tax advisors regarding the possible tax basis consequences of the Transaction.

If any person (or group of persons subject to the aggregation or attribution rules of Section 355(d)(7), (8) or (9) of the Code) who holds a 50% or greater interest in either Lilly Common Stock or Guidant Common Stock that is (i) acquired by purchase (within the meaning of Section 355(d) of the Code) after the later of five years prior to the date of the Transaction or October 9, 1990 or (ii) received in the Transaction in respect of Lilly Common Stock acquired by purchase after the later of five years prior to the date of the Transaction or October 9, 1990, Lilly would be subject to tax on the Transaction, which tax could be material. If, however, Guidant took any action to facilitate such ownership (e.g., by waiving its rights under the Rights Agreement), Guidant would generally be required to reimburse Lilly for such tax liability pursuant to the terms of the Tax Sharing Agreement, which obligation would have a material adverse effect on Guidant.

THE SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS BASED ON THE CODE, THE REGULATIONS PROMULGATED THEREUNDER BY THE UNITED STATES TREASURY DEPARTMENT AND THE INTERPRETATIONS OF THE

CODE AND REGULATIONS BY THE COURTS AND THE IRS, ALL AS THEY EXIST AS OF THE DATE OF THIS OFFERING CIRCULAR - PROSPECTUS. THIS SUMMARY IS FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL TAX CONSIDERATIONS THAT MAY BE RELEVANT TO LILLY SHAREHOLDERS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, NOR DOES IT ADDRESS THE CONSEQUENCES TO CERTAIN LILLY SHAREHOLDERS SUBJECT TO SPECIAL TREATMENT UNDER THE UNITED STATES FEDERAL INCOME TAX LAWS (SUCH AS TAX-EXEMPT ENTITIES, NON-RESIDENT ALIEN INDIVIDUALS AND FOREIGN CORPORATIONS). IN ADDITION, THIS SUMMARY DOES NOT ADDRESS THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO LILLY SHAREHOLDERS WHO DO NOT HOLD THEIR LILLY COMMON STOCK AS A CAPITAL ASSET. THIS SUMMARY DOES NOT ADDRESS ANY STATE, LOCAL OR FOREIGN TAX CONSEQUENCES.

LILLY SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE EXCHANGE OFFER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS AND ANY CHANGES IN FEDERAL TAX LAWS THAT OCCUR AFTER THE DATE OF THIS OFFERING CIRCULAR-PROSPECTUS.

ACCOUNTING TREATMENT OF THE TRANSACTION

The shares of Lilly Common Stock received pursuant to the Exchange Offer will be recorded as an increase to treasury stock at the market value of the shares of Guidant Common Stock distributed on the Expiration Date. The Exchange Offer will result in a net gain to Lilly, after direct expenses of the disposition, which will be netted with the gains and losses from the divestitures of Lilly's other MDD companies and reported as a component of the anticipated gain on the disposal of discontinued operations. The gain from the Exchange Offer will result from the difference between the market value and the carrying value of the shares of Guidant Common Stock distributed.

The remaining shares of Guidant Common Stock, if distributed through a spin-off, will be accounted for as a dividend with a direct charge to retained earnings. The amount of the dividend will be equal to Lilly's carrying value of the shares of Guidant Common Stock distributed in such spin-off.

LEGAL MATTERS

Certain legal matters relating to Guidant Common Stock being offered hereby will be passed upon for Guidant by Dewey Ballantine, 1301 Avenue of the Americas, New York, New York 10019-6092. As to matters of Indiana law, Dewey Ballantine may rely upon the opinion of Baker & Daniels, Indianapolis, Indiana. Mr. King, Vice President, General Counsel, Secretary and a Director of Guidant, also currently acts as counsel to Baker & Daniels.

EXPERTS

The financial statements and schedules included or incorporated by reference in this Offering Circular - Prospectus and elsewhere in the Registration Statement, to the extent and for the periods indicated in their reports, have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

GUIDANT CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Guidant Corporation

We have audited the accompanying consolidated balance sheets of Guidant Corporation (a majority owned subsidiary of Eli Lilly and Company) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of Guidant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Guidant Corporation and subsidiaries at December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Indianapolis, Indiana
February 23, 1995

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Net sales	$862.4	$794.7	$754.8
Cost of sales	270.9	236.2	211.8
Research and development	130.9	129.1	117.9
Sales, marketing and administrative	268.9	255.1	251.0
Restructuring and special charges	--	81.5	32.9
	670.7	701.9	613.6
Income from operations	191.7	92.8	141.2
Other income (expenses):			
Interest--net	(7.6)	8.4	7.6
Royalties--net	1.5	11.1	4.3
Amortization of goodwill and other intangibles	(20.4)	(21.7)	(28.0)
Other--net	(9.3)	(3.6)	(4.0)
	(35.8)	(5.8)	(20.1)
Income before income taxes and cumulative effect of change in accounting principle	155.9	87.0	121.1
Income taxes	63.8	34.6	44.3
Income before cumulative effect of change in accounting principle	92.1	52.4	76.8
Cumulative effect of change in accounting principle (net of tax)	--	(1.8)	--
Net income	$ 92.1	$ 50.6	$ 76.8
Unaudited pro forma earnings per share information:			
Net income--as reported	$ 92.1		
Pro forma adjustments:			
Additional interest expense--net	26.9		
Tax effect of interest expense	(11.0)		
Pro forma net income	$ 76.2		
Pro forma earnings per share	$ 1.06		
Pro forma weighted average shares outstanding	71.86		

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS)

	DECEMBER 31,	
	1994	1993
ASSETS		
Current Assets		
Cash and cash equivalents	$ 113.0	$ 25.0
Accounts receivable, net of allowance, of $5.4 (1994) and $4.8 (1993)	155.7	128.9
Other receivables	12.4	16.5
Inventories	120.0	115.9
Deferred income taxes	42.1	47.3
Income taxes recoverable from Lilly	--	13.5
Prepaid expenses	14.6	8.4
Total Current Assets	457.8	355.5
Other Assets		
Goodwill, net of allowances of $67.1 (1994) and $51.2 (1993)	268.7	268.4
Other intangible assets, net of allowances of $14.2 (1994) and $9.5 (1993)	34.8	33.1
Advances to affiliated companies	--	316.7
Deferred income taxes	15.3	7.4
Sundry	32.2	21.0
	351.0	646.6
Property and Equipment	294.8	286.5
	$1,103.6	$1,288.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Loans payable to affiliated companies	$ 78.0	$ --
Accounts payable	36.7	31.3
Payables to affiliated companies	39.5	13.0
Employee compensation	46.3	36.0
Restructuring liabilities	61.6	67.1
Other liabilities	66.2	64.8
Income taxes payable to Lilly	12.7	--
Total Current Liabilities	341.0	212.2
Noncurrent Liabilities		
Long-term debt	473.0	--
Other	25.2	28.1
	498.2	28.1
Commitments and Contingencies	--	--
Shareholders' Equity		
Common stock--no par value; Authorized shares: 250,000,000 Issues shares:--1994--71,860,000 --1993-- 0	192.5	--
Additional paid-in capital	64.5	--
Retained earnings	5.9	--
Currency translation adjustment	1.5	--
Shareholders' net investment	--	1,048.3
	264.4	1,048.3
	$1,103.6	$1,288.6

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN MILLIONS)

	SHAREHOLDERS' NET INVESTMENT	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CURRENCY TRANSLATION ADJUSTMENTS	TOTAL
Balance at January 1, 1992	$ 747.2						$ 747.2
Net income	76.8						76.8
Contribution of Lilly investment in Origin and HRT	75.1						75.1
Shareholder capital contributions	46.1						46.1
Currency translation adjustment	(2.5)						(2.5)
Balance at December 31, 1992	942.7						942.7
Net income	50.6						50.6
Shareholder capital contributions	53.4						53.4
Currency translation adjustment	1.6						1.6
Balance at December 31, 1993	1,048.3						1,048.3
Net income	86.2						86.2
Dividends to shareholder	(1,097.0)						(1,097.0)
Shareholder capital contributions	54.7						54.7
Cancellation of net receivable from shareholder	(31.4)						(31.4)
Currency translation adjustment	3.7						3.7
Balance at December 14, 1994	64.5						64.5
Impact of offering:							
Reclassification of shareholders' net investment	(64.5)	57,600,000		$64.5			--
Net proceeds		14,260,000	$192.5				192.5
Net income					$5.9		5.9
Currency translation adjustment						$1.5	1.5
Balance at December 31, 1994	$ --	71,860,000	$192.5	$64.5	$5.9	$1.5	$ 264.4

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Cash Provided by Operating Activities:			
Net Income	$ 92.1	$ 50.6	$ 76.8
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation	44.0	39.7	32.6
Amortization of goodwill and other intangibles	20.7	21.7	28.0
Operating expenses funded by shareholder, net	15.9	31.4	28.9
Restructuring and special charges	--	81.5	32.9
Deferred income taxes	8.6	(28.3)	(16.3)
Other noncash expenses	6.0	10.3	20.3
Cumulative effect of change in accounting principle--pretax	--	2.9	--
	187.3	209.8	203.2
Changes in Operating Assets and Liabilities:			
Receivables from affiliated companies--(increase) decrease	(7.9)	16.4	(32.3)
Receivables--increase	(23.1)	(1.0)	(3.4)
Inventories--increase	(10.8)	(17.5)	(26.0)
Prepaid expenses--(increase) decrease	(6.2)	(2.0)	2.9
Accounts payable and accrued liabilities--increase (decrease)	15.7	8.6	(1.3)
Income taxes payable to/receivable from Lilly--increase (decrease)	29.4	(51.7)	2.8
Other liabilities--(decrease) increase	(8.5)	(6.3)	6.2
Net Cash Provided by Operating Activities	175.9	156.3	152.1
Used for Investing Activities:			
Net additions to property and equipment	(51.1)	(43.5)	(72.1)
(Additions) reductions to intangible and sundry assets, net	(11.8)	8.7	(1.8)
Acquisitions	(8.8)	(9.6)	--
Net Cash Used for Investing Activities	(71.7)	(44.4)	(73.9)
Used for Financing Activities:			
Increase (decrease) in short-term borrowings	78.0	(0.3)	--
Proceeds from long-term borrowings	648.0	--	--
Reductions of long-term borrowings	(175.0)	(2.1)	(0.4)
Capital contribution from shareholder	--	5.0	2.5
Advances to affiliated companies, net	(111.7)	(104.4)	(69.6)
Dividends	(652.4)	--	--
Proceeds from stock offering	192.5	--	--
Net Cash Used for Financing Activities	(20.6)	(101.8)	(67.5)
Effect of Exchange Rate Changes on Cash	4.4	1.6	(2.5)
Net Increase in Cash and Cash Equivalents	88.0	11.7	8.2
Cash and Cash Equivalents at Beginning of Year	25.0	13.3	5.1
Cash and Cash Equivalents at End of Year	$ 113.0	$ 25.0	$ 13.3

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

NOTE 1--GENERAL INFORMATION

On June 20, 1994, the Board of Directors of Eli Lilly and Company ("Lilly") approved a plan to form a new subsidiary, Guidant Corporation ("Guidant"). Under the plan, Lilly transferred to Guidant its ownership interests in five of the nine businesses in its Medical Devices and Diagnostics Division. The five transferred companies include the operations of Advanced Cardiovascular Systems, Inc. ("ACS"), Cardiac Pacemakers, Inc. ("CPI"), Devices for Vascular Intervention, Inc. ("DVI"), Heart Rhythm Technologies Incorporated ("HRT") and Origin Medsystems, Inc. ("Origin").

Guidant, which was incorporated on September 9, 1994, consummated an initial public offering of 14,260,000 shares (approximately 20%) of its common stock at a price of $14.50 per share in December 1994. Lilly beneficially owns approximately 80% of Guidant's common stock and presently plans to dispose of its remaining ownership in Guidant in the latter half of 1995 by means of a split-off. A split-off is an exchange offer whereby Lilly shareholders would be given the opportunity to exchange some or all of their Lilly shares for a certain number of Guidant shares.

Guidant designs, develops, manufactures and markets a broad range of products for use in: (i) vascular intervention, primarily the treatment of coronary artery disease, (ii) cardiac rhythm management, and (iii) minimally invasive surgery.

NOTE 2--BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements have been prepared using Lilly's historical basis in the assets and liabilities of the various companies that now comprise Guidant, including goodwill and other intangible assets recognized by Lilly in the original acquisition of those companies. All significant intercompany accounts within Guidant have been eliminated.

The consolidated financial statements reflect the results of operations, financial condition and cash flows of Guidant as a component of Lilly through December 14, 1994, the effective date of Guidant's initial public offering, and as an independent enterprise from the aforementioned date through December 31, 1994, and may not be indicative of actual results under other ownership. Management believes that the consolidated income statements include a reasonable allocation of administrative costs incurred by Lilly which benefit Guidant. These allocations of corporate expenses were $14.2 million, $14.5 million and $17.5 million in 1994, 1993 and 1992, respectively.

In addition to the allocation of corporate expenses, the consolidated financial statements reflect certain other direct expenses relating to the Guidant business planning group, international marketing support and research and development which are incurred by Lilly on behalf of Guidant. These expenses were $18.7 million, $17.1 million and $15.6 million in 1994, 1993 and 1992, respectively.

These costs, including the allocated corporate expenses, have been reflected in the consolidated income statements as follows:

	1994	1993	1992
Research and development	$ 1.6	$ 3.5	$ 3.6
Sales, marketing and administrative	31.3	28.1	29.5
	$32.9	$31.6	$33.1

Lilly does not require Guidant to pay these allocated expenses. Accordingly, the cancellation of this liability has been reflected each year by Guidant as a contribution to capital.

Lilly and Guidant executed a services agreement under which Lilly will continue, in the near term, to provide administrative support to Guidant at fees determined on an arm's-length basis. These costs will be paid by Guidant to Lilly commencing in 1995. Guidant management anticipates that the costs of services after expiration of the services agreement will approximate current levels.

The consolidated financial statements include no allocation of Lilly debt or interest expense.

Revenue Recognition: Revenue is primarily recognized revenue at the time product is shipped to customers.

Foreign Currency Translation: Sales and expenses denominated in foreign currencies are translated at average exchange rates in effect during the period. Foreign currency transaction gains and losses are included in other income (expenses). The assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. Translation gains and losses are accumulated as a separate component of equity.

Cash and Cash Equivalents: All highly liquid investments, generally with original maturities of three months or less, are considered to be cash equivalents. The cost of these investments approximates fair value.

Guidant participates in Lilly's central cash management system. Cash balances can be withdrawn by Guidant upon demand and earn interest based upon the 90-day commercial paper rate. At December 31, 1994, $82.2 million was on account with Lilly (see Note 7).

Inventories: Inventories are stated at the lower of cost, determined by the first-in, first-out ("FIFO") method, or market.

Inventories at December 31 consisted of the following:

	1994	1993
Finished products	$ 63.4	$ 59.3
Work in process	31.5	31.7
Raw materials and supplies	25.1	24.9
	$120.0	$115.9

Goodwill and Other Intangible Assets: Goodwill and other intangible assets arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from 5 to 40 years, using the straight-line method. Management periodically reviews the carrying amount of goodwill and other intangible assets to assess their continued recoverability. The determination includes evaluation of factors such as current market value, future asset utilization, business climate and future cash flows expected to result from the use of the related assets. Guidant's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable.

NOTE 2--BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

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

	1994	1993
Land	$ 26.3	$ 25.1
Buildings	187.1	161.6
Equipment	256.2	232.0
Construction in process	23.6	35.9
	493.2	454.6
Less allowances for depreciation	198.4	168.1
	$294.8	$286.5

Income Taxes: Certain of Guidant's operations have historically been included in the consolidated income tax returns filed by Lilly. Guidant has also entered into a tax sharing agreement with Lilly for the period of time during which Guidant will be included in Lilly's consolidated tax returns. Income tax expense in the accompanying financial statements has been computed assuming Guidant filed separate income tax returns worldwide. Annual differences between income taxes payable and amounts reported in the consolidated financial statements have been reflected as a reduction of additional paid-in capital. Deferred taxes result primarily from the use of accelerated depreciation for tax purposes and from the timing of deductions for expenses under certain employee benefit plans, restructuring provisions, and other accrued expenses.

Pro Forma Earnings Per Share (unaudited): Pro forma earnings per share is computed by dividing pro forma net income by the weighted average shares outstanding during the year. Pro forma net income and earnings per share have been determined assuming the current capital structure was in place January 1, 1994.

The pro forma adjustment gives effect to an increase in net interest expense, net of tax. 71.86 million shares are assumed to have been outstanding for the entire year. Historical earnings per share are not meaningful due to the change in the capital structure during the year.

NOTE 3--RESTRUCTURING AND SPECIAL CHARGES

In both 1993 and 1992, Guidant and Lilly took actions designed to enhance Guidant's competitiveness in the changing health care markets, reduce expenses and improve efficiencies. As a result of these actions, Guidant recognized restructuring and special charges amounting to $81.5 million and $32.9 million in 1993 and 1992, respectively. Restructuring costs include those amounts resulting from management's commitment to revised strategic actions. Special charges represent unusual, general nonrecurring expense items. All such actions are underway and are expected to be completed by December 31, 1996.

Significant components of these charges and their status at December 31, 1993 and 1994, are summarized as follows:

1993	ORIGINAL CHARGES	1993	1994
Revised distribution strategy	$60.6	$60.6	$58.4
Consolidation and relocation of operations	17.0	17.0	10.4
Other	3.9	3.9	1.8
	$81.5	$81.5	$70.6

NOTE 3--RESTRUCTURING AND SPECIAL CHARGES--(CONTINUED)

1992	ORIGINAL CHARGES	1993	1994
Product quality and compliance costs associated with regulatory initiatives	$17.0	$--	$--
Consolidation of operations	4.9	4.6	2.0
Intangibles write downs	11.0	--	--
	$32.9	$4.6	$2.0

The 1993 restructuring actions relate principally to significantly changing the manner of distributing Guidant's products in overseas markets, and consolidating and relocating certain manufacturing and administrative operations within the United States. Management believes that the remaining accruals will be paid in cash during 1995 and 1996. The 1992 restructuring charge also represents decisions to consolidate certain operations. In addition, Guidant took special charges in 1992, to recognize the estimated costs of responding to intensified regulatory initiatives (principally product recalls) and to write down certain intangible assets due to the introduction of competitive products.

NOTE 4--STOCK PLANS

1994 Stock Plan: On October 17, 1994, Guidant adopted a stock plan pursuant to which Guidant's Board of Directors may grant incentive stock options, nonqualified stock options, performance awards, and restricted stock grants (collectively, "Grants") to key employees of Guidant. Guidant has 7,000,000 shares available for awards under the Stock Plan.

Stock options have been granted to officers, other executives and key employees. Stock options are granted at 100 percent of the fair market value at the date of grant. (The price of unexercised options at December 31, 1994 was $14.50 per share.) At December 31, 1994, grants of up to 6,158,500 shares could still be made.

Stock option activity during 1994 is summarized below:

	NUMBER OF SHARES
Unexercised at January 1	N/A
Granted	841,500
Exercised	0
Terminated	0
Unexercised at December 31	841,500
Exercisable at December 31	0

Shareholder Rights Plan: On October 17, 1994, Guidant adopted a shareholder rights plan. Under the terms of the plan, all shareholders of common stock received for each share owned a preferred stock purchase right entitling them to purchase from Guidant one one-hundredth of a share of Series A Preferred Stock at an exercise price of $43.50. The rights are not exercisable until after the date on which Guidant's right to redeem has expired. Guidant may redeem the rights for $0.01 per right up to and including the tenth business day after the date of a public announcement that a person (the "Acquiring Person") has acquired ownership of stock having 10% or more of Guidant's general voting power (the "Stock Acquisition Date").

The plan provides that, if Guidant is acquired in a business combination transaction at any time after a Stock Acquisition Date, generally each holder of a right will be entitled to purchase at the exercise

NOTE 4--STOCK PLANS--(CONTINUED)

price a number of the acquiring Guidant's shares having a market value of twice the exercise price. The plan also provides that in the event of certain other business combinations, certain self-dealing transactions, or the acquisition by a person of stock having 15% or more of Guidant's general voting power, generally each holder of a right will be entitled to purchase at the exercise price a number of shares of Guidant's common stock having a market value of twice the exercise price. Any rights beneficially owned by an Acquiring Person shall not be entitled to the benefit of the adjustments with respect to the number of shares described above. The rights will expire on October 17, 2004, unless redeemed earlier by Guidant.

NOTE 5--BORROWINGS

In June 1994, three subsidiaries of Guidant obtained separate credit facilities aggregating $700.0 million which permit borrowings through January 8, 1996. Borrowings under the facilities carry a variable interest rate, 6.37% at December 31, 1994. To lower the interest rate on the facilities, Lilly has guaranteed the debt, but this guarantee can be withdrawn at any time prior to maturity. The interest rate differential is not material. Borrowings under the agreements at December 31, 1994 aggregated $473.0 million. Restrictive covenants in the borrowing agreements include limitations on additional borrowings, and the amount of expenditures for technologies or other acquisitions and maintenance of certain financial performance levels or ratios by each of the borrowing subsidiaries. Compensating balances and commitment fees are not material.

At December 31, 1994, short-term borrowings included a $57.0 million advance to an affiliate of Lilly. This advance was obtained on November 1, 1994 for the purpose of funding the purchase of certain international assets from Lilly. This facility will be repaid in the first quarter of 1995. Short-term borrowings also include an $18.7 million facility from another affiliate of Lilly pursuant to Guidant's acquisition of an ownership interest in its German distributor, Danimed GmbH und Co. KG ("Danimed"). This credit facility will be repaid in the latter half of 1995 with funds provided by operations. The weighted average interest rate on short-term borrowings outstanding as of December 31, 1994 was 5.42%.

Interest expense was $18.8 million, $3.0 million, and $3.4 million in 1994, 1993, and 1992, respectively. Cash payments of interest approximated interest expense.

NOTE 6--ACQUISITIONS

In August 1993, Guidant began an acquisition of Danimed which will be completed in several steps. This acquisition will be completed in August 1995 for a total purchase price of approximately $25.0 million. The final U.S. dollar price will be determined based upon the operating results of Danimed during the two year period ending August 31, 1995. The goodwill associated with this acquisition is being amortized using the straight line method over 7 years.

In 1992, Guidant acquired Origin, a company specializing in devices for minimally invasive surgery. The purchase price, including subsequent contingent payments earned through December 31, 1993, totaled $66.0 million. The initial acquisition agreement included provisions for subsequent contingent payments, depending on the annual performance of Origin over the period ending December 31, 1997, to former holders of Origin common stock ("Former Shareholders"). In January 1994, a contingent payment of $7.5 million was paid under the agreement. This payment has been accounted for as goodwill. Goodwill recognized in the acquisition is being amortized over 15 years.

On November 14, 1994, Origin entered into an agreement with Lilly and the Former Shareholders which terminates the rights of the Former Shareholders to any subsequent contingent payments. The agreement also releases Guidant from any further liability or obligation with respect to the acquisition agreement.

NOTE 7--TRANSACTIONS WITH AFFILIATED COMPANIES

Advances to affiliated companies are the result of various transactions between Guidant and Lilly. Prior to December 14, 1994, Guidant's participation in Lilly's central cash management program was included as a component of advances to affiliated companies. Subsequent to December 14, 1994 these amounts are considered a cash equivalent (See Note 2).

During 1994, Guidant declared dividends to Lilly of $1,097.0 million, including $444.6 million which was recorded as a reduction of the long-term advances to affiliated companies, $158.3 million as payment for certain assets which have historically been recorded on Guidant's books and $494.1 million in cash dividends.

The amounts payable to affiliated companies relate primarily to costs and expenses (other than the expense allocations discussed in Note 2) initially incurred by Lilly on behalf of Guidant and subsequently charged to Guidant. An analysis of significant expense items follows:

	1994	1993	1992
Personnel and benefits	$14.8	$16.6	$17.1
Information systems	3.0	3.4	3.5
Insurance	6.5	6.5	6.2
Interest income (net)	(3.2)	(9.1)	(8.1)
Royalties	6.5	5.7	5.4
Miscellaneous	1.9	2.3	2.8
	$29.5	$25.4	$26.9

NOTE 8--LEASES

Total rental expense for all leases, including contingent rentals (not material), amounted to approximately $13.5 million for 1994, $5.6 million for 1993, and $6.0 million for 1992.

The future minimum rental commitments as of December 31, 1994 for all noncancellable leases amounted to $8.9 million.

NOTE 9--INCOME TAXES

All income amounts reflect the use of the liability method, as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Following is the composition of income taxes:

	1994	1993	1992
Current:			
Federal	$49.9	$ 48.5	$ 46.2
Foreign	3.8	1.8	1.9
State	11.9	12.6	12.5
	65.6	62.9	60.6
Deferred:			
Federal	0.2	(23.5)	(13.3)
State	(2.0)	(4.8)	(3.0)
	(1.8)	(28.3)	(16.3)
Income tax expense	$63.8	$ 34.6	$ 44.3

NOTE 9--INCOME TAXES--(CONTINUED)

Income taxes paid totaled $41.1 million, $110.0 million, and $56.0 million in 1994, 1993, and 1992, respectively.

Significant components of deferred tax assets and liabilities as of December 31 are as follows:

	1994	1993
Deferred tax assets:		
Restructuring and special charges	$34.8	$42.6
Inventory and product related reserves	9.7	9.1
Litigation	3.6	1.9
State income taxes	1.2	2.9
Net operating loss carry forward	4.3	4.3
Acquisition of intangible assets	10.4	--
Other	5.4	7.2
	69.4	68.0
Valuation allowances	(4.3)	(4.3)
Total deferred tax assets	65.1	63.7
Deferred tax liabilities:		
Property and equipment	(4.2)	(4.7)
Preferred employee benefits	(3.5)	(2.8)
Other	--	(1.5)
Total deferred tax liabilities	(7.7)	(9.0)
Deferred tax assets--net	$57.4	$54.7

Following is a reconciliation of the effective income tax rate:

	1994	1993	1992
United States federal statutory income tax rate	35.0%	35.0%	34.0%
Add (deduct):			
State taxes, net of federal tax benefit	4.1	5.5	5.0
Tax savings from operations in Puerto Rico	(1.0)	(4.1)	(2.5)
Research tax credit	(0.2)	(2.5)	(3.3)
Effect of international operations	0.8	2.9	2.1
Nondeductible impact of goodwill	4.0	4.7	2.6
Sundry	(1.8)	(1.7)	(1.3)
Effective income tax rate	40.9%	39.8%	36.6%

NOTE 10--BENEFITS

Guidant has noncontributory defined benefit retirement plans that cover substantially all United States employees of ACS and CPI. Covered employees represent approximately 77% of total Guidant employees. Benefits under the domestic plans are calculated by using one of several formulas. These formulas are based on a combination of the following: (i) years of service, (ii) final average earnings, (iii) primary social security benefit, and (iv) age. Guidant's funding policy for all plans is consistent with governmental and tax funding regulations. Generally, pension costs accrued are funded. Plan assets, which are maintained in a trust

NOTE 10--BENEFITS--(CONTINUED)

with Lilly and other affiliates' plans, consist primarily of equity and fixed income instruments. Guidant has announced its intent to freeze benefits under these plans at the date of the split-off. The impact of these actions is expected to result in a gain to Guidant which will be recognized at the date of the split-off.

Net pension expense for Guidant's U.S. retirement plans includes the following components:

	1994	1993	1992
Service cost--benefits earned during the year	$ 5.3	$ 3.5	$ 3.0
Interest cost on projected benefit obligations	2.7	2.0	1.5
Actual return on assets--(gain)	(0.4)	(3.2)	(1.7)
Net amortization and deferral	(1.9)	1.3	0.7
Net annual pension cost	$ 5.7	$ 3.6	$ 3.5

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

	1994	1993
Plan assets at fair value	$ 28.2	$ 24.8
Actuarial present value of benefit obligations		
Vested benefits	(12.9)	(12.4)
Nonvested benefits	(5.5)	(6.3)
Accumulated benefit obligation	(18.4)	(18.7)
Effect of projected future salary increases	(14.7)	(16.5)
Projected benefit obligation	(33.1)	(35.2)
Funded status	(4.9)	(10.4)
Unrecognized net (gain) loss	(0.4)	6.2
Unrecognized prior service cost	8.1	8.8
Prepaid pension cost	$ 2.8	$ 4.6

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

	1994	1993	1992
	(PERCENT)		
Discount rate	8.5	7.5	8.5
Rate of increase in future compensation levels	4.5-8.0	4.5-8.0	4.5-8.0
Expected long-term rate of return on plan assets	11.0	11.0	11.0

The increase in the discount rate at December 31, 1994 decreased the projected benefit obligation approximately $10.1 million. The increase in the 1994 net annual pension cost was due primarily to the decrease in the discount rate at December 31, 1993.

In addition to employees covered by the above U.S. defined benefit retirement plans, certain employees outside the U.S. are also covered by retirement plans maintained by Lilly. Expenses for the employees participating in these plans have not been included in the above information. However, expenses attributable to the employees at these locations are included in the results of operations.

Lilly has defined contribution savings plans that cover eligible employees worldwide. Certain of Guidant's employees are eligible to participate in these plans. The purpose of these plans is generally to

NOTE 10--BENEFITS--(CONTINUED)

provide additional financial security during retirement by providing employees with an incentive to make regular savings. Contributions to the plans are predicted by Lilly based on employee contributions and the level of Lilly's match. Guidant's expense under the plans totaled $6.2 million, $4.9 million, and $4.1 million for 1994, 1993, and 1992, respectively.

Management intends to adopt a separate defined contribution savings plan which will be similar to the Lilly plan and be effective as of January 1, 1996.

Effective January 1, 1993, Guidant adopted SFAS No. 112, "Employers' Accounting for Post-Employment Benefits." This statement requires employers to recognize currently the obligation to provide post-employment benefits to former or inactive employees and others. Guidant's adoption of SFAS No. 112 resulted in a pretax charge in 1993 of $2.9 million relating primarily to disability benefits. Prior to 1993, Guidant expensed these obligations when paid. Expenses under these plans are not material.

NOTE 11--GEOGRAPHIC INFORMATION

	1994	1993	1992
Net sales:			
United States:			
Sales to unaffiliated customers	$ 694.5	$ 682.1	$ 667.6
Transfers to other geographic areas	92.9	94.0	62.2
	787.4	776.1	729.8
Other:			
Sales to unaffiliated customers	167.9	112.6	87.2
Transfers to other geographic areas	--	--	(0.1)
	167.9	112.6	87.1
Eliminations--transfers between geographic areas	(92.9)	(94.0)	(62.1)
	$ 862.4	$ 794.7	$ 754.8
Income (loss) before income taxes and cumulative effect of change in accounting principle:			
United States	$ 165.4	$ 100.1	$ 124.0
Other	(10.0)	(4.2)	(3.3)
Eliminations and adjustments	0.5	(8.9)	0.4
	$ 155.9	$ 87.0	$ 121.1
Total assets:			
United States	$ 996.1	$1,227.5	$1,081.7
Other	132.7	63.5	37.3
Eliminations and adjustments	(25.2)	(2.4)	(1.0)
	$1,103.6	$1,288.6	$1,118.0

Transfers between geographic areas are made at prices that, in general, are calculated to reflect a profit attributable to manufacturing operations.

Remittances to the United States are subject to various regulations to the respective governments as well as to fluctuations in exchange rates. United States sales to unaffiliated customers include approximately $101.0 million, $112.0 million, and $109.0 million in export sales for 1994, 1993 and 1992, respectively.

NOTE 12--FINANCIAL INSTRUMENTS

In the normal course of business, operations of Guidant are exposed to continuing fluctuations in currency values and interest rates. These fluctuations can vary the costs of financing, investing, and operating. Guidant addresses these risks through a controlled program of risk management that includes the use of derivative financial instruments managed by Lilly. Guidant's derivative activities, all of which are for purposes other than trading, are initiated within the guidelines of documented corporate risk-management policies.

The notional amounts of derivatives summarized in the following paragraph do not represent amounts exchanged by the parties and thus are not a measure of the exposure of Guidant through its use of derivatives. Guidant is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but management does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Foreign Exchange Risk Management: Lilly, on behalf of Guidant, enters into foreign currency forward exchange contracts to reduce the effects of fluctuating currency exchange rates (principally European currencies) on its foreign currency exposures. These contracts are used to hedge anticipated foreign currency transactions, primarily intercompany purchases, expected to occur within the next year. These transactions represent firm commitments. Realized and unrealized gains and losses on these contracts that qualify as hedges are deferred and recognized in cost of sales in the same period as the transactions occur. At December 31, 1994, the stated, or notional, amounts of these outstanding forward exchange contracts totaled $70.2 million. The difference between the fair values and carrying amounts of these instruments were not material at December 31, 1994.

Concentrations of Credit Risk: Financial instruments that potentially subject Guidant to credit risk consist principally of trade receivables and interest-bearing investments. Hospitals account for a substantial portion of the trade receivables; collateral for these receivables is generally not required. The risk associated with this concentration is limited due to the large number of accounts and their geographic dispersion. Guidant places all its short-term interest-bearing investments with Lilly at a market rate. Lilly then invests all or a portion of the funds with major financial institutions in accordance with its documented corporate policies.

The fair values of financial instruments, including noncurrent investments and short-term and long-term debt, approximate their carrying values at December 31, 1994 and 1993.

NOTE 13--CONTINGENCIES

Guidant is a party to various legal actions which have occurred in the normal course of business. Guidant has accrued the anticipated cost of resolving these claims. Accruals for litigation claims were based upon historical and industry data.

While it is not possible to predict or determine the outcome of the legal actions brought against Guidant, Guidant believes the costs associated with 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.

NOTE 14--SELECTED QUARTERLY INFORMATION (UNAUDITED)

The following table summarizes Guidant's operating results by quarter for 1994 and 1993:

	1994				1993			
	FOURTH	THIRD	SECOND	FIRST	FOURTH	THIRD	SECOND	FIRST
Net sales:								
Vascular intervention..	$122.0	$113.2	$113.8	$115.5	$121.4	$112.0	$111.2	$107.0
CRM.....	106.9	99.3	87.8	84.6	90.8	85.6	80.6	79.5
MIS.....	5.4	4.9	5.0	4.0	2.5	1.8	1.4	0.9
Total net sales.....	234.3	217.4	206.6	204.1	214.7	199.4	193.2	187.4
Cost of sales.....	71.6	66.4	69.3	63.6	61.1	60.3	58.5	56.3
Research and development.....	35.1	30.6	31.5	33.7	34.6	33.3	32.1	29.1
Sales, marketing and administrative.....	74.9	65.2	65.7	63.1	74.1	60.5	59.4	61.1
Restructuring and special charges.....	--	--	--	--	81.5	--	--	--
Income (loss) from operations.....	52.7	55.2	40.1	43.7	(36.6)	45.3	43.2	40.9
Other (expenses) income.	(13.0)	(11.5)	(6.3)	(5.0)	(0.2)	3.7	(3.7)	(5.6)
Income (loss) before income taxes.....	39.7	43.7	33.8	38.7	(36.8)	49.0	39.5	35.3
Income taxes.....	16.4	17.8	13.8	15.8	(13.2)	18.6	15.7	13.5
Cumulative effect of accounting change.....	--	--	--	--	--	--	--	1.8
Net income (loss).....	$ 23.3	$ 25.9	$ 20.0	$ 22.9	($23.6)	$ 30.4	$ 23.8	$ 20.0
Pro forma earnings per share:								
Net income as reported..	$ 23.3	$ 25.9	$ 20.0	$ 22.9				
Additional net interest-after tax.....	(0.8)	(2.4)	(6.0)	(6.7)				
Pro forma net income....	$ 22.5	$ 23.5	$ 14.0	$ 16.2				
Pro forma earnings per share.....	$ 0.31	$ 0.33	$ 0.19	$ 0.23				
Common stock prices:								
High.....	$16.13							
Low.....	$14.50							

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)

	SIX MONTHS ENDED JUNE 30,	
	1995	1994
	(UNAUDITED)	
Net sales	$ 448.9	$ 410.7
Cost of sales	144.4	132.9
Research and development	67.8	65.2
Sales, marketing and administrative	139.3	128.8
	351.5	326.9
Income from operations	97.4	83.8
Other income (expenses):		
Interest--net	(14.9)	4.1
Royalties--net	1.1	(1.5)
Amortization of goodwill and other intangibles	(11.0)	(10.3)
Other--net	(1.0)	(3.6)
	(25.8)	(11.3)
Income before income taxes	71.6	72.5
Income taxes	29.3	29.6
Net income	$ 42.3	$ 42.9
Earnings per share	$ 0.59	
Pro forma earnings per share information:		
Net income--as reported		$ 42.9
Additional net interest expense, after tax		(12.7)
Pro forma net income		$ 30.2
Pro forma earnings per share		$ 0.42
Pro forma weighted average shares outstanding		71.86

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS)

	JUNE 30, 1995	DECEMBER 31, 1994
	(UNAUDITED)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 43.4	$ 113.0
Accounts receivable, net of allowances of $5.4 (1995 and 1994)	154.0	155.7
Other receivables	12.9	12.4
Inventories	119.1	120.0
Deferred income taxes	40.2	42.1
Prepaid expenses	15.6	14.6
Total Current Assets	385.2	457.8
Other Assets		
Goodwill, net of allowances of $75.4 (1995) and $67.1 (1994)	261.2	268.7
Other intangible assets, net of allowances of $16.4 (1995) and $14.2 (1994)	34.5	34.8
Deferred income taxes	11.5	15.3
Sundry	29.8	32.2
	337.0	351.0
Property and Equipment	301.4	294.8
	$1,023.6	$1,103.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Loans payable to affiliated companies	$ 23.2	$ 78.0
Accounts payable	23.2	36.7
Payables to affiliated companies	17.2	39.5
Employee compensation	38.8	46.3
Restructuring liabilities	55.6	61.6
Other liabilities	64.2	66.2
Income taxes payable to Lilly	13.5	12.7
Current portion of long-term debt	458.0	--
Total Current Liabilities	693.7	341.0
Noncurrent Liabilities		
Long-term debt	--	473.0
Other	23.1	25.2
	23.1	498.2
Commitments and Contingencies	--	--
Shareholders' Equity		
Common stock--no par value; Authorized shares: 250,000,000 Issued shares: 71,860,000	192.5	192.5
Additional paid-in capital	64.5	64.5
Retained earnings	48.2	5.9
Currency translation adjustments	1.6	1.5
	306.8	264.4
	$1,023.6	$1,103.6

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN MILLIONS)

	1995	1994
	(UNAUDITED)	
Balance at January 1	$264.4	$1,048.3
Net income	42.3	42.9
Shareholder capital contributions	--	14.5
Dividends to shareholder	--	(733.5)
Currency translation adjustments	0.1	4.4
Balance at June 30	$306.8	$ 376.6

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)

	SIX MONTHS ENDED JUNE 30,	
	1995	1994
	(UNAUDITED)	
Cash Provided by Operating Activities:		
Net income	$ 42.3	$ 42.9
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation	21.5	18.8
Amortization of goodwill and other intangibles	11.0	10.4
Operating expenses funded by shareholder, net	--	7.0
Change in deferred income taxes	5.7	(5.0)
Other noncash expenses	5.4	4.2
	85.9	78.3
Changes in Operating Assets and Liabilities:		
Payables to affiliated companies--decrease	(22.3)	(61.0)
Receivables, net--decrease	2.5	16.3
Inventories, net--increase	(4.0)	(15.4)
Prepaid expenses--(increase) decrease	(1.0)	2.5
Accounts payable and accrued liabilities--decrease	(21.0)	(17.7)
Income taxes payable to/recoverable from Lilly--increase	0.8	11.7
Other liabilities--decrease	(4.7)	(2.2)
Net Cash Provided by Operating Activities	36.2	12.5
(Used for) Provided by Investing Activities:		
Additions of property and equipment, net	(28.2)	(13.2)
Acquisitions	(9.4)	--
Reductions (additions) to intangible and sundry assets, net	1.5	(3.1)
Net Cash Used for Investing Activities	(36.1)	(16.3)
(Used for) Provided by Financing Activities:		
Payments of short-term borrowings	(54.3)	--
(Reductions) additions of long-term borrowings	(15.0)	318.0
Dividend to shareholder	--	(318.0)
Net Cash (Used for) Provided by Financing Activities	(69.3)	--
Effect of Exchange Rate Changes on Cash	(0.4)	4.4
Net (Decrease) Increase in Cash and Cash Equivalents	(69.6)	0.6
Cash and Cash Equivalents at Beginning of Period	113.0	25.0
Cash and Cash Equivalents at End of Period	$ 43.4	$ 25.6

See notes to consolidated financial statements.

GUIDANT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS)
(UNAUDITED)

NOTE 1--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with Securities and Exchange Commission requirements for interim financial statements and accordingly do not include all of the information and footnotes necessary for a fair presentation of financial position, results of operations, shareholders' equity and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 1994 included elsewhere herein.

NOTE 2--INVENTORIES

Inventories consisted of the following:

	JUNE 30, 1995	DECEMBER 31, 1994
Finished products	$ 49.2	$ 63.4
Work in process	35.6	31.5
Raw materials and supplies	34.3	25.1
	$119.1	$120.0

NOTE 3--CONTINGENCIES

Guidant is a party to various legal actions which have arisen in the normal course of business. Guidant has accrued for the anticipated cost of resolving these claims. Accruals for litigation claims were based upon historical and industry data.

While it is not possible to predict or determine the outcome of the legal actions brought against it, Guidant believes the costs associated with 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.

NOTE 4--EARNINGS PER SHARE

Earnings per share for the six months ended June 30, 1995 are calculated by dividing net income by the weighted average number of common shares outstanding (71.86 million). Pro forma earnings per share is computed by dividing pro forma net income by the pro forma weighted average shares outstanding during 1994. Pro forma net income and earnings per share have been determined assuming the capital structure at December 31, 1994 was in place January 1, 1994.

The pro forma adjustment gives effect to an increase in net interest expense, net of tax. 71.86 million shares are assumed to have been outstanding for the entire year. Historical earnings per share are not meaningful for 1994 due to the change in the capital structure during the year.

GLOSSARY OF SELECTED MEDICAL TERMS

ABLATION	A minimally invasive vascular intervention procedure which involves the mechanical or laser reduction of blockages without the removal of tissue.
ACUTE MYOCARDIAL INFARCT ("AMI")	Heart attack.
ANTITACHYCARDIA PACING	A method of treating ventricular tachycardia (a fast heartbeat) by stimulating the heart with a preset rapid series of small electrical pulses.
ATHERECTOMY	A minimally invasive vascular intervention procedure which involves the excision and removal of blockages by catheters with miniature cutting systems.
ATHEROSCLEROTIC LESIONS	Deposits of plaque, which contains cholesterol and lipoid materials, within coronary arteries.
BRADY PACING	A method of treating a slow or irregular heartbeat by periodically stimulating the heart with small electrical pulses.
CARDIAC RHYTHM MANAGEMENT ("CRM")	The field of cardiovascular disease which relates to the detection and treatment of abnormally fast tachycardia (Tachy) and abnormally slow bradycardia (Brady) heart rhythms.
CLINICAL RESTENOSIS	Renarrowing of the blood vessel at the site of the initial interventional treatment requiring an additional procedure within 6 months of the initial treatment.
CORONARY ARTERY BYPASS GRAFT ("CABG")	A highly invasive procedure which involves the grafting of blood vessels from the leg or chest to bypass blocked coronary arteries.
CORONARY ARTERY DISEASE ("CAD")	The formation of blockages or atherosclerotic lesions within coronary arteries which results in restricted blood flow.
ENDOCARDIAL LEAD	A long, thin insulated wire that runs from a pulse generator through a vein into the heart. The lead transmits signals from the heart to the pulse generator and transmits therapy from the pulse generator to the heart.
IMPLANTABLE CARDIOVERTER DEFIBRILLATOR ("ICD")	Devices implanted in the abdomen or pectoral region which are used to treat potentially fatal fast heart rhythms by delivering electrical energy to the heart to restore the heart's normal rhythms.
LAPAROSCOPY	A form of minimally invasive surgery in which viewing endoscopes and small diameter surgical instruments are inserted into the abdominal cavity through multiple small incisions instead of through large abdominal incisions.

MINIMALLY INVASIVE SURGERY ("MIS")	Procedural techniques which limit the size of abdominal incisions by using small incisions to gain access to the surgical site.
OVER-THE-WIRE ("OTW") CATHETERS	Balloon catheters which are delivered over a separate guidewire to position the balloon across the lesion.
PERFUSION	Balloon catheters where holes in the catheter shaft on either side of the balloon allow uninterrupted blood flow to the heart muscle during inflation.
PRE-MARKET APPROVAL ("PMA")	An FDA prerequisite to marketing for certain medical devices introduced to the United States, which is obtained through an application process.
PERCUTANEOUS TRANSLUMINAL CORONARY ANGIOPLASTY ("PTCA")	Percutaneous (through the skin) transluminal (through the blood vessel) coronary (of the heart) angioplasty (plastic repair of blood vessels) is a minimally invasive procedure which uses balloon catheters to enlarge and treat blocked coronary arteries.
RAPID EXCHANGE ("RX")	Balloon catheters, also known as monorail or rail segment, which allows for easy exchange of the balloon catheter without removal of the original guidewire.
STENTING	A minimally invasive vascular intervention procedure which typically involves the deployment of permanent implantable metal devices to "scaffold" the site of a blocked artery.

Manually signed facsimile copies of the Letter of Transmittal will be accepted. A Letter of Transmittal, certificates for shares of Lilly Common Stock and any other required documents should be sent by each holder of Lilly Common Stock or his or her broker, dealer, commercial bank, trust company or other nominee to the Exchange Agent as follows:

The Exchange Agent is:

The First National Bank of Boston

By Mail:	By Overnight Courier:	By Hand:
The First National Bank of Boston Shareholder Services Division P.O. Box 1889 Mail Stop 45-01-19 Boston, Massachusetts 02105	The First National Bank of Boston Shareholder Services Division Mail Stop 45-01-19 150 Royall Street Canton, Massachusetts 02021	BancBoston Trust Company of New York 55 Broadway Third Floor New York, New York

By Facsimile Transmission:

(617) 575-2232
(617) 575-2233

For Confirmation:

(617) 575-2700

Any questions or requests for assistance or additional copies of the Offering Circular - Prospectus and the Letter of Transmittal may be directed to the Information Agent or the Dealer Manager at their respective telephone numbers and locations listed below. You may also contact your broker, dealer, commercial bank or trust company for assistance concerning the Exchange Offer.

The Information Agent is:

D.F. King & Co., Inc.

United States	Europe
77 Water Street New York, New York 10005 (800) 207-3158	Royex House, Aldermanbury Square London, England EC2V 7HR (44) 171-600-5005 (COLLECT)

Outside United States and Europe
(212) 269-5550 (COLLECT)

The Dealer Manager in the United States for the Exchange Offer is:

MORGAN STANLEY & CO.
Incorporated
1251 Avenue of the Americas
New York, New York 10020
(212) 703-7918

EXHIBIT(a)(3)

[LOGO OF ELI LILLY AND COMPANY APPEARS HERE]

ELI LILLY AND COMPANY
LILLY CORPORATE CENTER
INDIANAPOLIS, INDIANA 46285

August 21, 1995

Dear Shareholder:

I am pleased to inform you that Eli Lilly and Company ("Lilly") is commencing an Exchange Offer to its shareholders to exchange 3.49 shares of the common stock of Guidant Corporation ("Guidant") owned by Lilly for each share of common stock of Lilly up to an aggregate of 16,504,298 shares of Lilly common stock. The Exchange Offer will provide our shareholders with an opportunity to adjust, on a tax-free basis, their investment between Lilly's pharmaceutical business and Guidant's medical device business.

The Exchange Offer will expire, unless extended by Lilly, at Midnight, New York City time, on September 18, 1995. The terms and conditions of the Exchange Offer are contained in the enclosed Offering Circular - Prospectus. The materials also include information relating to the business and management of Guidant, information regarding the adjustments to tax basis resulting from exchanging shares of Lilly common stock for shares of Guidant common stock and other information that will assist you in considering the Exchange Offer. Please read these materials carefully before making your decision as to whether or not to exchange your shares of Lilly common stock.

In addition, please read carefully the enclosed Letter of Transmittal, which explains in detail the proper procedure to tender shares of Lilly common stock. In addition, we have prepared a Question and Answer Letter that responds to commonly asked questions about the Exchange Offer.

Neither Lilly nor the Board of Directors of Lilly makes any recommendation as to whether or not to tender shares of Lilly common stock. Each shareholder must make his or her own decision whether to tender such shares and, if so, how many shares to tender.

If fewer than 16,504,298 shares of Lilly common stock are tendered and the Exchange Offer is consummated, Lilly will distribute the remaining shares of Guidant common stock owned by Lilly on a pro rata basis to the holders of record of Lilly common stock as of a date following the expiration of the Exchange Offer.

Lilly has retained the services of D.F. King & Co., Inc. as Information Agent to assist shareholders in connection with the Exchange Offer. Requests for additional documents, questions regarding the terms and conditions of the Exchange Offer, and information on tendering shares should be directed to D.F. King & Co., Inc. at the following number: in the United States, (800) 207-3158; in Europe, (44) 171-600-5005 (call collect); and from outside the United States and Europe, (212) 269-5550 (call collect).

On behalf of the Board of Directors, I thank you for your support.

Sincerely,

/s/ Randall L. Tobias

Randall L. Tobias
Chairman and Chief Executive Officer

EXHIBIT(a)(4)

THE EXCHANGE OFFER WILL EXPIRE AT MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, SEPTEMBER 18, 1995, UNLESS OTHERWISE EXTENDED

ELI LILLY AND COMPANY

LETTER OF TRANSMITTAL

FOR SHARES OF COMMON STOCK,
WITHOUT PAR VALUE,
OF ELI LILLY AND COMPANY

TO: THE FIRST NATIONAL BANK OF BOSTON, EXCHANGE AGENT

By Mail:	By Overnight Courier:	By Hand:
The First National Bank of Boston Shareholder Services Division P.O. Box 1889 Mail Stop 45-01-19 Boston, Massachusetts 02105	The First National Bank of Boston Shareholder Services Division Mail Stop 45-01-19 150 Royall Street Canton, Massachusetts 02021	BancBoston Trust Company of New York 55 Broadway Third Floor New York, New York

THE INFORMATION AGENT FOR THE EXCHANGE OFFER IS:

D.F. KING & CO., INC.

UNITED STATES	EUROPE
77 Water Street New York, New York 10005 (800) 207-3158	Royex House, Aldermanbury Square London, England EC2V 7HR (44) 171-600-5005 (Collect)

OUTSIDE UNITED STATES AND EUROPE:
(212) 269-5550 (Collect)

The undersigned acknowledges receipt of the Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") of Eli Lilly and Company, an Indiana corporation ("Lilly"), and this Letter of Transmittal which together constitute Lilly's offer (the "Exchange Offer") to exchange 3.49 shares of common stock, without par value, of Guidant Corporation ("Guidant Common Stock"), an Indiana corporation ("Guidant"), for each share of common stock, without par value, of Lilly ("Lilly Common Stock") up to an aggregate of 16,504,298 shares of Lilly Common Stock.

Capitalized terms used but not defined herein have the meanings given to them in the Offering Circular - Prospectus.

The undersigned has completed, executed and delivered this Letter of Transmittal to indicate the action he or she desires to take with respect to the Exchange Offer.

TO BE COMPLETED BY ALL TENDERING HOLDERS OF CERTIFICATED AND DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN SHARES OF LILLY COMMON STOCK REGARDLESS OF WHETHER SUCH SHARES ARE BEING PHYSICALLY DELIVERED HEREWITH

DELIVERY OF THIS LETTER OF TRANSMITTAL TO A PERSON OTHER THAN THE EXCHANGE AGENT AT AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TRANSMISSION OTHER THAN AS SET FORTH HEREIN WILL NOT CONSTITUTE VALID DELIVERY

DO NOT COMPLETE OR RETURN THIS LETTER OF TRANSMITTAL IF YOUR SHARES ARE HELD IN AN ACCOUNT WITH A BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE AND ARE NOT CERTIFICATED IN YOUR NAME. THIS LETTER OF TRANSMITTAL IS BEING SUPPLIED FOR YOUR INFORMATION ONLY. THE INSTITUTION HOLDING YOUR SHARES WILL SUPPLY YOU WITH SEPARATE INSTRUCTIONS REGARDING THE TENDER OF YOUR SHARES.

PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL
CAREFULLY BEFORE CHECKING ANY BOX BELOW

This Letter of Transmittal is to be used if (i) certificate(s) representing shares of Lilly Common Stock are to be forwarded herewith, (ii) if tenders are to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company ("DTC"), the Midwest Securities Trust Company ("MSTC") or the Philadelphia Depository Trust Company ("PHILADEP," and together with DTC and MSTC, the "Book-Entry Transfer Facilities"), unless an Agent's Message is utilized, or (iii) guaranteed delivery procedures are being used, according to the procedures set forth in the Offering Circular - Prospectus under "The Exchange Offer--Guaranteed Delivery Procedures." Delivery of documents to DTC, MSTC or PHILADEP does not constitute delivery to the Exchange Agent.

Your broker can assist you in completing this form. The instructions included with this Letter of Transmittal must be followed. Questions and requests for assistance or for additional copies of the Offering Circular - Prospectus, this Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to D.F. King & Co., Inc. (the "Information Agent") at (800) 207-3158. See Instruction 13.

I. TENDER OF CERTIFICATED SHARES ISSUED IN YOUR NAME AND SHARES HELD IN THE DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN.

Holders of shares of Lilly Common Stock ("Shareholders") tendering shares of Lilly Common Stock pursuant to this Section I must also complete Section V herein.

A. CERTIFICATED SHARES - Complete this Section I.A. if You Wish to Tender Certificated Shares Issued in Your Name.

THE UNDERSIGNED, BY COMPLETING THIS SECTION I.A., SIGNING THIS LETTER OF TRANSMITTAL AND DELIVERING THIS LETTER OF TRANSMITTAL AND THE CERTIFICATE(S) FOR LILLY COMMON STOCK TO THE EXCHANGE AGENT, WILL BE DEEMED TO HAVE TENDERED THE SHARES OF LILLY COMMON STOCK INDICATED BELOW

List below the certificate(s) representing shares of Lilly Common Stock that you wish to tender. If the space provided below is inadequate, the certificate and number of shares represented thereby should be listed on a separate signed schedule affixed hereto. The following section should not be completed by holders tendering by book-entry transfer. In addition to the following section, to tender Dividend Reinvestment and Stock Purchase Plan Shares, please complete section I.B.

DESCRIPTION OF SHARES OF LILLY COMMON STOCK TENDERED

NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S)(1)	CERTIFICATE NUMBERS(2)	TOTAL NUMBER OF SHARES OF LILLY COMMON STOCK REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES OF LILLY COMMON STOCK TENDERED(2)
Name(s) and Address(es) on Back Cover (or, if incorrect, indicate changes below)			
	TOTAL		

(1) If the name or address shown on the back cover of this Letter of Transmittal is incorrect, cross out the incorrect information and insert the correct information in this box.

(2) Unless otherwise indicated in the last column, and subject to the terms and conditions of the Offering Circular - Prospectus, you will be deemed to have tendered all the shares of Lilly Common Stock represented by the certificate(s) listed above. See Instruction 2.

Shareholders who wish to tender and whose shares of Lilly Common Stock are not immediately available or who cannot deliver their shares of Lilly Common Stock and all other documents required hereby to the Exchange Agent on or before the Expiration Date must tender shares of Lilly Common Stock according to the guaranteed delivery procedures set forth in the Offering Circular - Prospectus under the caption "The Exchange Offer--Guaranteed Delivery Procedures." See Instruction 1.

[_] CHECK HERE IF THE CERTIFICATE(S) REPRESENTING TENDERED SHARES OF LILLY COMMON STOCK ARE ENCLOSED HEREWITH.

[_] CHECK HERE IF TENDERED SHARES OF LILLY COMMON STOCK ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY AND COMPLETE THE FOLLOWING:

Name(s) of Registered Holder(s): _____

Date of Execution of Notice of Guaranteed Delivery: _____

Name of Institution that guaranteed delivery: _____

B. DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN SHARES - Complete this Section I.B. if You Wish to Tender Shares Held in the Dividend Reinvestment and Stock Purchase Plan.

THE UNDERSIGNED, BY COMPLETING THIS SECTION I.B. AND SIGNING AND DELIVERING THIS LETTER OF TRANSMITTAL TO THE EXCHANGE AGENT, WILL BE DEEMED TO HAVE TENDERED THE SHARES OF LILLY COMMON STOCK INDICATED BELOW.

[_] CHECK HERE IF YOU ARE A PARTICIPANT IN LILLY'S DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN (THE "DRP") AND WISH TO TENDER SHARES OF LILLY COMMON STOCK HELD IN YOUR ACCOUNT UNDER THE DRP ("DRP SHARES") AND COMPLETE THE FOLLOWING:

[_] Tender all DRP Shares; or

[_] Number of whole shares tendered from DRP (if less than all): _____ .

A tender of all DRP Shares will include fractional shares and any shares credited to the participant's account after the date hereof and prior to the Expiration Date.

IF THE PARTICIPANT AUTHORIZES THE TENDER OF HIS OR HER DRP SHARES, BUT DOES NOT INDICATE THE NUMBER OF SHARES TO BE TENDERED, THE PARTICIPANT WILL BE DEEMED TO HAVE TENDERED ALL DRP SHARES OWNED BY SUCH PARTICIPANT PURSUANT TO THE DRP. SEE INSTRUCTION 5.

C. ODD LOT SHARES - Complete this Section I.C. if You Hold Fewer than 100 Shares and Wish to Tender All Such Shares.

[_] CHECK HERE IF (i) YOU ARE THE OWNER BENEFICIALLY AND OF RECORD OF LESS THAN 100 SHARES OF LILLY COMMON STOCK IN THE AGGREGATE AS OF AUGUST 16, 1995, AND (ii) YOU WISH TO TENDER ALL YOUR SHARES OF LILLY COMMON STOCK.

If you are the owner, beneficially and of record, of less than 100 shares of Lilly Common Stock (an "Odd Lot") and you tender all your shares, you will receive preferential treatment if the Exchange Offer is oversubscribed. See Instruction 9.

II. TENDER OF SHARES HELD BY A BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE.

If your shares of Lilly Common Stock are held in an account with a broker, dealer, commercial bank, trust company or other nominee and you wish to tender all or part of those shares, do not return this Letter of Transmittal to the Exchange Agent. This Letter of Transmittal is being supplied for your information only. The institution holding your shares will supply you with separate instructions regarding the tender of your shares. If you have not received instructions regarding the tender of your shares, please contact a representative of the institution holding your shares.

ONLY BROKERS, DEALERS, COMMERCIAL BANKS, TRUST COMPANIES AND OTHER NOMINEES SHOULD COMPLETE THIS SECTION II.

A. BOOK-ENTRY TRANSFER SHARES - Complete this Section II.A. if You Wish To Tender Shares Held By a Book-Entry Transfer Facility.

[_]CHECK HERE IF TENDERED SHARES OF LILLY COMMON STOCK ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH A BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of Tendering Institution: _____

Account Number: _____

[_] DTC [_] MSTC [_] PHILADEP Transaction Code Number: _____

[_]CHECK HERE IF TENDERED SHARES OF LILLY COMMON STOCK ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY AND COMPLETE THE FOLLOWING:

Date of Execution of Notice of Guaranteed Delivery: _____

Name of Institution that Guaranteed Delivery: _____

B. ODD LOT SHARES - Complete this Section II.B. if You Wish To Tender on Behalf of an Owner of an Odd Lot.

[_]CHECK HERE IF (i) YOU ARE TENDERING ON BEHALF OF THE OWNER BENEFICIALLY AND OF RECORD OF AN ODD LOT, (ii) YOU BELIEVE, BASED UPON REPRESENTATIONS MADE TO YOU BY SUCH OWNER, THAT SUCH OWNER OWNED BENEFICIALLY AND OF RECORD LESS THAN 100 SHARES OF LILLY COMMON STOCK IN THE AGGREGATE AS OF AUGUST 16, 1995 AND (iii) SUCH OWNER WISHES TO TENDER ALL HIS OR HER SHARES OF LILLY COMMON STOCK.

Owners of Odd Lots who tender all such shares of Lilly Common Stock will receive preferential treatment if the Exchange Offer is oversubscribed. See Instruction 9.

III. SPECIAL ISSUANCE INSTRUCTIONS - To Be Completed Only if Shares of Guidant Common Stock, a Fractional Share Check and Shares of Lilly Common Stock Tendered But Not Accepted For Exchange Are To Be Issued in the Name of Someone Other Than the Shareholder Tendering Shares of Lilly Common Stock.

Note: If this Section is completed, the signature in Section V must be guaranteed by an Eligible Institution. See Instruction 3.

SPECIAL ISSUANCE INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if Guidant Certificate(s), a Fractional Share Check issued in connection therewith, if any, and shares of Lilly Common Stock not accepted for exchange, if any, are to be ISSUED in the name of someone other than the undersigned.

Issue:

[_] all of the following to:
Guidant Certificate(s):
Fractional Share Check:
Lilly Certificate(s):

Name(s): _____
(Please Print)

_____
(Please Print)

Address: _____

_____
Zip Code

_____
Employer Identification or Social Security No.

IV. SPECIAL DELIVERY INSTRUCTIONS - To Be Completed Only if Shares of Guidant Common Stock, a Fractional Share Check and/or Shares of Lilly Common Stock Are To Be Mailed To an Address Other Than that Shown in the Box Entitled "Description of Shares of Lilly Common Stock Tendered" or in Section III above.

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if Guidant Certificate(s), a Fractional Share Check issued in connection therewith, if any, and/or shares of Lilly Common Stock not tendered or any shares of Lilly Common Stock tendered but not accepted for exchange, if any, are to be MAILED to someone other than the undersigned, or to the undersigned at an address other than that shown in the box entitled "Description of Shares of Lilly Common Stock Tendered" or in Section III above, as applicable.

Mail:

check appropriate box(es):
[_] Guidant Certificate(s) to:
[_] Fractional Share Check to:
Lilly Certificate(s):
[_] Not Tendered to:
[_] Not Accepted to:

Name(s): _____
(Please Print)

_____
(Please Print)

Address: _____

_____
Zip Code

V. SIGNATURE - To Be Completed By All Shareholders Who Are Tendering Shares of Lilly Common Stock and Who Completed Sections I.A., I.B. or I.C. SIGNATURES MUST BE PROVIDED BELOW.

IMPORTANT
ALL TENDERING SHAREHOLDERS PLEASE SIGN HERE
(PLEASE ALSO COMPLETE THE FOLLOWING SUBSTITUTE FORM W-9
SEE INSTRUCTIONS 1 AND 3)

X_____

X_____
Signature(s) of Owner(s)

Date: _____ , 1995

(Must be signed by registered holder(s) of shares of Lilly Common Stock as their name(s) appear(s) on certificate(s) for shares of Lilly Common Stock or on a security position listing or by person(s) authorized to become registered holder(s) by endorsements and documents transmitted with this Letter of Transmittal.

If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 3.)

Name(s): _____

_____
(Please Print)

Capacity: _____

Address: _____

_____
(Include Zip Code)

Area Code and Telephone No.: _____

Date:_____, 1995

By signing this Letter of Transmittal, the signator hereby represents that he or she is not acting pursuant to a plan, alone or in conjunction with any other person, to acquire 50% or more of the outstanding shares of Guidant Common Stock, unless indicated to the contrary below.

Check the following box ONLY IF the above statement is NOT true: [_]

IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED FACSIMILE HEREOF (TOGETHER WITH SHARES OF LILLY COMMON STOCK AND ALL OTHER REQUIRED DOCUMENTS) OR A NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED ON OR PRIOR TO THE EXPIRATION DATE (AS DEFINED IN THE OFFERING CIRCULAR - PROSPECTUS).

SIGNATURE GUARANTEE
(IF REQUIRED--SEE INSTRUCTIONS 1 AND 3)
FOR USE BY ELIGIBLE INSTITUTIONS ONLY.
PLACE MEDALLION GUARANTEE IN SPACE BELOW.

Signature(s) Guaranteed by an Eligible Institution: _____
(Authorized Signature)

Name: _____
(Please Print)

Title: _____

Name of
Firm: _____

Address: _____
(Include Zip Code)

Area Code and Telephone No.: _____

Date: _____ , 1995

All tendering shareholders must complete the Substitute Form W-9 on page 10 of this Letter of Transmittal. If a person other than the tendering Shareholder has been named in Section III, such other person, rather than the person tendering the shares of Lilly Common Stock, must complete the following substitute Form W-9. See Instruction 6 and the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

PAYER'S NAME: THE FIRST NATIONAL BANK OF BOSTON

PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION

SUBSTITUTE

FORM W-9
DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE

PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION FOR PAYEES EXEMPT FROM BACKUP WITHHOLDING (SEE GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9)

PLEASE PROVIDE YOUR TAXPAYER IDENTIFICATION NUMBER IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW

(Social Security Number or Employer Identification Number)

PLEASE CHECK THE BOX AT RIGHT IF YOU HAVE APPLIED FOR AND ARE AWAITING RECEIPT OF YOUR TAXPAYER IDENTIFICATION NUMBER [_]

CERTIFICATION--Under penalties of perjury, I certify that:

(l) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a Taxpayer Identification Number to be issued to me), and

(2) I am not subject to backup withholding either because I have not been notified by the Internal Revenue Service ("IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or the IRS has notified me that I am no longer subject to backup withholding.

You must cross out item (2) above if you have been notified by the IRS you are subject to backup withholding because of underreporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out item (2).

PRINT YOUR NAME: _____

ADDRESS: _____

SIGNATURE:_____DATE: _____

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31% ON ANY PAYMENTS MADE TO YOU PURSUANT TO THE EXCHANGE OFFER. FOR ADDITIONAL DETAILS, PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9. IF YOU CHECKED THE ABOVE BOX OF THIS SUBSTITUTE FROM W-9 INDICATING THAT YOU ARE AWAITING RECEIPT OF YOUR TAXPAYER IDENTIFICATION NUMBER, YOU MUST SIGN AND DATE THE FOLLOWING CERTIFICATION.

CERTIFICATION OF PAYEE AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury, that a Taxpayer Identification Number has not been issued to me, and that I mailed or delivered an application to receive a Taxpayer Identification Number to the appropriate IRS Center or Social Security Administration Office for I intend to mail or deliver an application in the near future). I understand that if I do not provide a Taxpayer Identification Number within 60 days, 31% of all reportable payments made to me thereafter will be withheld until I provide a number.

SIGNATURE: _____

DATE: _____

VI. NOTICE OF SOLICITED TENDERS - To Be Completed if a Soliciting Dealer Fee is To Be Paid in Connection With This Tender.

NOTICE OF SOLICITED TENDERS

Lilly will pay to a Soliciting Dealer, as defined in Instruction 10 herein, a solicitation fee of $1.00 per share, up to a maximum of 1,000 shares, for each share of Lilly Common Stock tendered and exchanged pursuant to the Exchange Offer in cases where such tenders are affirmatively solicited by the Soliciting Dealer, except that no solicitation fee shall be payable (i) in connection with a tender of Lilly Common Stock by a Shareholder (x) tendering more than 10,000 shares of Lilly Common Stock or (y) tendering from a country outside of the United States; or (ii) to the Dealer Manager. In addition, no such fee shall be payable to a Soliciting Dealer if such Soliciting Dealer is required for any reason to transfer the amount of such fee to a tendering holder (other than itself). No broker, dealer, bank, trust company or fiduciary shall be deemed to be the agent of Lilly, Guidant, the Exchange Agent, the Information Agent or the Dealer Manager for purposes of the Exchange Offer. See Instruction 10.

The undersigned represents that this tender was affirmatively solicited and obtained by the Soliciting Dealer listed below:

Name of Firm: _____
(Please Print)

Name of Individual Broker or Financial Consultant: _____

Identification Number (if known): _____

Address: _____
(Include Zip Code)

The following is to be completed ONLY if customer's Lilly Common Stock held in nominee name are tendered.

BENEFICIAL OWNERS	NUMBER OF SHARES OF LILLY COMMON STOCK TENDERED

(ATTACH ADDITIONAL LIST IF NECESSARY)

Beneficial Owner No. 1.....	
Beneficial Owner No. 2.....	
Beneficial Owner No. 3.....	

The acceptance of a solicitation fee by such Soliciting Dealer will constitute a representation by it that: (i) it has complied with the applicable requirements of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder, in connection with such solicitation; (ii) it has affirmatively solicited and obtained this tender and is entitled to such compensation for such solicitation under the terms and conditions of the Offering Circular - Prospectus; and (iii) in soliciting tenders of shares of Lilly Common Stock, it has used no soliciting materials other than those furnished by Lilly.

SOLICITING DEALERS ARE NOT ENTITLED TO A FEE WITH RESPECT TO SHARES OF LILLY COMMON STOCK BENEFICIALLY OWNED BY SUCH SOLICITING DEALER OR WITH RESPECT TO ANY SHARES THAT ARE REGISTERED IN THE NAME OF A SOLICITING DEALER UNLESS SUCH SHARES ARE HELD BY SUCH SOLICITING DEALER AS NOMINEE AND ARE TENDERED FOR THE BENEFIT OF BENEFICIAL HOLDERS IDENTIFIED IN THE LETTER OF TRANSMITTAL.

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to Lilly the shares of Lilly Common Stock represented by the certificate(s) described above. Subject to, and effective upon, the acceptance for exchange of the shares of Lilly Common Stock tendered herewith, the undersigned hereby sells, exchanges, assigns and transfers to, or upon the order of, Lilly, all right, title and interest in and to the shares of Lilly Common Stock tendered hereby (and any and all other shares of Lilly Common Stock or other securities issued or issuable in respect thereof on or after August 21, 1995) and accepted for exchange pursuant to the Exchange Offer. The undersigned hereby irrevocably constitutes and appoints the Exchange Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the Exchange Agent also acts as the agent of Lilly) with respect to the shares of Lilly Common Stock tendered herewith, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest) (a) to deliver stock certificates representing the shares of Lilly Common Stock tendered herewith or transfer ownership of such shares of Lilly Common Stock on the account books maintained by DTC, MSTC or PHILADEP, together, in any such case, with all accompanying evidences of transfer and authenticity, to or upon the order of Lilly upon receipt by the Exchange Agent, as the undersigned's agent, of certificate(s) representing shares of Guidant Common Stock ("Guidant Certificate(s)") and shares of Lilly Common Stock not exchanged to which the undersigned is entitled upon the acceptance for exchange by Lilly of the shares of Lilly Common Stock tendered herewith under the Exchange Offer; (b) to present certificate(s) representing such shares of Lilly Common Stock for transfer on the books of Lilly; and (c) to receive all benefits and otherwise exercise all rights of beneficial ownership of such shares of Lilly Common Stock, all in accordance with the terms and conditions of the Exchange Offer.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, exchange, assign and transfer the shares of Lilly Common Stock tendered hereby (and any and all other shares of Lilly Common Stock or other securities issued or issuable in respect thereof on or after August 21, 1995) and that when such shares of Lilly Common Stock are accepted by Lilly for exchange pursuant to the Exchange Offer, Lilly will acquire good, marketable and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and that none of such shares of Lilly Common Stock will be subject to any adverse claim or right when the same are accepted for exchange by Lilly. The undersigned will, upon request, execute and deliver any additional documents deemed by the Exchange Agent or Lilly to be necessary or desirable to complete the sale, exchange, assignment and transfer of the shares of Lilly Common Stock tendered hereby (and all such other shares of Guidant Common Stock or securities). All authority conferred or agreed to be conferred in this Letter of Transmittal and every obligation of the undersigned hereunder shall be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned.

The undersigned understands that if more than 16,504,298 shares of Lilly Common Stock are validly tendered and not properly withdrawn in the Exchange Offer as provided in the Offering Circular - Prospectus, the shares of Lilly Common Stock so tendered and not withdrawn shall be accepted for exchange on a pro rata basis in accordance with the terms set forth in the Offering Circular - Prospectus under "The Exchange Offer--Terms of the Exchange Offer," except for odd lot tenders as described in the Offering Circular - Prospectus under "The Exchange Offer - Tenders for Exchange by Holders of Fewer than 100 Shares of Lilly Common Stock." The

undersigned understands that, upon acceptance by Lilly of the shares of Lilly Common Stock tendered herewith, the undersigned will be deemed to have accepted the shares of Guidant Common Stock exchanged therefor and will be deemed to have relinquished all rights with respect to the shares of Lilly Common Stock so accepted.

The undersigned understands that Lilly may accept the undersigned's tender at any time on or after the Expiration Date (as defined in the Offering Circular - Prospectus) by delivering oral or written notice of acceptance to the Exchange Agent. Tenders of shares of Lilly Common Stock may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for exchange as provided in the Exchange Offer, at any time after October 17, 1995. This tender may be withdrawn only in accordance with the procedures set forth in the Offering Circular - Prospectus under "The Exchange Offer--Withdrawal Rights" and the Instructions contained in this Letter of Transmittal.

The undersigned recognizes that, under certain circumstances and subject to certain conditions to the Exchange Offer (which Lilly, in its sole discretion, may waive) set forth in the Offering Circular - Prospectus, Lilly may not be required to accept for exchange any of the shares of Lilly Common Stock tendered herewith or any shares of Lilly Common Stock tendered after the Expiration Date. The shares of Lilly Common Stock delivered to the Exchange Agent and not accepted for exchange will be returned to the undersigned as promptly as practicable following expiration or termination of the Exchange Offer at the address set forth above under "Description of Shares of Lilly Common Stock Tendered," unless otherwise indicated under "Special Delivery Instructions."

All authority conferred or agreed to be conferred by this Letter of Transmittal shall survive the death or incapacity of the undersigned and every obligation of the undersigned under this Letter of Transmittal shall be binding upon his or her heirs, personal representatives, successors and assigns. Tenders may be withdrawn only in accordance with the procedures set forth in the Instructions contained in this Letter of Transmittal and the Offering Circular - Prospectus.

Unless otherwise indicated under "Special Issuance Instructions," please issue (i) the Guidant Certificate(s) to which the undersigned is entitled; (ii) if applicable, a check in lieu of a fractional share equal to such fraction multiplied by the average gross selling price per share of Guidant Common Stock obtained by the Exchange Agent upon the sale of all fractional shares on behalf of those tendering Lilly shareholders otherwise entitled to receive fractional shares (a "Fractional Share Check"); and (iii) if applicable, the certificate(s) representing any shares of Lilly Common Stock tendered herewith that are not accepted for exchange, in each case in the name(s) of the tendering holder(s) shown above under "Description of Shares of Lilly Common Stock Tendered." Unless otherwise indicated under "Special Delivery Instructions," please send (i) Guidant Certificate(s) to which the undersigned is entitled; (ii) if applicable, a Fractional Share Check; (iii) if applicable, the certificate(s) representing any shares of Lilly Common Stock not tendered; and/or (iv) if applicable, the certificate(s) representing any shares of Lilly Common Stock tendered herewith and not accepted for exchange, in each case issued in the name(s) of the tendering holder(s) shown above under "Description of Shares of Lilly Common Stock Tendered" together with accompanying documents, as appropriate to the address(es) of the tendering holder(s) shown above under "Description of Shares of Lilly Common Stock Tendered." Any shares of Lilly Common Stock delivered by book-entry transfer that are not tendered or any shares of Lilly Common Stock tendered herewith delivered by book-entry transfer that are not accepted for exchange will be credited to the account at the Book-Entry Transfer Facility designated above under Section II.A. The undersigned recognizes that Lilly has no obligation pursuant to the

"Special Issuance Instructions" to transfer any shares of Lilly Common Stock from the name of the tendering holder hereof if Lilly does not accept for exchange such shares. In the event that the boxes entitled "Special Issuance Instructions" and "Special Delivery Instructions" are both completed, please issue (i) the Guidant certificate(s) to which the undersigned is entitled; (ii) if applicable, a Fractional Share Check; and (iii) if applicable, the certificates(s) representing any shares of Lilly Common Stock tendered herewith and not accepted for exchange in the name(s) of, and mail such certificate(s) and check (and accompanying documents, as appropriate) to, the person(s) so indicated. Certificate(s) representing any shares of Lilly Common Stock not tendered by the undersigned will be returned in the name(s) of the tendering holder(s) shown above to the address(es) shown above under "Description of Shares of Lilly Common Stock Tendered," unless otherwise instructed under "Special Delivery Instructions."

The undersigned understands that the delivery and surrender of the shares of Lilly Common Stock tendered herewith is not effective, and the risk of loss of the shares of Lilly Common Stock (including shares of Lilly Common Stock tendered herewith) does not pass to the Exchange Agent, until receipt by the Exchange Agent of this Letter of Transmittal, or a manually signed facsimile hereof, duly completed and signed, or an Agent's Message (as defined in the Offering Circular - Prospectus under "The Exchange Offer--Procedures for Tendering Shares of Lilly Common Stock) in connection with a book-entry transfer of shares, together with all accompanying evidences of authority in form satisfactory to Lilly and any other required documents. ALL QUESTIONS AS TO VALIDITY, FORM AND ELIGIBILITY AND ACCEPTANCE FOR EXCHANGE OF ANY SURRENDER OF SHARES OF LILLY COMMON STOCK TENDERED HEREWITH WILL BE DETERMINED BY LILLY IN ITS SOLE DISCRETION AND SUCH DETERMINATION SHALL BE FINAL AND BINDING UPON ALL TENDERING SHAREHOLDERS.

The undersigned understands that a tender of shares of Lilly Common Stock and the acceptance by Lilly for exchange of such shares pursuant to the procedures described in the Offering Circular - Prospectus under "The Exchange Offer--Procedures for Tendering Shares of Lilly Common Stock" and in the Instructions hereto will constitute a binding agreement between the undersigned and Lilly upon the terms and subject to the conditions of the Exchange Offer, including the tendering shareholder's representation and warranty that (i) such holder owns the shares of Lilly Common Stock being tendered within the meaning of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended, and (ii) the tender of such shares of Lilly Common Stock complies with Rule 14e-4.

INSTRUCTIONS

FORMING PART OF THE TERMS OF AND CONDITIONS
TO THE EXCHANGE OFFER

1. DELIVERY OF THIS LETTER OF TRANSMITTAL AND CERTIFICATES OR BOOK-ENTRY CONFIRMATIONS. Certificate(s) for shares of Lilly Common Stock or any book-entry transfer into the Exchange Agent's account at a Book-Entry Transfer Facility of shares of Lilly Common Stock tendered electronically, as well as a properly completed and duly executed copy or manually signed facsimile of this Letter of Transmittal, or an Agent's Message in the case of a book-entry transfer of shares, and any other documents required by this Letter of Transmittal, must be received by the Exchange Agent at its address set forth herein on or prior to the Expiration Date (as defined in the Offering Circular - Prospectus). THE METHOD OF DELIVERY OF THIS LETTER OF TRANSMITTAL, CERTIFICATE(S) FOR SHARES OF LILLY COMMON STOCK, AND ANY OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE SHAREHOLDERS AND, EXCEPT AS OTHERWISE PROVIDED, THE DELIVERY WILL BE DEEMED MADE WHEN ACTUALLY RECEIVED OR CONFIRMED BY THE EXCHANGE AGENT. IF DELIVERY IS BY MAIL, THE USE OF REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS SUGGESTED AND SUFFICIENT TIME TO ENSURE TIMELY RECEIPT SHOULD BE ALLOWED.

Shareholders whose shares of Lilly Common Stock are not immediately available or who cannot deliver their shares of Lilly Common Stock and all other required documents to the Exchange Agent on or prior to the Expiration Date, as may be extended, may tender their shares of Lilly Common Stock pursuant to the guaranteed delivery procedures set forth in the Offering Circular - Prospectus. Pursuant to such procedures (i) tender must be made through a participant in the Security Transfer Agents Medallion Program or the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (an "Eligible Institution"); (ii) on or prior to the Expiration Date, the Exchange Agent must have received from the Eligible Institution a properly completed and duly executed Notice of Guaranteed Delivery (by facsimile transmission, mail or hand delivery) (x) setting forth the name and address of the Shareholder and the number of shares of Lilly Common Stock being tendered, (y) stating that the tender is being made thereby and (z) guaranteeing that, within three New York Stock Exchange trading days after the date of execution of such Notice of Guaranteed Delivery, this Letter of Transmittal together with the certificate(s) representing the shares of Lilly Common Stock and any other documents required by this Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent; and (iii) the certificate(s) for all tendered shares of Lilly Common Stock, or a confirmation of a book-entry transfer of such shares of Lilly Common Stock into the Exchange Agent's account at a Book-Entry Transfer Facility, together with a properly completed and duly executed copy of this Letter of Transmittal (or manually signed facsimile thereof) and any required signature guarantees, or an Agent's Message, as well as all other documents required by this Letter of Transmittal, must be received by the Exchange Agent within three New York Stock Exchange trading days after the date of execution of such Notice of Guaranteed Delivery, all as provided in the Offering Circular - Prospectus under the caption "The Exchange Offer--Guaranteed Delivery Procedures."

All questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of tendered shares of Lilly Common Stock will be determined by Lilly, in its sole discretion, which determination shall be final and binding on all tendering shareholders. Lilly reserves the absolute right to reject any or all tenders of shares of Lilly Common Stock determined by it not to be in proper form or the acceptance of which may, in the opinion of Lilly's counsel, be unlawful. Lilly also reserves the absolute right to waive any defect or irregularity in any tender of shares of Lilly Common Stock. All tendering Shareholders, by execution of this Letter of Transmittal (or facsimile thereof), waive any right to receive notice of the acceptance of their shares of Lilly Common Stock for exchange.

None of Lilly, the Exchange Agent, or any other person shall be under any duty to give notification of any defect or irregularity in any tender, or incur any liability for failure to give any such notification.

2. PARTIAL TENDERS (NOT APPLICABLE TO SHAREHOLDERS WHO TENDER BY BOOK-ENTRY TRANSFER); WITHDRAWALS. If less than all the shares of Lilly Common Stock evidenced by a submitted certificate are tendered, the tendering Shareholder must fill in the number of shares tendered in the fourth column of the box entitled "Description of Shares of Lilly Common Stock Tendered." All the shares of Lilly Common Stock represented by certificates delivered to the Exchange Agent will be deemed to have been tendered unless otherwise indicated. Partial tenders are not applicable to holders of shares of Lilly Common Stock who tender by book-entry transfer. If all the shares of Lilly Common Stock are not tendered, (i) a reissued certificate representing the number of shares of Lilly Common Stock not tendered will be issued in the name of such tendering Shareholders, and sent to, unless otherwise indicated under "Special Delivery Instructions," such tendering Shareholders and (ii) certificate(s) for shares of Guidant Common Stock will be issued in the name of, and sent to, such tendering Shareholders unless otherwise indicated above under "Special Issuance Instructions" or "Special Delivery Instructions," promptly after the shares of Lilly Common Stock are accepted for exchange.

A tender pursuant to the Exchange Offer may be withdrawn, subject to the procedures described in this Letter of Transmittal and in the Offering Circular - Prospectus, at any time prior to the Expiration Date and subsequent to October 17, 1995, if not theretofore accepted for exchange. To be effective with respect to the tender of shares of Lilly Common Stock, a written facsimile transmission notice of withdrawal must (i) be received by the Exchange Agent before the Expiration Date, (ii) specify the name of the person who tendered the shares of Lilly Common Stock to be withdrawn, (iii) contain the serial numbers shown on the particular certificate(s) evidencing the shares of Lilly Common Stock to be withdrawn and the name of the registered holder thereof (if certificates have been delivered or otherwise identified to the Exchange Agent) or the name and number of the account at the Book-Entry Transfer Facility from which the shares were transferred and the number of shares of Lilly Common Stock withdrawn and (iv) be signed by the Shareholder in the same manner as the original signature on this Letter of Transmittal (including the required signature guarantee(s)) or be accompanied by evidence satisfactory to Lilly that the person withdrawing the tender has succeeded to the beneficial ownership of the shares of Lilly Common Stock. If the certificate(s) for shares of Lilly Common Stock to be withdrawn have been delivered to the Exchange Agent, a signed notice of withdrawal with (except in the case of shares of Lilly Common Stock tendered by an Eligible Institution) signatures guaranteed by an Eligible Institution must be submitted prior to the release of such certificate(s) for shares of Lilly Common Stock. Withdrawals may not be rescinded, and shares of Lilly Common Stock withdrawn will thereafter be deemed not validly tendered for purposes of the Exchange Offer. However, withdrawn shares of Lilly Common Stock may be retendered by again following the procedures described in this Letter of Transmittal and the Offering Circular - Prospectus.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by Lilly, in its sole discretion, which determination shall be final and binding. None of Lilly, the Exchange Agent or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal or incur any liability for failure to give any such notification.

3. SIGNATURES ON THIS LETTER OF TRANSMITTAL, STOCK POWERS AND ENDORSEMENTS; GUARANTEE OF SIGNATURES. If this Letter of Transmittal is signed by the holder(s) of the shares of Lilly Common Stock tendered hereby, the signature must correspond with the name(s) as written on the face of the certificate(s) without alteration, enlargement or any change whatsoever.

If any of the shares of Lilly Common Stock tendered hereby are owned by two or more joint owners, all such owners must sign this Letter of Transmittal. If any tendered shares of Lilly Common Stock are held in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal as there are names in which certificates are held.

If this Letter of Transmittal is signed by the tendering Shareholder(s) of the shares of Lilly Common Stock listed and tendered hereby, no signature guarantees are required, unless Guidant Certificate(s) are to be issued and, if applicable, certificate(s) for any shares of Lilly Common Stock not accepted for exchange are to be reissued, in the name of a person other than the tendering holder(s), in which case, the signature guarantee in Section V of this Letter of transmittal must be completed. Such signature guarantees must be provided by an Eligible Institution.

If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and, unless waived by Lilly, proper evidence satisfactory to Lilly of their authority to so act must be submitted.

All signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution unless the shares of Lilly Common Stock tendered pursuant hereto are tendered: (i) by the registered holder of the shares of Lilly Common Stock (which term, for purposes of this Letter of Transmittal, shall include any participant in a Book-Entry Transfer Facility whose name appears on a security position listing as the owner of the shares of Lilly Common Stock) who has not completed the box entitled "Special Issuance Instructions" on this Letter of Transmittal, or (ii) for the account of an Eligible Institution.

4. SPECIAL ISSUANCE AND DELIVERY INSTRUCTIONS. If special issuance and/or special delivery instructions are requested, tendering Shareholders should indicate, in the applicable box, the name and address to which Guidant Certificate(s), a Fractional Share Check, if any, and substitute certificate(s) for shares of Lilly Common Stock tendered but not accepted for exchange, if any, are to be issued or the name and address to which Guidant Certificate(s), a Fractional Share Check, if any, and/or substitute certificate(s) for shares of Lilly Common Stock not tendered or shares of Lilly Common Stock tendered and not accepted for exchange, if any, are to be sent if different from the name and address of the person signing this Letter of Transmittal. In the case of issuance of shares of Guidant Common Stock or Lilly Common Stock in a different name, the employer identification or the social security number of the person named must be identified and a Substitute Form W-9 must be completed for the new owner.

5. DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN SHARES. Shareholders who are participants in Lilly's Dividend Reinvestment and Stock Purchase Plan (the "DRP") and who wish to tender shares of Lilly Common Stock held in their account under the DRP ("DRP Shares") pursuant to the Exchange Offer must so indicate by completing Section I.B. and returning to the Exchange Agent the properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantees and any other documents required by this Letter of Transmittal. If the participant authorizes the tender of his or her DRP Shares, but does not indicate the number of shares to be tendered, the participant will be deemed to have tendered all DRP Shares owned by such participant, including fractional shares and any shares credited to the participant's account after the date hereof and prior to the Expiration Date. If a participant authorizes the tender of his or her DRP Shares and such DRP Shares are actually exchanged under the terms and subject to the conditions of the Exchange Offer, Lilly, as administrator of the DRP, will reduce the number of shares of Lilly Common Stock in the participant's DRP account by the number of DRP Shares that are accepted for exchange. Any DRP shares tendered but not exchanged will be returned to the participant's DRP account.

6. TAXPAYER IDENTIFICATION NUMBER. Federal income tax law requires that a Shareholder whose tendered shares of Lilly Common Stock are accepted for exchange must provide his or her correct taxpayer identification number ("TIN") which, in the case of a Shareholder who is an individual, is his or her social security number. If

the Shareholder does not provide the correct TIN, the Shareholder may be subject to a penalty imposed by the Internal Revenue Service ("IRS") and dividends paid to such Shareholder may be subject to 31% backup withholding. If backup withholding results in an overpayment of taxes, a refund may be obtained from the IRS. Exempt Shareholders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding requirements. In order for a foreign individual to qualify as an exempt person, that individual must submit a statement, signed under penalty of perjury, attesting to that individual's exempt status. A Form W-8 for such a statement can be obtained from the Exchange Agent.

To prevent backup withholding, each tendering Shareholder must provide his or her correct TIN by completing "Substitute Form W-9" set forth above, certifying that the TIN provided is correct (or that the Shareholder is awaiting a TIN) and that (a) the Shareholder has not been notified by the IRS that he or she is subject to backup withholding as a result of failure to report all interest or dividends or (b) the IRS has notified the Shareholder that he or she is no longer subject to backup withholding. To prevent possible erroneous backup withholding, exempt Shareholders (other than certain foreign individuals) should certify in accordance with the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 that such Shareholder is exempt from backup withholding. If a Shareholder has been notified by the IRS that he or she is subject to backup withholding because of underreporting interest or dividends on his or her tax return, he or she should nevertheless complete and sign Substitute Form W-9 but should (unless after being so notified by the IRS he or she received a notification from the IRS that he or she is no longer subject to backup withholding) cross out item (2) of the certification on the form. In such case, backup withholding may apply to dividends paid on the shares of Guidant Common Stock issued to such Shareholder. If the shares of Lilly Common Stock are in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for information on which TIN to report.

See enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional instructions.

7. TRANSFER TAXES. Lilly shall pay all transfer taxes, if any, applicable to the transfer and exchange of shares of Lilly Common Stock to it or its order, and the transfer of shares of Guidant Common Stock to Shareholders, pursuant to the Exchange Offer. If, however, shares of Guidant Common Stock or shares of Lilly Common Stock not exchanged are to be delivered to or are to be issued in the name of, any person other than the tendering Shareholder, or if tendered certificates are recorded in the name of any person other than the person signing this Letter of Transmittal, then the amount of such transfer taxes (whether imposed on the registered holder or any other person) will be payable on account of the transfer to such person by the tendering Shareholder unless evidence satisfactory to Lilly of the payment of such taxes or exemption therefrom is submitted.

Except as provided in this Instruction 7, it will not be necessary for transfer tax stamps to be affixed to the certificates in this Letter of Transmittal.

8. OTHER TAX INFORMATION. Holders of shares of Lilly Common Stock who acquired their shares at different times may have different tax bases in their shares of Lilly Common Stock, and may wish to consult with their tax advisors regarding the possible tax basis consequences of the Transaction.

9. ODD LOTS. As described in the Offering Circular - Prospectus, if fewer than all shares of Lilly Common Stock tendered on or prior to the Expiration Date are to be purchased by Lilly, the shares of Lilly Common Stock purchased first will consist of all shares of Lilly Common Stock validly tendered by any Shareholder who owned beneficially and of record as of August 16, 1995 an aggregate of less than 100 shares of Lilly Common Stock and who tendered all of such shares of Lilly Common Stock. This preference will not be available unless Section I.C. or II.B. of this Letter of Transmittal and the Notice of Guaranteed Delivery, if applicable, is completed.

10. SOLICITED TENDERS. Lilly will pay to a Soliciting Dealer a solicitation fee of $1.00 per share, up to a maximum of 1,000 shares, for each share of Lilly Common Stock tendered and accepted for exchange pursuant to the Exchange Offer, covered by the Letter of Transmittal which designates, in the box captioned "Notice of Solicited Tenders," as having affirmatively solicited and obtained the tender, the name of (i) any broker or dealer in securities which is a member of any national securities exchange or of the National Association of Securities Dealers, Inc. or (ii) any bank or trust company (each, a "Soliciting Dealer"), except that no solicitation fee shall be payable (i) in connection with a tender of Lilly Common Stock by a Shareholder (x) tendering more than 10,000 shares of Lilly Common Stock or (y) tendering from a country outside of the United States; or (ii) to the Dealer Manager. In addition, Soliciting Dealers are not entitled to a fee with respect to shares of Lilly Common Stock beneficially owned by such Soliciting Dealer or with respect to any shares that are registered in the name of a Soliciting Dealer unless such shares are held by such Soliciting Dealer as nominee and are tendered for the benefit of beneficial holders identified in this Letter of Transmittal. No such fee shall be payable to a Soliciting Dealer if such Soliciting Dealer is required for any reason to transfer the amount of such fee to a tendering holder (other than itself). No broker, dealer, bank, trust company or fiduciary shall be deemed to be the agent of Lilly, Guidant, the Exchange Agent, the Information Agent or the Dealer Manager for purposes of the Exchange Offer.

11. WAIVER OF CONDITIONS. Lilly reserves the absolute right to amend or waive any of the specified conditions to the Exchange Offer in the case of any shares of Lilly Common Stock tendered other than certain conditions specified in the Offering Circular - Prospectus.

12. MUTILATED, LOST, STOLEN OR DESTROYED SHARES OF LILLY STOCK. Any Shareholder whose shares of Lilly Common Stock have been mutilated, lost, stolen or destroyed should contact the Exchange Agent by telephone at (617) 575-2700 or at the address indicated above for further instructions. If any certificate representing shares of Lilly Common Stock has been mutilated, lost, stolen or destroyed, such shareholder must (i) furnish to the Exchange Agent evidence, satisfactory to it in its discretion, of the ownership of and the mutilation, loss, theft or destruction of such certificate, (ii) furnish to the Exchange Agent indemnity, satisfactory to it in its discretion, and (iii) comply with such other regulations as the Exchange Agent may prescribe.

13. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions relating to the procedure for tendering and requests for additional copies of the Offering Circular - Prospectus and this Letter of Transmittal may be directed to the Information Agent by telephone at (800) 207-3158.

THE INFORMATION AGENT FOR THE EXCHANGE OFFER IS:

D.F. KING & CO., INC.

UNITED STATES	EUROPE
77 Water Street New York, New York 10005 (800) 207-3158	Royex House, Aldermanbury Square London, England EC2V 7HR (44) 171-600-5005 (Collect)

OUTSIDE UNITED STATES AND EUROPE:
(212) 269-5550 (Collect)

NAME(S) AND ADDRESS(ES)
OF REGISTERED HOLDER(S)

ELI LILLY AND COMPANY

OFFER TO EXCHANGE 3.49 SHARES OF
COMMON STOCK OF GUIDANT CORPORATION FOR
EACH SHARE OF COMMON STOCK OF ELI LILLY AND
COMPANY UP TO AN AGGREGATE OF 16,504,298
SHARES OF COMMON STOCK OF ELI LILLY AND COMPANY

To Brokers, Securities Dealers, Commercial Banks,
Trust Companies and Other Nominees:

Eli Lilly and Company is offering, upon the terms and subject to the conditions set forth in the enclosed Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") and the enclosed Letter of Transmittal (the "Letter of Transmittal"; and together with the Offering Circular - Prospectus, the "Exchange Offer"), to exchange 3.49 shares of common stock, without par value ("Guidant Common Stock"), of Guidant Corporation ("Guidant") for each share of common stock, without par value, of Lilly ("Lilly Common Stock") up to an aggregate of 16,504,298 shares of Lilly Common Stock.

We are asking you to contact your clients for whom you hold shares of Lilly Common Stock registered in your name or in the name of your nominee. You will be reimbursed for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to your clients. Lilly will pay all transfer taxes, if any, applicable to the transfer and exchange of shares of Lilly Common Stock to it or its order, except as otherwise provided in Instruction 7 of the Letter of Transmittal.

Lilly will pay to a Soliciting Dealer (as defined herein), a solicitation fee of $1.00 per share, up to a maximum of 1,000 shares, for each share of Lilly Common Stock tendered and accepted for exchange pursuant to the Exchange Offer if such Soliciting Dealer has affirmatively solicited and obtained such tender, except that no solicitation fee shall be payable (i) in connection with a tender of shares of Lilly Common Stock by a shareholder tendering more than 10,000 shares of Lilly Common Stock or tendering from a country outside of the United States; or (ii) to the Dealer Manager. "Soliciting Dealer" includes (i) any broker or dealer in securities which is a member of any national securities exchange or of the National Association of Securities Dealers, Inc. or (ii) any bank or trust company. In order for a Soliciting Dealer to receive a solicitation fee with respect to the tender of shares of Lilly Common Stock, the Exchange Agent must have received a properly completed and executed form (from the Letter of Transmittal) entitled "Notice of Solicited Tenders."

No fee shall be paid to a Soliciting Dealer with respect to shares of Lilly Common Stock beneficially owned by such Soliciting Dealer or with respect to any shares that are registered in the name of a Soliciting Dealer unless such shares are held by such Soliciting Dealer as nominee and are tendered for the benefit of beneficial holders identified in the Letter of Transmittal. No such fee shall be payable to a Soliciting Dealer if such Soliciting Dealer is required for any reason to transfer the amount of such fee to a tendering holder (other than itself). No broker, dealer, bank, trust company or fiduciary shall be deemed to be the agent of Lilly, Guidant, the Exchange Agent, the Dealer Manager or the Information Agent for purposes of the Exchange Offer.

Enclosed is a copy of each of the following documents:

1. The Offering Circular - Prospectus.

2. The Question and Answer Letter.

3. The Letter of Transmittal for your use and for the information of your clients.

4. The Notice of Guaranteed Delivery.

5. A form of letter which may be sent to your clients for whose account you hold shares of Lilly Common Stock registered in your name or the name of your nominee with space provided for obtaining the clients' instructions with regard to the Exchange Offer.

6. Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

7. A return envelope addressed to The First National Bank of Boston, the Exchange Agent.

Your prompt action is requested. The Exchange Offer will expire at Midnight, New York City time, on September 18, 1995, or if extended by Lilly, the latest date and time to which extended (the "Expiration Date"). Shares of Lilly Common Stock tendered pursuant to the Exchange Offer may be withdrawn, subject to the procedures described in the Offering Circular - Prospectus, at any time prior to the Expiration Date and after October 17, 1995, if not theretofore accepted for exchange.

To participate in the Exchange Offer, certificates for shares of Lilly Common Stock (or evidence of a book-entry delivery into the Exchange Agent's account at The Depository Trust Company, the Midwest Securities Trust Company or the Philadelphia Depository Trust Company) and a duly executed and properly completed Letter of Transmittal or a manually signed facsimile thereof together with any other required documents must be delivered to the Exchange Agent as indicated in the Exchange Offer.

If holders of shares of Lilly Common Stock wish to tender, but it is impracticable for them to forward their shares of Lilly Common Stock prior to the Expiration Date, a tender may be effected by following the guaranteed delivery procedures described in the Offering Circular - Prospectus under "The Exchange Offer--Guaranteed Delivery Procedures."

Additional information concerning the Exchange Offer and additional copies of the enclosed material may be obtained from D.F. King & Co., Inc., the Information Agent at: in the United States, (800) 207-3158; in Europe, (44) 171-600-5005 (call collect); and outside the United States and Europe, (212) 269-5550 (call collect).

Very truly yours,

Eli Lilly and Company

NOTHING HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY PERSON AS AN AGENT OF LILLY, GUIDANT, THE EXCHANGE AGENT, THE DEALER MANAGER OR THE INFORMATION AGENT OR AUTHORIZE YOU OR ANY OTHER PERSON TO MAKE ANY STATEMENTS ON BEHALF OF ANY OF THEM WITH RESPECT TO THE EXCHANGE OFFER, EXCEPT FOR STATEMENTS EXPRESSLY MADE IN THE OFFERING CIRCULAR - PROSPECTUS OR THE LETTER OF TRANSMITTAL.

ELI LILLY AND COMPANY

OFFER TO EXCHANGE 3.49 SHARES OF
COMMON STOCK OF GUIDANT CORPORATION FOR
EACH SHARE OF COMMON STOCK OF ELI LILLY AND
COMPANY UP TO AN AGGREGATE OF 16,504,298
SHARES OF COMMON STOCK OF ELI LILLY AND COMPANY

To Our Clients:

Enclosed for your consideration is an Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") and a form of Letter of Transmittal (the "Letter of Transmittal"; and together with the Offering Circular - Prospectus, the "Exchange Offer") relating to the offer by Eli Lilly and Company ("Lilly") to exchange 3.49 shares of common stock, without par value, of Guidant Corporation ("Guidant Common Stock") for each share of common stock, without par value, of Lilly ("Lilly Common Stock") up to an aggregate of 16,504,298 shares of Lilly Common Stock.

The material is being forwarded to you as the beneficial owner of shares of Lilly Common Stock carried by us in your account but not registered in your name. A tender of such shares of Lilly Common Stock may only be made by us as the registered holder and pursuant to your instructions. Therefore, Lilly urges holders of shares of Lilly Common Stock registered in the name of a broker, dealer, commercial bank, trust company or other nominee to contact such registered holder promptly if they wish to accept the Exchange Offer.

Accordingly, we request instructions as to whether you wish us to tender any or all such shares of Lilly Common Stock held by us for your account pursuant to the terms and conditions set forth in the enclosed Offering Circular - Prospectus and the related Letter of Transmittal.

Your instructions to us should be forwarded as promptly as possible in order to permit us to tender shares of Lilly Common Stock in accordance with the provisions of the Exchange Offer. The Exchange Offer will expire at Midnight, New York City time, on Monday, September 18, 1995, or if extended by Lilly, the latest date and time to which extended (the "Expiration Date"). Shares of Lilly Common Stock tendered pursuant to the Exchange Offer may be withdrawn, subject to the procedures described in the Offering Circular - Prospectus, at any time prior to the Expiration Date and after October 17, 1995, if not theretofore accepted for exchange.

Your attention is directed to the following:

1. The Exchange Offer is for up to an aggregate of 16,504,298 shares of Lilly Common Stock.

2. Lilly's obligation to accept shares of Lilly Common Stock tendered in the Exchange Offer is subject to certain conditions specified in the Offering Circular - Prospectus.

3. Any transfer taxes incident to the transfer of shares of Lilly Common Stock from the shareholder to Lilly will be paid by Lilly, except as provided in Instruction 7 of the Letter of Transmittal.

If you wish to have us tender any or all of your shares of Lilly Common Stock, please so instruct us by completing, executing and returning to us the instruction form which appears on the reverse side of this letter. THE LETTER OF TRANSMITTAL IS FURNISHED TO YOU FOR INFORMATION ONLY AND MAY NOT BE USED BY YOU TO TENDER SHARES OF LILLY COMMON STOCK.

INSTRUCTIONS

The undersigned acknowledge(s) receipt of your letter and the enclosed material referred to therein relating to the Exchange Offer of Eli Lilly and Company ("Lilly") relating to the common stock, without par value, of Lilly ("Lilly Common Stock").

This will instruct you to tender the shares of Lilly Common Stock indicated below held by you for the account of the undersigned, pursuant to the terms of and conditions set forth in the Offering Circular - Prospectus and the Letter of Transmittal.

Box 1 [_] Please tender all of my shares of Lilly Common Stock held by you for my account.

Box 2 [_] Please tender_____(number) of shares of Lilly Common Stock held by you for my account.

Box 3 [_] Please do not tender any of my shares of Lilly Common Stock held by you for my account.

ODD LOTS

[_] By checking this box, the undersigned represents that the undersigned owned beneficially and of record as of August 16, 1995, an aggregate of less than 100 shares of Lilly Common Stock and is tendering all such shares.

NOTICE OF SOLICITED TENDERS

Lilly will pay to a Soliciting Dealer, as defined in the Offering Circular - Prospectus, a solicitation fee of $1.00 per share, up to a maximum of 1,000 shares, for each share of Lilly Common Stock tendered and exchanged pursuant to the Exchange Offer in cases where such tenders are affirmatively solicited by the Soliciting Dealer, except that no solicitation fee shall be payable (i) in connection with a tender of Lilly Common Stock by a shareholder (x) tendering more than 10,000 shares of Lilly Common Stock or (y) tendering from a country outside of the United States; or (ii) to the Dealer Manager. In addition, no such fee shall be payable to a Soliciting Dealer if such Soliciting Dealer is required for any reason to transfer the amount of such fee to a tendering holder (other than itself). No broker, dealer, bank, trust company or fiduciary shall be deemed to be the agent of Lilly, Guidant, the Exchange Agent, the Information Agent or the Dealer Manager for purposes of the Exchange Offer.

[_] By checking this box, the undersigned represents that his or her tender was affirmatively solicited by the Soliciting Dealer listed below:

Name of Firm: _____
(Please Print)

Name of Individual Broker or Financial Consultant: _____

Identification Number (if known): _____

Address: _____
(Include Zip Code)

SIGNATURE

Dated: _____ _____

_____

Signature(s)

_____

_____

Please print name(s) here

UNLESS A SPECIFIC CONTRARY INSTRUCTION IS GIVEN IN THE SPACE PROVIDED, YOUR SIGNATURE(S) HEREON SHALL CONSTITUTE AN INSTRUCTION TO US TO TENDER ALL OF YOUR SHARES OF LILLY COMMON STOCK.

By signing these instructions, the signator hereby represents that he or she is not acting pursuant to a plan, alone or in conjunction with any other person, to acquire 50% or more of the outstanding shares of Guidant Common Stock, unless indicated to the contrary below.

Check the following box ONLY IF the above statement is NOT true: [_]

ELI LILLY AND COMPANY

NOTICE OF GUARANTEED DELIVERY

(NOT TO BE USED FOR SIGNATURE GUARANTEE)

As set forth in the Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") in the section entitled "The Exchange Offer--Guaranteed Delivery Procedures" and in the accompanying Letter of Transmittal (the "Letter of Transmittal") and Instruction 1 thereto, this form or one substantially equivalent hereto must be used to accept the Exchange Offer if certificates for shares of common stock, without par value, of Eli Lilly and Company ("Lilly Common Stock") are not immediately available or time will not permit such holder's certificates or other required documents to reach the Exchange Agent prior to the Expiration Date (as defined in the Offering Circular - Prospectus) of the Exchange Offer. This form may be delivered by hand or sent by facsimile transmission or mail to the Exchange Agent.

To: The First National Bank of Boston, Exchange Agent

By Mail:	By Overnight Courier:	By Hand:
The First National Bank of Boston Shareholder Services Division P.O. Box 1889 Mail Stop 45-01-19 Boston, MA 02105	The First National Bank of Boston Shareholder Services Division Mail Stop 45-01-19 150 Royall Street Canton, MA 02021	BancBoston Trust Company of New York 55 Broadway Third Floor New York, New York

By Facsimile Transmission:

(617) 575-2232
(617) 575-2233

For Confirmation:
(617) 575-2700

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

The undersigned hereby tenders to Eli Lilly and Company the shares of Lilly Common Stock listed below, upon the terms of and subject to the conditions set forth in the Offering Circular - Prospectus and the related Letter of Transmittal and the instructions thereto (which together constitute the "Exchange Offer"), receipt of which is hereby acknowledged, pursuant to the guaranteed delivery procedures set forth in the Offering Circular - Prospectus, as follows:

Certificate No.	Number of Shares

The Book-Entry Transfer Facility Account Number (if the shares of Lilly Common Stock will be tendered by book-entry transfer)

Account Number

Number of Shares

[_] DTC [_] MSTC [_] PHILADEP

Sign Here

Signature(s)

Number and Street or P.O. Box

City, State, Zip Code

Dated: _____, 1995

ODD LOTS

This section is to be completed ONLY if shares of Lilly Common Stock are being tendered by or on behalf of a person owning beneficially and of record an aggregate of less than 100 shares of Lilly Common Stock as of August 16, 1995.

The undersigned either (check one):

[_] was the owner beneficially and of record of less than 100 shares of Lilly Common Stock in the aggregate as of August 16, 1995, all of which are being tendered, or

[_] is a broker, dealer, commercial bank, trust company or other nominee which (i) is tendering, for the beneficial owners thereof, shares of Lilly Common Stock with respect to which it is the record owner, and (ii) believes, based upon representations made to it by each such beneficial owner, that such owner owned beneficially and of record less than 100 shares of Lilly Common Stock as of August 16, 1995, and is tendering all such shares.

GUARANTEE

(NOT TO BE USED FOR SIGNATURE GUARANTEE)

The undersigned, a participant in the Security Transfer Agents Medallion Program or the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program, (a) represents and guarantees that (i) the above-named person(s) "own(s)" the shares of Lilly Common Stock tendered hereby within the meaning of Rule 14e-4 of the Securities Exchange Act of 1934, as amended, and (b) guarantees delivery to the Exchange Agent of certificates for the shares of Lilly Common Stock tendered hereby, in proper form for transfer or delivery of such shares of Lilly Common Stock pursuant to procedures for book-entry transfer, in either case with delivery of a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) and any other required documents, unless an Agent's Message is utilized, all within three New York Stock Exchange trading days after the date hereof.

Printed Firm Name

Authorized Signature

Address

City, State, Zip Code

Area Code and Telephone Number

Date _____ , 1995

DO NOT SEND CERTIFICATES OR ANY OTHER REQUIRED DOCUMENTS WITH THIS FORM. THEY SHOULD BE SENT WITH THE LETTER OF TRANSMITTAL (UNLESS A BOOK-ENTRY TRANSFER FACILITY IS USED).

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION

NUMBER ON SUBSTITUTE FORM W-9

Guidelines for Determining the Proper Identification Number to Give the Payer. Social Security numbers have nine digits separated by two hyphens: i.e., 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e., 00-0000000. The table below will help determine the number to give the payer.

For this type of account:	Give the SOCIAL SECURITY number of --
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7.a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)
8. Sole proprietorship account	The owner(4)

For this type of account:	Give the EMPLOYER IDENTIFICATION number of --
9. A valid trust, estate, or pension trust	Legal entity (do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title)(5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization

14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

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(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name, and furnish the minor's social security number.

(3) Circle the ward's, minor's or incompetent person's name, and furnish such person's social security number.

(4) Show the name of the owner.

(5) List first and circle the name of the legal trust, estate, or pension trust.

Note: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

. A corporation.

. A financial institution.

. An organization exempt from tax under section 501(a), or an individual retirement plan.

. The United States or any agency or instrumentality thereof.

. A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.

. A foreign government, a political subdivision of a foreign government, or agency or instrumentality thereof.

. An international organization or any agency, or instrumentality thereof.

. A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.

. A real estate investment trust.

. A common trust fund operated by a bank under section 584(a).

. An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).

. An entity registered at all times under the Investment Company Act of 1940.

. A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

. Payments to nonresident aliens subject to withholding under section 1441.

. Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.

. Payments of patronage dividends where the amount received is not paid in money.

. Payments made by certain foreign organizations.

. Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

. Payments of interest on obligations issued by individuals.

NOTE: You may be subject to backup withholding if this interest is $600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.

. Payments of tax-exempt interest (including exempt interest dividends under section 852).

. Payments described in section 6049(b)(5) to nonresident aliens.

. Payments on tax-free covenant bonds under section 1451.

. Payments made by certain foreign organizations.

. Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT

TO THE PAYER, IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, and 6050A.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Beginning January 1, 1993, payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER. -- If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING. -- If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION. -- Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE

QUESTIONS AND ANSWERS
ELI LILLY AND COMPANY
EXCHANGE OFFER FOR COMMON
STOCK OF GUIDANT CORPORATION

Q1. Why is Lilly divesting itself of Guidant?

A1. Lilly decided to separate its Medical Devices and Diagnostics Division from its core pharmaceutical business based on a comprehensive strategic review. While both Lilly and Guidant participate in the health care market, there are significant differences in the customers, technology and core competencies of each business. The Lilly Board of Directors determined that separation of the businesses would, among other things, enable each company to better focus its managerial and financial resources, enhance the competitive positions of the two businesses and maximize shareholder value. In addition, the separation will allow Guidant to implement more focused incentive compensation programs.

Q2. What is the Split-Off/Exchange Offer?

A2. The Split-Off, or the Exchange Offer, is a tax-efficient exchange which allows shareholders to tender some, all or none of their shares of Lilly Common Stock in return for shares of Guidant Common Stock. The number of shares of Guidant Common Stock that Lilly will distribute for each share of Lilly Common Stock tendered and accepted for exchange is specified by the exchange ratio described in the Offering Circular - Prospectus. This exchange ratio is 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock tendered and accepted for exchange.

Q3. How many shares of Guidant Common Stock will I receive if I participate in the Exchange Offer?

A3. Generally, you will receive 3.49 shares of Guidant Common Stock for each share of Lilly Common Stock validly tendered and accepted for exchange. The number of your shares that will be accepted for exchange will depend on the total number of shares of Lilly Common Stock tendered by all Lilly shareholders. If 16,504,298 or fewer shares of Lilly Common Stock are tendered for exchange and the Exchange Offer is consummated, all of your tendered shares of Lilly Common Stock will be accepted.

If more than 16,504,298 shares of Lilly Common Stock are tendered for exchange, proration will occur and less than all of your shares of Lilly Common Stock tendered will be accepted for exchange.

Q4. How do I accept the Exchange Offer?

A4. Complete and sign the (blue) Letter of Transmittal designating the number of shares of Lilly Common Stock you wish to tender. Send it, together with your Lilly stock certificate(s) (or a Notice of Guaranteed Delivery) and any other required documents (as described in the Letter of Transmittal) to the Exchange Agent (Bank of Boston) at one of the addresses listed in the Letter of Transmittal. Do not send your certificates to Lilly, Guidant, the Dealer Manager (Morgan Stanley), or the Information Agent (D.F. King). If your shares are held in an account with your broker or bank, you must ask that institution to tender your shares for you.

Q5. What will happen if fewer than 16,504,298 shares of Lilly Common Stock are tendered, i.e., the Exchange Offer is undersubscribed?

A5. If at least 8,252,149 shares of Lilly Common Stock (approximately 2.8 percent of the shares of Lilly Common Stock outstanding) are tendered and the other conditions to the Exchange Offer are satisfied, the Split-Off will proceed. This will result in a distribution of at least 50 percent of the shares of Guidant Common Stock owned by Lilly. Any remaining shares of Guidant Common Stock held by Lilly would be distributed to Lilly shareholders of record as soon as practicable after the Split-Off through a spin-off on a pro rata basis. If fewer than 8,252,149 shares of Lilly Common Stock are tendered, Lilly is not obligated to proceed with the Split-Off.

Q6. What if more than 16,504,298 shares of Lilly Common Stock are tendered, i.e., the Exchange Offer is oversubscribed?

A6. If more than 16,504,298 shares of Lilly Common Stock are validly tendered and not withdrawn prior to the Expiration Date, Lilly will accept those shares on a pro rata basis (except for odd-lot tenders, which will not be subject to proration), based on the number of shares of Lilly Common Stock each shareholder has tendered in the Exchange Offer (not based on the shareholder's aggregate ownership of Lilly). Generally, the formula to determine the proration factor is 16,504,298 divided by the total number of shares of Lilly Common Stock tendered for exchange. This fraction, multiplied by the number of shares you tendered, will determine the number of shares of Lilly Common Stock which will be accepted for exchange. Any tendered shares of Lilly Common Stock not accepted for exchange will be returned to tendering shareholders unless otherwise specified.

Q7. My shares of Lilly Common Stock are held by my broker. How do I proceed if I want to participate in the Exchange Offer?

A7. If your shares are held by your broker and are not certificated in your name (i.e., your shares are held in "street name"), you should receive instructions from your broker on how to participate in the Exchange Offer. In this situation, you do not need to complete the Letter of Transmittal. If you have not yet received instructions from your broker, please contact your broker directly.

Q8. Is there special treatment for odd-lot holders?

A8. Yes. If you own fewer than 100 shares of Lilly Common Stock as of August 16, 1995 and tender all such shares for exchange, you may request preferential treatment by completing Section I.C. of the Letter of Transmittal entitled "Odd Lot Shares." If the Exchange Offer is consummated, all of your shares will be accepted for exchange, and you will not be subject to proration.

Q9. If I cannot find my Lilly share certificates, what should I do to participate in the Exchange Offer?

A9. Please contact the Exchange Agent (Bank of Boston) by calling (617) 575-2700 and inform the Exchange Agent of your situation. You will receive an affidavit to complete and you will be informed of the amount needed to pay for a surety bond for your lost shares (equal to 2 percent of the average market price on the date of notification). Upon receipt of the completed affidavit and surety bond payment, and the completed Letter of Transmittal, your shares will be included in the Exchange Offer. You will need to act quickly to ensure that the lost certificates can be replaced prior to expiration of the Exchange Offer.

Q10. Can I exchange the shares I have in Lilly's Dividend Reinvestment and Stock Purchase Plan for Guidant Common Stock?

A10. Yes. To tender Dividend Reinvestment and Stock Purchase Plan ("DRP") shares, please check the first box found in Section I.B. of the Letter of Transmittal entitled "Dividend Investment and Stock Purchase Plan Shares," then indicate whether you wish to tender all DRP shares or only a certain number of whole shares in the applicable boxes. If you do not otherwise indicate, you will be deemed to have tendered all shares in your DRP account. Please remember that if your DRP share balance falls below the required five-share minimum, you will be removed from the plan.

Q11. When does the Exchange Offer expire?

A11. The Exchange Offer is scheduled to expire at 12:00 Midnight, New York City time, on Monday, September 18, 1995, unless extended. Lilly does not currently anticipate extending the offer period.

To participate, registered shareholders must deliver to the Exchange Agent (Bank of Boston) a completed Letter of Transmittal and all other required documents specified in the Letter of Transmittal-- including the shareholder's stock certificate(s) or, if the certificate(s) are not immediately available, a Notice of Guaranteed Delivery -- not later than Midnight on September 18, 1995. The documents must be received by Bank of Boston on that day -- a postmark will not constitute a valid tender.

If you provide a Notice of Guaranteed Delivery instead of the stock certificate(s) and the Letter of Transmittal, you must then physically deliver the stock certificate(s) and the Letter of Transmittal not later than three New York Stock Exchange trading days after the expiration of the offer period.

Your shares of Lilly Common Stock will not be accepted at Lilly or Guidant corporate headquarters or Lilly Shareholder Services. If your shares are held in an account with a broker or bank, we strongly recommend that you submit your instructions to the broker or bank well in advance of the Expiration Date.

Q12. When will tendering shareholders know the outcome of the Exchange Offer?

A12. Preliminary results of the Exchange Offer, including any preliminary proration factor, will be announced by press release as promptly as practicable after the expiration of the Exchange Offer. Lilly shareholders may also contact D.F. King, Morgan Stanley or their broker to inquire about preliminary results approximately three business days after expiration of the Exchange Offer. Announcement of any final proration factor should occur approximately seven business days after the expiration of the Exchange Offer.

Q13. If I participate in the Exchange Offer, when will I receive my new Guidant certificates?

A13. The Exchange Agent (Bank of Boston) will mail your new Guidant certificates within approximately two weeks after the end of the Exchange Offer.

Q14. What will happen to third-quarter dividends that I should receive on my shares of Lilly Common Stock?

A14. The Lilly Board of Directors declared a third-quarter dividend for 1995 of 64.5 cents a share on outstanding shares of Lilly Common Stock. The dividend is payable on September 11, 1995, to shareholders of record at the close of business on August 15, 1995. You will receive third-quarter dividends on September 11 as long as you were a Lilly shareholder of record at the close of business on August 15. It does not matter if you tender your shares prior to September 11.

You will receive dividend payments on your certificated shares unless you have specified that these dividends are to purchase additional shares in your DRP account. In that case, the dividends from both your certificated shares and shares in your DRP account will be credited to your DRP account prior to the end of the Exchange Offer.

Q15. Will the exchange of shares of Lilly Common Stock for shares of Guidant Common Stock be taxable to Lilly shareholders? Do shareholders have to pay taxes on Guidant Common Stock received in the Exchange Offer?

A15. No. The IRS has issued a Letter Ruling to Lilly stating that the exchange of shares of Lilly Common Stock for Guidant Common Stock will generally not be taxable to Lilly shareholders for United States federal income tax purposes. However, the receipt of cash in lieu of fractional shares of Guidant Common Stock will be taxable as capital gain if your Lilly Common Stock was a capital asset.

Q16. If I tender all of my Lilly Common Stock (and all are accepted for exchange by Lilly), what will be my tax basis in the Guidant Common Stock I receive in exchange for my Lilly Common Stock?

A16. The total tax basis in the Guidant Common Stock you receive in the Exchange Offer will equal your total tax basis in the Lilly Common Stock you tendered in the Exchange Offer.

Q17. If I tender less than all of my Lilly Common Stock (or less than all shares are accepted for exchange by Lilly), what will be my tax basis in the Lilly Common Stock and Guidant Common Stock, respectively, I hold immediately after the Exchange?

A17. The Letter Ruling issued by the IRS for this transaction provides that the total tax basis in your Lilly Common Stock held immediately before the transaction should be allocated between your retained Lilly Common Stock and the Guidant Common Stock you receive in the transaction. This allocation should be made in proportion to the relative fair market values of the Lilly Common Stock and the Guidant Common Stock.

The portion of your total tax basis allocated to the Guidant Common Stock you receive will equal your aggregate tax basis in all of your Lilly Common Stock owned prior to the Exchange Offer multiplied by a fraction. The numerator of the fraction will be the aggregate fair market value of the Guidant Common Stock you receive and the denominator will be the aggregate fair market values of (i) the Guidant Common Stock you receive and (ii) the Lilly Common Stock you hold after the Exchange Offer. Stated as a formula, the basis in your shares of Guidant Common Stock may be determined as follows:

$$\text{Aggregate Tax Basis in Guidant Common Stock Received in the Exchange Offer} = \text{Aggregate Tax Basis in All Lilly Common Stock Prior to the Exchange Offer} \times \frac{\text{Aggregate FMV of the Guidant Common Stock Received in the Exchange Offer}}{\text{Aggregate FMV of the Guidant Common Stock Received Plus Aggregate FMV of the Lilly Common Stock Held After the Exchange Offer}}$$

The total tax basis in your unexchanged shares of Lilly Common Stock after the Exchange Offer will equal your basis before the Exchange Offer, less the basis allocated to Guidant Common Stock as determined under the calculation described above.

Q18. What will be the tax basis in my retained Lilly Common Stock held immediately after the transaction if, before the transaction, I have blocks of Lilly Common Stock that have different per share tax bases?

A18. While the proper tax treatment is not clear, under the proper circumstances, Lilly believes it is reasonable to take the position that the tax basis of each block of Lilly Common Stock may be reduced proportionately for the basis allocated to your shares of Guidant Common Stock. SHAREHOLDERS HAVING BLOCKS OF LILLY COMMON STOCK WITH DIFFERENT TAX BASES ARE STRONGLY ENCOURAGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE APPLICABILITY OF THIS METHOD, OR OTHER METHODS FOR ALLOCATING TAX BASIS, TO THEIR SPECIFIC SITUATION.

Q19. Who should I contact for additional information?

A19. You can obtain additional information by calling the Information Agent, D.F. King at: in the United States, (800) 207-3158; in Europe, (44) 171-600-5005 (call collect); and from outside the United States and Europe, (212) 269-5550 (call collect).

These questions and answers contain summaries of more detailed information found in the Offering Circular - Prospectus and the Letter of Transmittal, and are qualified in their entirely by reference to the Offering Circular - Prospectus and the Letter of Transmittal.

August 21, 1995 EXHIBIT(a)(10)

This announcement is neither an offer to exchange nor a solicitation of an offer to exchange the securities. The Exchange Offer is made solely by the Offering Circular - Prospectus dated August 21, 1995 and the related Letter of Transmittal and is not being made to Eli Lilly and Company shareholders in any jurisdiction in which the making of the Exchange Offer or acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction. In those jurisdictions in the United States where the securities, blue sky or other laws require the Exchange Offer to be made by a licensed broker or dealer; the Exchange Offer shall be deemed to be made on behalf of Eli Lilly and Company by Morgan Stanley & Co. Incorporated.

Notice of Offer to Exchange
3.49 Shares of Common Stock
of
Guidant Corporation
for each share of Common Stock of
Eli Lilly and Company
up to 16,504,298 shares of Common Stock of
Eli Lilly and Company

THE EXCHANGE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, SEPTEMBER 18, 1995, UNLESS THE EXCHANGE OFFER IS EXTENDED.

Eli Lilly and Company, an Indiana corporation ("Lilly"), is offering to exchange, and Lilly will exchange, 3.49 shares of Common Stock, without par value, of Guidant Corporation, an Indiana Corporation ("Guidant" and such shares, "Guidant Common Stock"), for each share of Common Stock, without par value, of Lilly ("Lilly Common Stock"), up to a maximum of 16,504,298 shares of Lilly Common Stock, that is validly tendered and not properly withdrawn by 12:00 Midnight, New York City time, on Monday, September 18, 1995, unless the Exchange Offer is extended (the "Expiration Date"), upon the terms and subject to the conditions set forth in the Offering Circular - Prospectus dated August 21, 1995 (the "Offering Circular - Prospectus") and in the related Letter of Transmittal (which together constitute the "Exchange Offer"). Lilly is making the Exchange Offer as part of a transaction to separate Guidant's medical device business from Lilly's core pharmaceutical business, as described in the Offering Circular-Prospectus. The Exchange Offer also provides Lilly's shareholders with an opportunity to adjust, in a tax-efficient manner, their investment between Lilly's remaining life sciences business and Guidant's medical device business.

The Exchange Offer is conditioned upon, among other things, at least 8,252,149 shares of Lilly Common Stock (approximately 2.8% of the outstanding Lilly Common Stock and a sufficient number of shares to result in at least 50% of the Guidant Common Stock to be distributed being exchanged pursuant to the Exchange

Offer) being validly tendered and not withdrawn on or prior to the Expiration Date.

Lilly currently holds 57,600,000 shares of Guidant Common Stock, all of which are being offered pursuant to the Exchange Offer. If all such shares are not exchanged in the Exchange Offer and the Exchange Offer is consummated, the remaining shares will be distributed by Lilly on a pro rata basis to the Lilly shareholders remaining after the Exchange Offer. If more than 16,504,298 shares of Lilly Common Stock are validly tendered and not withdrawn on or prior to the Expiration Date, Lilly will accept such shares for exchange on a pro rata basis, except that any holder of Lilly Common Stock who beneficially owns an aggregate of fewer than 100 shares of Lilly Common Stock and who validly tenders all such shares, and does not withdraw any such shares, on or prior to the Expiration Date, will not be subject to proration if such holder elects, as described in the Offering Circular-Prospectus.

NEITHER LILLY NOR THE BOARD OF DIRECTORS OF LILLY MAKES ANY RECOMMENDATION TO ANY SHAREHOLDER WHETHER TO TENDER OR REFRAIN FROM TENDERING SHARES OF LILLY COMMON STOCK PURSUANT TO THE EXCHANGE OFFER. EACH SHAREHOLDER MUST MAKE HIS OR HER OWN DECISION WHETHER TO TENDER SHARES OF LILLY COMMON STOCK PURSUANT TO THE EXCHANGE OFFER AND, IF SO, HOW MANY SHARES TO TENDER.

For purposes of the Exchange Offer, Lilly shall be deemed, subject to the proration provisions of the Exchange Offer, to have accepted for exchange and exchanged shares of Lilly Common Stock validly tendered for exchange when, as and if Lilly gives oral or written notice thereof to The First National Bank of Boston (the "Exchange Agent"). Exchange of shares of Lilly Common Stock accepted for exchange pursuant to the Exchange Offer will be made by deposit of tendered shares of Lilly Common Stock with the Exchange Agent, which will act as agent for the tendering shareholders for the purpose of receiving shares of Guidant Common Stock from Lilly and transmitting such shares to tendering shareholders. In all cases, exchange of shares of Lilly Common Stock will be made only after timely receipt by the Exchange Agent of (i) certificates for such shares of Lilly Common Stock (or timely confirmation of a book-entry transfer of such Lilly Common Stock into the Exchange Agent's account at a Book-Entry Transfer Facility (as defined in the Offering Circular-Prospectus)) and (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) or an Agent's Message (as defined in the Offering Circular-Prospectus) in connection with a book-entry transfer of shares, together with any other documents required by the Letter of Transmittal. Under no circumstances will interest be paid by Lilly pursuant to the Exchange Offer, regardless of any delay in making such exchange.

Lilly expressly reserves the right, at any time or from time to time, in its sole discretion and regardless of whether any of

the conditions specified in the Offering Circular-Prospectus under the caption "The Exchange Offer-Certain Conditions of the Exchange Offer" have been satisfied, (i) to extend the period of time during which the Exchange Offer is open by giving oral or written notice of such extension to the Exchange Agent, and by making a public announcement of such extension or (ii) to amend the Exchange Offer in any respect by making a public announcement of such amendment.

Tenders of shares of Lilly Common Stock made pursuant to the Exchange Offer are irrevocable provided that tenders of shares may be withdrawn as set forth in the Offering Circular-Prospectus under the caption "The Exchange Offer-Withdrawal Rights" and in the Letter of Transmittal. Tendered shares may be withdrawn at any time prior to the Expiration Date and may also be withdrawn after the expiration of 40 business days from the commencement of the Exchange Offer, unless theretofore accepted for exchange. To be effective, a written or facsimile transmission notice of withdrawal must be timely received by the Exchange Agent at one of its addresses set forth in the Letter of Transmittal and must specify the name of the person who tendered the shares of Lilly Common Stock to be withdrawn and the number of shares of Lilly Common Stock to be withdrawn precisely as they appear in the Letter of Transmittal. All questions as to the form of documents (including notices of withdrawal) and the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares of Lilly Common Stock will be determined by Lilly in its sole discretion, which determination will be final and binding on all tendering shareholders. None of Lilly, Guidant, the Dealer Manager, the Exchange Agent, the Information Agent or any other person will be under any duty to give notification of any deficit or irregularity in tenders or notices of withdrawal or incur any liability for failure to give any such notification.

The information required to be disclosed by Rule 13e-4(d)(l) of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offering Circular-Prospectus and is incorporated herein by reference.

The Offering Circular - Prospectus, the Letter of Transmittal and other relevant materials are being mailed to record holders of Lilly Common Stock and furnished to brokers, dealers, banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the shareholder list of Lilly or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Lilly Common Stock. The Offering Circular-Prospectus, the Letter of Transmittal and the related materials contain important information which should be read carefully before any decision is made with respect to the Exchange Offer.

Questions and requests for assistance or for additional

copies of the Offering Circular-Prospectus, the Letter of Transmittal and other Exchange Offer materials may be directed to the Information Agent or the Dealer Manager, at their respective addresses and telephone numbers set forth below, and copies will be furnished promptly at Lilly's expense.

The Information Agent for the Exchange Offer is:

D.F. King & Co., Inc.
United States
77 Water Street
New York, NY 10005
(800) 207-3158

Europe
Royex House, Aldermanbury Square
London, England EC2V 7HR
(44) 171-600-5005 (Collect)

Outside the United States and Europe
(212) 269-5550 (Collect)

The Dealer Manager in the United States for the Exchange Offer is:
MORGAN STANLEY & CO.
Incorporated
1251 Avenue of the Americas
New York, NY 10020
(212) 703-7918

August 21, 1995