Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2005

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

INDIANA	35-0470950
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Yes ☑ No o

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

Yes ☑ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☑

The number of shares of common stock outstanding as of October 20, 2005:

Class	Number of Shares Outstanding
Common	1,136,628,193

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions except per-share data)			
Net sales	$3,601.1	$3,280.4	$10,766.2	$10,213.6
Cost of sales	845.7	810.1	2,576.0	2,358.2
Research and development	751.0	654.8	2,215.6	1,985.6
Marketing and administrative	1,070.9	951.9	3,307.4	3,186.0
Acquired in-process research and development	—	—	—	362.3
Asset impairments, restructuring, and other special charges	—	—	1,073.4	108.9
Interest expense	24.3	18.5	60.9	35.3
Other income—net	(109.3)	(123.1)	(289.9)	(244.6)
	2,582.6	2,312.2	8,943.4	7,791.7
Income before income taxes	1,018.5	968.2	1,822.8	2,421.9
Income taxes	224.1	213.0	543.8	609.4
Net income	$ 794.4	$ 755.2	$ 1,279.0	$ 1,812.5
Earnings per share — basic	$ .73	$ .70	$ 1.18	$ 1.67
Earnings per share — diluted	$ .73	$ .69	$ 1.17	$ 1.66
Dividends paid per share	$ .38	$ .355	$ 1.14	$ 1.065

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS

ELI LILLY AND COMPANY AND SUBSIDIARIES

	September 30, 2005 (Unaudited)	December 31, 2004
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,969.7	$ 5,365.3
Short-term investments	1,262.3	2,099.1
Accounts receivable, net of allowances of $62.5 (2005) and $66.1 (2004)	2,058.9	2,058.7
Other receivables	358.7	494.3
Inventories	1,949.9	2,291.6
Deferred income taxes	614.9	255.3
Prepaid expenses	732.5	271.5
TOTAL CURRENT ASSETS	11,946.9	12,835.8
OTHER ASSETS		
Prepaid pension	2,367.9	2,253.8
Investments	520.9	561.4
Sundry	2,132.9	1,665.1
	5,021.7	4,480.3
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	12,877.2	12,338.9
Less allowances for depreciation	(5,042.4)	(4,788.0)
	7,834.8	7,550.9
	$24,803.4	$24,867.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 629.1	$ 2,020.6
Accounts payable	611.3	648.6
Employee compensation	447.6	471.6
Dividends payable	—	414.4
Income taxes payable	1,158.6	1,703.9
Other liabilities	2,244.9	2,334.6
TOTAL CURRENT LIABILITIES	5,091.5	7,593.7
LONG-TERM DEBT	5,881.1	4,491.9
DEFERRED INCOME TAXES	718.6	620.4
OTHER NONCURRENT LIABILITIES	1,728.9	1,241.1
SHAREHOLDERS' EQUITY		
Common stock	710.2	708.0
Additional paid-in capital	3,598.1	3,119.4
Retained earnings	10,172.3	9,724.6
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(108.1)	(111.9)
Accumulated other comprehensive loss	(250.1)	218.6
	11,487.4	11,023.7
Less cost of common stock in treasury	104.1	103.8
	11,383.3	10,919.9
	$24,803.4	$24,867.0

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Nine Months Ended September 30,	
	2005	2004
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,279.0	$ 1,812.5
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(1,796.0)	(717.7)
Depreciation and amortization	501.3	460.8
Stock-based compensation expense	309.5	69.3
Change in deferred taxes	(205.0)	97.8
Acquired in-process research and development	—	362.3
Asset impairments, restructuring, and other special charges, net of tax	979.7	81.7
Other, net	30.8	154.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,099.3	2,321.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(878.5)	(1,428.1)
Net change in short-term investments	833.1	(629.4)
Purchase of noncurrent investments	(271.9)	(3,270.3)
Proceeds from sales and maturities of noncurrent investments	327.0	2,882.7
Cash paid for acquisition of Applied Molecular Evolution, net of cash acquired	—	(71.7)
Other, net	(216.4)	(203.1)
NET CASH USED IN INVESTING ACTIVITIES	(206.7)	(2,719.9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,245.7)	(1,154.3)
Issuances of common stock under stock plans	71.2	88.9
Net change in short-term borrowings	(1,984.6)	1,218.2
Net issuances of long-term debt	1,998.0	73.2
Other, net	33.2	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,127.9)	226.0
Effect of exchange rate changes on cash and cash equivalents	(160.3)	(6.1)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(395.6)	(178.9)
Cash and cash equivalents at January 1	5,365.3	2,756.3
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 4,969.7	$ 2,577.4

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Net income	$794.4	$755.2	$1,279.0	$1,812.5
Other comprehensive income (loss)	48.2	11.9	(468.7)[1]	(4.7)
Comprehensive income	$842.6	$767.1	$ 810.3	$1,807.8

1 The significant components of other comprehensive loss for the nine months ended September 30, 2005, were losses of $421.4 million from foreign currency translation adjustments and $38.6 million from cash flow hedges.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment – pharmaceutical products. Operations of our animal health business segment are not material and share many of the same economic and operating characteristics as our pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting. Our business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business was $55.7 million and $50.7 million for the quarters ended September 30, 2005 and 2004, respectively, and $143.0 million and $139.3 million for the nine months ended September 30, 2005 and 2004, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the three months and nine months ended September 30, 2005 and 2004, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Net sales — to unaffiliated customers				
Neurosciences	$1,514.9	$1,431.4	$ 4,490.2	$ 4,522.6
Endocrinology	1,115.9	988.0	3,402.2	3,164.3
Oncology	456.9	354.6	1,312.2	961.9
Animal health	215.7	185.4	612.3	547.4
Cardiovascular	135.8	157.3	459.6	502.9
Anti-infectives	104.7	107.7	326.7	351.4
Other pharmaceuticals	57.2	56.0	163.0	163.1
Net sales	$3,601.1	$3,280.4	$10,766.2	$10,213.6

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

We have prepared the accompanying unaudited consolidated condensed financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States (GAAP). In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for a fair presentation of the results of operations for the periods shown. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2004.

CONTINGENCIES

Three generic pharmaceutical manufacturers, Zenith Goldline Pharmaceuticals, Inc. (Zenith), Dr. Reddy's Laboratories, Ltd. (Reddy), and Teva Pharmaceuticals (Teva), have submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa® in various dosage forms several years prior to the expiration of our U.S. patents for the product. The generic companies alleged that our patents are invalid, unenforceable, or not infringed. We filed suit against the three companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the challenges to our compound patent (expiring in 2011) are without merit. The cases have been consolidated. A trial before the district court judge was held in January and February of 2004. On April 14, 2005, the district court upheld our 2011 U.S. patent on Zyprexa. In the case of *Eli Lilly and Company v. Zenith Goldline Pharmaceuticals et al.*, the court ruled in our favor on all counts, including the patent doctrines of obviousness, double patenting, inequitable conduct, novelty, and public use. The decision has been appealed. We are confident, and the trial court confirmed, that the generic manufacturers' claims are without merit, and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail on appeal. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr), had submitted an ANDA with the FDA seeking permission to market a generic version of Evista® (raloxifene) several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. In November 2002, we filed suit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that Barr's challenges to our patents claiming the methods of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. Barr has also asserted that the method of use patents are unenforceable. The U.S. Patent and Trademark Office issued to us two new patents (expiring in 2017) directed to pharmaceutical compositions containing raloxifene and a method for preventing post-menopausal osteoporosis and a third (expiring in 2012) directed to methods of inhibiting post-menopausal bone loss by administering a single daily oral dose of raloxifene. These patents have been listed in the FDA's Orange Book. Barr has challenged these patents, alleging that each is invalid, unenforceable, or will not be infringed. These new patents have been added to the pending suit. The suit is in discovery. No trial date has been set at this time. While we believe that Barr's claims are without merit and we expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In 2002, 2003, and 2004, we received grand jury subpoenas for documents from the Office of Consumer Litigation, U.S. Department of Justice, related to our marketing and promotional practices and physician communications with respect to Evista. We continue to cooperate with the government and have provided a broad range of information concerning our U.S. marketing and promotional practices, including documents relating to communications with physicians and the remuneration of physician consultants and advisers. Based on advanced discussions with the government to resolve this matter, we expensed $36.0 million during the fourth quarter of 2004, which we believe will be sufficient to resolve the matter. Those discussions are ongoing.

In March 2004, the office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it has commenced a civil investigation related to our U.S. marketing and promotional practices with respect to Zyprexa, Prozac®, and Prozac Weekly™. In October 2005, the U.S. Attorney's office advised that it is also conducting an inquiry regarding certain rebate agreements we entered into with a pharmacy benefit manager covering Axid, Evista, Humalog, Humulin, Prozac, and Zyprexa. The inquiry includes a review of Lilly's Medicaid best price reporting related to the product sales covered by the rebate agreements. We are cooperating with the U.S. Attorney in these investigations. In June 2005, we received a subpoena from the office of the Attorney General, Medicaid Fraud

Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges, fines, penalties, or other monetary or non-monetary remedies. We cannot predict or determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

We have been named as a defendant in approximately 400 product liability cases in the United States involving approximately 790 claimants alleging a variety of injuries from the use of Zyprexa. Most of the cases allege that the product caused or contributed to diabetes or high blood-glucose levels. The lawsuits seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the lawsuits also allege that we improperly promoted the drug. Almost all of the federal cases are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). In addition, we have entered into agreements with various plaintiffs' counsel halting the running of the statutes of limitation (tolling agreements) with respect to more than 6,200 individuals who do not have lawsuits on file and may or may not eventually file suits.

Two cases requesting certification of nationwide class actions on behalf of those who allegedly suffered injuries from the administration of Zyprexa were filed in the Federal District Court for the Eastern District of New York on April 16, 2004 (Ortiz v. Lilly) and May 19, 2004 (Tringali v. Lilly), respectively. A lawsuit was filed on May 4, 2004 (Dau v. Lilly) that requested a personal injury class action on behalf of Iowa residents who took Zyprexa. In June 2005, another lawsuit was filed in the Eastern District of New York purporting to be a nationwide class action on behalf of all consumers and third party payors, excluding governmental entities, who have made or will make payments on account of their members or insured patients being prescribed Zyprexa. The suit seeks a refund of the cost of Zyprexa; medical expenses paid and to be paid as a result of persons taking Zyprexa; treble damages under certain state consumer protection statutes; punitive damages; and attorney fees. On August 25, 2005, an additional lawsuit was filed in the same court that purports to be a class action on behalf of all consumers and third party payors who have purchased, reimbursed or paid for Zyprexa. As with the previous suits, the new suit alleges that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug. The suit seeks to recover amounts paid for Zyprexa by members of the proposed class. The suit is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, and seeks treble damages, punitive damages, and attorneys fees.

In 2005, we entered into a master settlement agreement with plaintiffs' attorneys involved in the U.S. Zyprexa product liability litigation to settle a majority of the claims against us relating to the medication. The agreement covers over 8,000 claimants, representing approximately 70 percent of the U.S. Zyprexa product liability claims identified to us. The claims included in the settlement are:

- A large number of previously filed lawsuits pending in various state and federal courts, including the MDL;
- The majority of the over 6,200 tolled claims; and
- A number of other informally asserted claims.

In addition, the class action claims in the Ortiz, Tringali, and Dau cases were dismissed as a part of the settlement. We are establishing a fund of $690 million for the claimants who agree to settle their claims. Additionally, we are paying $10 million to cover administration of the settlement. The settlement fund will be overseen and distributed by claims administrators appointed by the court. The agreement and the distribution of funds to participating claimants are conditioned upon, among other things, our obtaining full releases from no fewer than 7,193 claimants.

The settlement covers claimants who asserted that they developed diabetes-related conditions from their use of Zyprexa. Claimants who are not covered by the final settlement are those represented by attorneys who are not participating in the agreement. We are prepared to continue our vigorous defense of Zyprexa in the remaining cases.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York. In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa

through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses.

In early 2005, we were served with five lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. The allegations in these suits are similar to those in the litigation pending in the United States.

In connection with the Zyprexa product liability claims, certain of our insurance carriers have raised defenses to their liability under the policies and to date have failed to reimburse us for claim-related costs despite demand from the first-layer carriers for payment. However, in our opinion, the defenses identified to date appear to lack substance. In March 2005, we filed suit against several of the carriers in state court in Indiana to obtain reimbursement of costs related to the Zyprexa product liability litigation. The matter has been removed to the federal court in Indianapolis. Several carriers have asserted defenses to their liability and some carriers are seeking rescission of the coverage. While we believe our position is meritorious, there can be no assurance that we will prevail.

In addition, we have been named as a defendant in numerous other product liability lawsuits involving primarily diethylstilbestrol (DES) and thimerosal.

With respect to product liability claims currently asserted against us, we have accrued for our estimated exposures to the extent they are both probable and estimable based on the information available to us. In addition, we have accrued for certain product liability claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. Legal defense costs expected to be incurred in connection with significant product liability loss contingencies are accrued when probable and reasonably estimable. A portion of the costs associated with defending and disposing of these suits is covered by insurance. We record receivables for insurance-related recoveries when it is probable they will be realized. These receivables are classified as a reduction of the litigation charges on the statement of income. We estimate insurance recoverables based on existing deductibles, coverage limits, our assessment of any defenses to coverage that might be raised by the carriers, and the existing and projected future level of insolvencies among the insurance carriers.

As a result of these matters, in the second quarter of 2005, we recorded a net pre-tax charge of $1.07 billion for product liability matters, which includes the following:

- The $700 million Zyprexa settlement and administration fee;
- Reserves for product liability exposures and defense costs regarding currently known and expected claims to the extent we can formulate a reasonable estimate of the probable number and cost of the claims. A substantial majority of these exposures and costs relate to current and expected Zyprexa claims not included in the settlement. We have estimated these charges based primarily on historical claims experience, data regarding product usage, and our historical product liability defense cost experience.

The $1.07 billion net charge takes into account our estimated recoveries from our insurance coverage related to these matters. The after-tax impact of this net charge was $.90 per share.

We cannot predict with certainty the additional number of lawsuits and claims that may be asserted. In addition, although we believe it is probable, there can be no assurance that the Zyprexa settlement will be concluded. The ultimate resolution of Zyprexa product liability litigation could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In a separate matter, under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, we have been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. We also continue remediation of certain of our own sites. We have accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters. This takes into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to payment of those costs. We have reached a settlement with our liability insurance carriers providing for coverage for certain environmental liabilities.

The litigation accruals and environmental liabilities and the related estimated insurance recoverables have been reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above, the resolution of all such matters will not

have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to the consolidated results of operations in any one accounting period.

EARNINGS PER SHARE

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

STOCK-BASED COMPENSATION

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2005. SFAS 123R requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options and performance awards. Stock options are granted to employees at exercise prices equal to the fair market value of our stock at the dates of grant. Generally, options fully vest three years from the grant date and have a term of 10 years. Performance awards are granted to officers and key employees and are payable in shares of our common stock. The number of performance award shares actually issued, if any, varies depending on the achievement of certain earnings-per-share targets. In general, performance awards fully vest at the end of the fiscal year of the grant. We recognize the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. We provide newly issued shares and treasury stock to satisfy stock option exercises and for the issuance of performance awards.

Prior to January 1, 2005, we followed Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock-based compensation. Under APB 25, no compensation expense was recognized for stock options since the exercise price of our employee stock options equaled the market price of the underlying stock on the date of grant. We have elected the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, shall be recognized in net income in the periods after the date of adoption. We recognized stock-based compensation cost in the amount of $101.3 million and $18.9 million in the third quarter of 2005 and 2004, respectively, as well as related tax benefits of $31.1 million and $6.6 million, respectively. In the nine months ended September 30, 2005 and 2004, we recognized stock-based compensation expense of $309.5 million and $69.3 million, respectively, as well as related tax benefits of $94.5 million and $24.2 million, respectively. The amounts for 2004 relate only to expenses for performance awards because no expense was recognized for stock options under APB 25.

As a result of the adoption of SFAS 123R and compensation plan structural changes effective January 1, 2005, the incremental impact on our stock compensation expense for the quarter ended September 30, 2005 caused our income before income taxes to be $80.0 million lower, and net income to be $56.4 million ($.05 per share) lower than if we had continued to account for our equity compensation programs under APB 25. For the nine months ended September 30, 2005, the incremental impact of the adoption of SFAS 123R and compensation plan structural changes caused our income before income taxes to be $245.6 million lower, and net income to be $173.6 million ($.16 per share) lower than if we had continued to account for our previous equity compensation programs under APB 25.

SFAS 123R requires us to present pro forma information for periods prior to the adoption as if we had accounted for all our employee stock options and performance awards under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the requisite service period, which generally equals the vesting period. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123R to stock-based employee compensation (dollars in millions, except per-share data).

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Net income, as reported	$755.2	$1,812.5
Add: Stock-based compensation expense included in reported net income, net of related tax effects	12.3	45.1
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(72.6)	(253.7)
Pro forma net income	$694.9	$1,603.9
Earnings per share:		
Basic, as reported	$ .70	$ 1.67
Basic, pro forma	$ .64	$ 1.48
Diluted, as reported	$ .69	$ 1.66
Diluted, pro forma	$ .64	$ 1.47

Beginning with the 2005 stock option grant, we utilized a lattice-based option valuation model for estimating the fair value of the stock options. The lattice model allows the use of a range of assumptions related to volatility, risk-free interest rate, and employee exercise behavior. Expected volatilities utilized in the lattice model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The model incorporates exercise and post-vesting forfeiture assumptions based on an analysis of historical data. The expected life of the 2005 grants is derived from the output of the lattice model.

The weighted-average fair values of the options granted in the third quarter and nine months ended September 30, 2005, were $16.06 per option, determined using the following assumptions:

Dividend yield	2.0%
Weighted-average volatility	27.8%
Range of volatilities	27.6% — 30.7%
Risk-free interest rate	2.5% — 4.5%
Weighted-average expected life	7.2 years

As of September 30, 2005, the total remaining unrecognized compensation cost related to non-vested stock options and performance awards amounted to $275.5 million and $41.3 million, respectively, which will be amortized over the weighted-average remaining requisite service period of 18 months and 3 months, respectively.

SHAREHOLDERS' EQUITY

As of September 30, 2005, we have purchased $2.08 billion of our previously announced $3.0 billion share repurchase program. During the nine months ended September 30, 2005, we did not repurchase any stock pursuant to this program and we do not expect any share repurchases during the remainder of 2005.

RETIREMENT BENEFITS

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

	Defined Benefit Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 79.2	$ 60.3	$ 233.6	$ 181.0
Interest cost	73.5	70.2	222.5	212.2
Expected return on plan assets	(111.8)	(98.4)	(334.8)	(293.2)
Amortization of prior service cost	1.9	1.0	5.8	5.4
Recognized actuarial loss	25.7	25.3	77.9	67.3
Net periodic benefit cost	$ 68.5	$ 58.4	$ 205.0	$ 172.7

	Retiree Health Benefit Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 14.7	$ 13.6	$ 44.1	$ 35.7
Interest cost	20.0	14.0	60.1	46.8
Expected return on plan assets	(18.7)	(14.9)	(54.4)	(44.3)
Amortization of prior service cost	(3.9)	(4.1)	(11.9)	(11.9)
Recognized actuarial loss	21.5	14.3	64.6	43.5
Net periodic benefit cost	$ 33.6	$ 22.9	$102.5	$ 69.8

We expect to contribute approximately $460 million during 2005 to our defined benefit pension plans and post-retirement health benefit plans. As of September 30, 2005, approximately $382 million in contributions have been made to these plans. This level of contribution is consistent with our historical practice of making the maximum tax-deductible contribution to our defined benefit pension plan for each plan year.

IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

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

In 2005, the FASB issued FASB Interpretation (FIN) 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143. FIN 47 requires us to record the fair value of a liability for conditional asset retirement obligations in the period in which it is incurred, which is adjusted to its present value each subsequent period. In addition, we are required to capitalize a corresponding amount by increasing the carrying amount of the related long-lived asset, which is depreciated over the useful life of the related long-lived asset. We will adopt FIN 47 on December 31, 2005. While we are still gathering the information needed for the implementation of FIN 47, we anticipate that it will not be material to our consolidated financial position or results of operations.

As discussed previously, we adopted SFAS 123(R) effective January 1, 2005. The adoption of this standard requires the recognition of the fair value of stock-based compensation in net income.

APPLIED MOLECULAR EVOLUTION ACQUISITION

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

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

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

As of the date of acquisition, we determined the following estimated fair values for the assets purchased and liabilities assumed. The determination of estimated fair value requires management to make significant estimates and assumptions. We hired independent third parties to assist in the valuation of assets that were difficult to value.

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

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

There are several methods that can be used to determine the estimated fair value of the acquired IPR&D. We utilized the "income method," which applies a probability weighting to the estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections were based on factors such as relevant market size, patent protection, historical pricing of similar products, and expected industry trends. The estimated future net cash flows were then discounted to the present value using an appropriate discount rate. This analysis was performed for each project independently. The discount rate we used in valuing the acquired IPR&D projects was 18.75 percent.

ASSET IMPAIRMENTS AND PRODUCT LIABILITY CHARGES

As discussed further in the Contingencies Note, in 2005 we entered into an agreement with plaintiffs' attorneys involved in the U.S. Zyprexa product liability litigation to settle a majority of the claims against us relating to the medication. According to the agreement, we are establishing a fund of $690 million for the claimants who agree to settle their claims. Additionally, we are paying $10 million to cover administration of the settlement. In the second quarter of 2005, we recorded a net pre-tax charge of $1.07 billion for product liability matters, which includes the following:

- The $700 million Zyprexa settlement and administration fee;
- Reserves for product liability exposures and defense costs regarding currently known and expected claims to the extent we can formulate a reasonable estimate of the probable number and cost of the claims. A substantial majority of these exposures and costs relate to current and expected Zyprexa claims not included in the settlement. We have estimated these charges based primarily on historical claims experience, data regarding product usage, and our historical product liability defense cost experience.

The $1.07 billion net charge takes into account our estimated recoveries from our insurance coverage related to these matters. The after-tax impact of this net charge is $.90 per share. We paid into escrow $500 million of the $700 million for the Zyprexa settlement during the third quarter and expect to pay the remainder prior to this year end, while the other product liability exposures and defense costs are expected to be paid out over the next several years. The timing of our insurance recoveries is uncertain.

In the second quarter of 2004, as part of our ongoing review of our manufacturing and research and development strategies to maximize performance and efficiencies, including the streamlining of manufacturing operations and research and development activities, we made decisions that resulted in the impairment of certain assets. This review did not result in any closure of facilities or layoffs, but certain assets located at various sites were affected. We have ceased using these assets, written down their carrying value to zero, and have disposed of or destroyed substantially all of the assets. The asset impairment charges incurred in the second quarter of 2004 aggregated $108.9 million.

BORROWINGS

In September 2005, Eli Lilly Services, Inc. (ELSI), our indirect wholly-owned finance subsidiary, issued $1.50 billion of floating rate notes. The notes mature in September 2008 and pay interest quarterly at LIBOR plus 5 basis points. In August 2005, ELSI issued $1.50 billion of 13-month floating rate extendible notes. The initial maturity date of these notes is September 1, 2006, but holders of the notes may extend the maturity of the notes in monthly increments until September 1, 2010. These notes pay interest at essentially a rate equivalent to LIBOR. Both sets of ELSI notes allow us to redeem them at our option after one year from the date of issue. The parent company fully and unconditionally guarantees the ELSI notes.

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

OPERATING RESULTS

Executive Overview

I. Financial Summary

Our worldwide sales for the third quarter increased 10 percent to $3.60 billion. Net income was $794.4 million, or $.73 per share, for the third quarter of 2005 compared with $755.2 million, or $.69 per share, for the third quarter of 2004, representing increases in net income and earnings per share of 5 percent and 6 percent, respectively. The increases in net income and earnings per share were the result of sales growth, and costs of goods sold increasing at a lower rate than sales, partially offset by research and development expenses and marketing and administrative expenses increasing at a rate greater than sales and by lower other income. Net income was $1.28 billion, or $1.17 per share, for the nine-month period ended September 30, 2005 compared with $1.81 billion, or $1.66 per share, for the nine-month period ended September 30, 2004, representing a decrease in net income and in earnings per share of 29 percent and 30 percent, respectively. Aside from the items listed below, earnings for the period were driven by sales growth, partially offset by cost of goods sold and research and development expenses increasing at a faster rate than sales.

Comparisons between the nine-month periods ended September 30, 2005 and 2004, are influenced by the following items that are reflected in our operating results (see Notes to Consolidated Condensed Financial Statements for additional information).

2005

- We incurred a charge related to product liability litigation matters of $1.07 billion (pretax), which decreased earnings per share by $.90 in the second quarter of 2005.
- In 2005, we began to expense stock options in accordance with SFAS 123(R). Had we expensed stock options in 2004, our third quarter and first nine months of 2004 net income would have been lower by $60.3 million and $208.6 million, which would have decreased earnings per share by $.05 per share in the third quarter and $.19 per share for the first nine months of 2004.

2004

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

II. Product Launches and Other Significant Events Affecting our Business

- We are in the process of rolling out the global launches of a number of new products, including Alimtaâ, Byetta™, Cialisâ, Cymbalta®, Forteoâ, Stratteraâ, Symbyax®, and Yentreve®. In addition, we have launched new indications or formulations of Alimta, Cymbalta, Gemzar®, Humatrope®, and Zyprexa.
- We launched Cymbalta for the treatment of major depressive disorder in the U.S. in August 2004. In September 2004, Cymbalta received its second U.S. approval and became the first FDA-approved treatment for pain caused by diabetic peripheral neuropathy (DPNP). Cymbalta was launched in the United Kingdom and Germany in the first quarter of 2005 for the treatment of major depressive episodes. Other launches in the European Union are expected to occur throughout 2005 and 2006. The European Commission also granted marketing authorization of Cymbalta for the treatment of DPNP in adults in July 2005. Cymbalta has achieved $544.8 million in U.S. sales since its launch.
- In August 2004, the European Commission granted marketing authorization throughout the European Union for Yentreve for the treatment of moderate-to-severe stress urinary incontinence (SUI) in women. Yentreve has been launched in several European countries and will be available in many additional countries in the coming months. In January 2005, we withdrew the New Drug Application from the FDA for duloxetine for the treatment of SUI. With our marketing partner, Boehringer Ingelheim, we are continuing to evaluate our options for next steps for the SUI indication in consultation with the FDA. Ongoing clinical trials for the product's treatment of SUI will continue.
- In the first quarter of 2005, we restructured our arrangements with our U.S. wholesalers. The new arrangements are expected to provide us with competitive distribution costs, reduce the speculative wholesaler buying seen in the past, and provide improved data on inventory levels at our U.S. wholesalers.
- In June 2005, Lilly and Amylin Pharmaceuticals, Inc. launched Byetta™ (exenatide), the first in a new class of medicines known as incretin mimetics, in the U.S. for the treatment of type 2 diabetes.

III. Legal and Regulatory Matters

Certain generic manufacturers have challenged our U.S. compound patent for Zyprexa and are seeking permission to market generic versions of Zyprexa prior to its patent expiration in 2011. On April 14, 2005, the U.S. District Court in Indianapolis ruled in our favor on all counts. The decision has been appealed.

In March 2004, we were notified by the U.S. Attorney's office for the Eastern District of Pennsylvania that it has commenced a civil investigation relating to our U.S. sales, marketing and promotional practices.

In 2005, we entered into an agreement with plaintiffs' attorneys involved in the U.S. Zyprexa product liability litigation to settle a majority of the claims against us relating to the medication. According to the agreement, we are establishing a fund of $690 million for the claimants who agree to settle their claims. Additionally, we are paying $10 million to cover administration of the settlement. As a result of our product liability exposures, the substantial majority of which are the current and expected Zyprexa claims, we recorded a net pretax charge of $1.07 billion in the second quarter of 2005.

Sales

Sales growth for the third-quarter and first nine months of 2005 of 10 percent and 5 percent, respectively, was primarily driven by sales growth of Cymbalta, Alimta, Forteo, and Gemzar. The growth in the first nine months of 2005 was partially offset by an estimated $170 million of wholesaler destocking in the U.S., as a result of restructuring our arrangements with our U.S. wholesalers in the first quarter of 2005, and by decreased U.S. demand for Zyprexa, Strattera, and Prozac. Sales in the U.S. increased by $98.0 million, or 5 percent for the third quarter of 2005, and was flat for the first nine months of 2005, compared with the same periods of 2004. The increase in U.S. sales in the third quarter of 2005 was driven primarily by increased sales of Cymbalta and Alimta, partially offset by decreased sales of Zyprexa and Strattera. Sales outside the U.S. increased $222.7 million, or 15 percent, and $543.7 million, or 12 percent, for the third quarter and first nine months of 2005, respectively. Worldwide sales volume increased by 7 percent, while selling prices and exchange rates increased sales by 2 percent and 1 percent, respectively, in the third quarter. For the first nine months of 2005, worldwide sales volume, exchange rates, and selling prices all increased 2 percent (numbers do not add due to rounding).

The following tables summarize our net sales activity for the three- and nine-month periods ended September 30, 2005 and 2004:

Product	Three Months Ended September 30, 2005 U.S.[1]	Outside U.S.	Total	Three Months Ended September 30, 2004 Total	Percent Change From 2004
			(Dollars in millions)		
Zyprexa	$ 503.9	$ 531.2	$1,035.1	$1,023.7	1
Gemzar	149.7	184.6	334.3	312.7	7
Humalog	194.1	112.1	306.2	264.6	16
Evista	161.3	99.0	260.3	246.1	6
Humulin	107.7	143.2	250.9	243.7	3
Animal health products	94.1	121.6	215.7	185.4	16
Cymbalta	170.2	12.6	182.8	32.6	NM
Strattera	125.0	15.9	140.9	163.6	(14)
Alimta	76.9	45.4	122.3	40.0	NM
Fluoxetine products	65.5	46.9	112.4	141.0	(20)
Anti-infectives	32.3	72.4	104.7	107.7	(3)
Forteo	70.4	32.2	102.6	58.1	77
Humatrope	47.1	53.1	100.2	103.6	(3)
ReoPro	32.0	38.9	70.9	89.8	(21)
Actos	29.8	34.5	64.3	58.3	10
Xigris	23.5	22.0	45.5	49.3	(8)
Cialis[2]	0.6	40.3	40.9	31.1	32
Symbyax	12.7	0.3	13.0	13.5	(4)
Other pharmaceutical products	31.5	66.6	98.1	115.6	(15)
Total net sales	$1,928.3	$1,672.8	$3,601.1	$3,280.4	10

Product	Nine Months Ended September 30, 2005 U.S.[1]	Outside U.S.	Total	Nine Months Ended September 30, 2004 Total	Percent Change From 2004
			(Dollars in millions)		
Zyprexa	$1,570.7	$1,599.4	$ 3,170.1	$ 3,334.3	(5)
Gemzar	431.2	550.7	981.9	885.0	11
Humalog	552.1	336.5	888.6	817.1	9
Evista	482.8	288.0	770.8	755.4	2
Humulin	315.3	442.2	757.5	752.5	1
Animal health products	249.2	363.1	612.3	547.4	12
Cymbalta	423.7	27.2	450.9	32.6	NM
Strattera	348.3	35.8	384.1	483.3	(21)
Fluoxetine products	181.8	157.3	339.1	435.9	(22)
Actos	239.3	98.7	338.0	324.0	4
Alimta	209.9	117.5	327.4	69.4	NM
Anti-infectives	102.3	224.4	326.7	351.4	(7)
Humatrope	141.6	172.0	313.6	308.4	2
Forteo	183.4	87.9	271.3	164.2	65
ReoPro	92.4	133.0	225.4	285.3	(21)
Xigris	91.6	71.2	162.8	146.5	11
Cialis[2]	1.6	123.3	124.9	96.5	29
Symbyax	39.6	0.9	40.5	55.0	(26)
Other pharmaceutical products	55.5	224.8	280.3	369.4	(24)
Total net sales	$5,712.3	$5,053.9	$10,766.2	$10,213.6	5

NM — Not meaningful

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

[2] Cialis had worldwide third-quarter and nine-month period ended September 30, 2005 sales of $195.1 million and $536.1 million, respectively, representing increases of 27 percent and 34 percent, respectively, compared with the same periods of 2004. The sales shown in the tables above represent results in the territories in which we market Cialis exclusively. The remaining sales relate to the joint-venture territories of Lilly ICOS LLC (North America (excluding Puerto Rico) and Europe). Our share of the joint-venture territory sales, net of expenses, is reported in net other income in our consolidated condensed income statement.

Product Highlights

Zyprexa sales in the U.S. decreased 10 percent and 16 percent in the third quarter and first nine months of 2005, respectively, compared with the same periods of 2004. This decrease resulted from a decline in the underlying demand due to continuing competitive pressures. Sales outside the U.S. increased 14 percent and 10 percent for the third quarter and first nine months of 2005, respectively, driven by volume growth in a number of major markets and the favorable impact of exchange rates. Excluding the impact of exchange rates, sales of Zyprexa outside the U.S. increased by 12 percent in the third quarter and 5 percent in the first nine months of 2005. Full-year 2005 Zyprexa sales outside the U.S. are expected to grow in the single digits compared with 2004. We continue to expect a slight decline in our 2005 worldwide Zyprexa sales. In September 2005, the National Institute of Mental Health released the results of its Clinical Antipsychotic Trial of Intervention Effectiveness (CATIE) study, which showed that Zyprexa was statistically superior on time to discontinuation in patients with schizophrenia as compared to other medications. Patients taking Zyprexa also experienced significantly fewer hospitalizations for schizophrenia than patients taking other medications. The study also noted that Zyprexa patients experienced greater weight gain and increases in measures of glucose and lipid metabolism than patients using other antipsychotics.

Diabetes care products, composed primarily of Humalogâ, Humulinâ, Actosâ, and recently launched Byetta™, had worldwide net sales of $652.8 million and $2.05 billion in the third quarter and first nine months of 2005, respectively, representing increases of 13 percent and 6 percent compared with the same periods last year. Diabetes care revenues in the U.S. increased 14 percent and 3 percent, to $359.0 million and $1.16 billion for the third quarter and first nine months of 2005, primarily driven by higher prices, offset

partially by a decline in underlying demand due to continued competitive pressures in the insulins market and reductions in wholesaler inventory levels of insulins during the nine months of 2005. Diabetes care revenues outside the U.S. increased 11 percent and 9 percent, to $293.7 million and $888.5 million in the third quarter and first nine months of 2005, respectively. Humalog sales increased 15 percent and 7 percent, while Humulin sales increased 3 percent and decreased 4 percent in the U.S. in the third quarter and first nine months of 2005, respectively. Humalog and Humulin sales outside the U.S. increased 18 percent and 3 percent during the third quarter of 2005 and 12 percent and 4 percent during the first nine months of 2005, respectively. Actos revenues, the majority of which represent service revenues from a copromotion agreement in the U.S. with Takeda Pharmaceuticals North America (Takeda), decreased 3 percent and 2 percent in the third quarter and first nine months of 2005 in the U.S. Actos is manufactured by Takeda Chemical Industries, Ltd., and sold in the U.S. by Takeda. As previously disclosed, since our share of revenue from the agreement with Takeda will vary from quarter to quarter based on contract terms, Actos revenue will not necessarily track with product sales. As a result, it is difficult to make quarterly comparisons for Actos revenue. Sales of Byetta, a first-in-class treatment for type 2 diabetes we market with Amylin Pharmaceuticals, were $18.1 million in its first full quarter on the U.S. market following its June 2005 launch. We report as revenue our 50 percent share of Byetta's gross margins and our sales of Byetta pen delivery devices to Amylin. For the third quarter, this revenue totaled $10.7 million.

Gemzar sales decreased 2 percent and increased 5 percent in the U.S. for the third quarter and first nine months of 2005, respectively. Although underlying demand increased in the U.S. in the third quarter of 2005, sales growth declined in the quarter as a result of variations in wholesaler buying patterns in both years. Sales growth in the U.S. in the first nine months of 2005 was negatively affected by reductions in wholesaler inventory levels in the first quarter of 2005. Gemzar sales outside the U.S. increased 15 and 16 percent for the third quarter and first nine months of 2005, respectively.

Evista sales in the U.S. decreased 5 percent and 4 percent in the third quarter and first nine months of 2005, respectively, due primarily to a decline in U.S. underlying demand resulting from continued competitive pressures and reductions in wholesaler inventory levels. This was partially offset by price increases. Evista sales outside the U.S. increased 29 percent and 13 percent in the third quarter and nine month period of 2005 compared with the same periods of 2004.

Cymbalta was launched in the U.S. in late August 2004 for the treatment of major depressive disorder and in September 2004 for the treatment of diabetic peripheral neuropathic pain. Cymbalta launches began in Europe for the treatment of major depressive episodes during the first quarter of 2005, with additional launches expected through 2005 and 2006. Cymbalta has been well accepted, generating $182.8 million in sales in the third quarter of 2005 and $450.9 million in sales in the first nine months of 2005.

Strattera, the only nonstimulant medicine approved for the treatment of attention-deficit hyperactivity disorder (ADHD) in children, adolescents, and adults, generated $140.9 million and $384.1 million of sales during the third quarter and first nine months of 2005, compared with $163.6 million and $483.3 million of sales in the third quarter and first nine months of 2004. The decline in sales was due to a decline in demand in both periods as well as reductions in wholesaler inventory levels during the first half of 2005. We recently announced an important update to the Strattera label, communicating new information regarding uncommon reports of suicidal thoughts among children and adolescents. We will add a boxed warning to the label in the U.S. and are working with other regulatory agencies where Strattera is approved to update the label information appropriately.

Alimta was launched in the U.S. during the first quarter of 2004 for the treatment of malignant pleural mesothelioma and approved during August 2004 for second-line treatment of non-small-cell lung cancer, while in Europe it was approved for both indications in September 2004. For the third quarter of 2005, Alimta generated sales of $122.3 million, representing a sequential increase compared with second quarter 2005 sales of $111.2 million. Alimta will continue to be launched in a number of European countries in 2005.

Forteo, a treatment for both men and postmenopausal women suffering from osteoporosis, increased 48 and 30 percent in the U.S. in the third quarter and first nine months of 2005, respectively, driven by strong growth in underlying demand. Sales growth for the nine-month period was offset, in part, by wholesaler destocking in the first half of 2005 related to our new arrangements with U.S. wholesalers.

Xigris sales in the U.S. declined 21 percent in the third quarter of 2005, while sales growth for the first nine months of 2005 in the U.S. was flat. Sales outside the U.S. increased 14 percent in the third quarter of 2005 and 30 percent during the first nine months of 2005.

Cialis was launched in the U.S. in December 2003. The $195.1 million of worldwide Cialis sales in the third quarter of 2005 were composed of $40.9 million of sales in our territories, which are reported in our net sales, and $154.2 million of sales in the joint-venture territories. The $536.1 million of worldwide Cialis sales in the first nine months of 2005 were composed of $124.9 million of sales in our territories, which are reported in our net sales, and $411.2 million of sales in the joint-venture territories. Within the joint-

venture territories, the U.S. sales of Cialis were $77.5 million and $191.3 million in the third quarter and first nine months of 2005, respectively, representing increases of 10 percent and 24 percent compared with the same periods of 2004. The increase was due to an increase in market share. The nine-month growth was offset partially by reductions in wholesaler inventory levels during the first quarter of 2005.

Gross Margin, Costs, and Expenses

For the third quarter of 2005, gross margins increased 1.2 percentage points, to 76.5 percent of net sales, compared with the third quarter of 2004. For the first nine months of 2005, gross margins declined 0.8 percentage points, to 76.1 percent of net sales, compared with the first nine months of 2004. The increase for the quarter was primarily due to the favorable impact of foreign exchange rates and favorable product mix, partially offset by continued investment in our manufacturing capacity. The decrease for the nine-month period was primarily due to the continued investment in our manufacturing capacity, other cost increases, and the impact of unfavorable foreign exchange rates, partially offset by a favorable product mix.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 13 percent and 7 percent for the third quarter and first nine months of 2005, respectively, compared with the same periods of 2004. Investment in research and development increased 15 percent, to $751.0 million, and 12 percent, to $2.22 billion, for the third quarter and first nine months of 2005, respectively, due to increased clinical trial and development expenses, increased incentive compensation and benefit expenses, and the adoption of stock option expensing in 2005. Marketing and administrative expenses increased 13 percent, to $1.07 billion, and 4 percent, to $3.31 billion, for the third quarter and first nine months of 2005, respectively, due to increased incentive compensation and benefits expenses, third quarter 2004 reimbursement from collaboration partners for marketing and selling expenses incurred related to the Cymbalta launch, and the adoption of stock option expensing in 2005. Research and development expenses would have increased by 10 percent and 7 percent, and marketing and administrative expenses would have increased by 7 percent and decreased by 2 percent for the third quarter and first nine months of 2005, respectively, if the comparative periods in 2004 would have been restated as if stock options had been expensed.

Net other income for the quarter and nine month period ended September 30, 2005, decreased $13.8 million, to $109.3 million, and increased $45.3 million, to $289.9 million, respectively. The decrease for the quarter was primarily due to less income related to the outlicense of legacy products outside the U.S. and to third-quarter 2004 milestones received from collaborations on the duloxetine molecule, partially offset by a settlement related to a utilities contract and by the Lilly ICOS LLC joint venture becoming profitable. The increase for the nine-month period was primarily due to the utilities contract settlement, income earned from the restructuring of our royalty arrangements with Ligand Pharmaceuticals Incorporated and Cubist Pharmaceuticals, Inc., during the first quarter of 2005, and improved financial results from the Lilly ICOS LLC joint venture. During the third quarter of 2005 the joint venture reported its first profit.

For the third quarter and first nine months of 2005, the effective tax rates were 22.0 percent and 29.8 percent, respectively, while the tax rates were 22.0 percent and 25.2 percent for the third quarter and first nine months of 2004, respectively. The effective tax rates for the first nine months of 2005 was affected by the product liability charge of $1.07 billion in the second quarter of 2005. The tax benefit of this charge was less than our effective tax rate, as the tax benefit was calculated based upon existing tax laws in the countries in which we reasonably expect to deduct the charge. The effective tax rate for the first nine months of 2004 was affected by the charge for acquired IPR&D related to the AME acquisition, which is not deductible for tax purposes.

FINANCIAL CONDITION

As of September 30, 2005, cash, cash equivalents, and short-term investments totaled $6.23 billion compared with $7.46 billion at December 31, 2004. Cash flow from operations of $1.10 billion and net issuances of long-term debt of $2.00 billion were more than offset by net repayments of short-term debt of $1.98 billion, dividends paid of $1.25 billion and net capital expenditures of $878.5 million. Total debt at September 30, 2005, was $6.51 billion, essentially flat compared to December 31, 2004. We currently expect to repay approximately $1.5 billion of debt by the end of 2006.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including debt service, capital expenditures, dividends, and taxes for the remainder of 2005. We believe that amounts available through our existing commercial paper program should be adequate to fund maturities of short-term borrowings, if necessary. Various risks and uncertainties, including those discussed in the Financial Expectations for 2005 section, may affect our operating results and cash generated from operations.

We have repatriated all $8.00 billion of eligible incentive dividends as defined in the American Jobs Creation Act of 2004.

LEGAL AND REGULATORY MATTERS

Three generic pharmaceutical manufacturers, Zenith Goldline Pharmaceuticals, Inc. (Zenith), Dr. Reddy's Laboratories, Ltd. (Reddy), and Teva Pharmaceuticals (Teva), have submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa® in various dosage forms several years prior to the expiration of our U.S. patents for the product. The generic companies alleged that our patents are invalid, unenforceable, or not infringed. We filed suit against the three companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the challenges to our compound patent (expiring in 2011) are without merit. The cases have been consolidated. A trial before the district court judge was held in January and February of 2004. On April 14, 2005, the district court upheld our 2011 U.S. patent on Zyprexa. In the case of *Eli Lilly and Company v. Zenith Goldline Pharmaceuticals et al.*, the court ruled in our favor on all counts, including the patent doctrines of obviousness, double patenting, inequitable conduct, novelty, and public use. The decision has been appealed. We are confident, and the trial court confirmed, that the generic manufacturers' claims are without merit, and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail on appeal. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr) had submitted an ANDA with the FDA seeking permission to market a generic version of Evista® (raloxifene) several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. In November 2002, we filed suit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that Barr's challenges to our patents claiming the methods of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. Barr has also asserted that the method of use patents are unenforceable. The U.S. Patent and Trademark Office issued to us two new patents (expiring in 2017) directed to pharmaceutical compositions containing raloxifene and a method for preventing postmenopausal osteoporosis and a third (expiring in 2012) directed to methods of inhibiting postmenopausal bone loss by administering a single daily oral dose of raloxifene. These patents have been listed in the FDA's Orange Book. Barr has challenged these patents, alleging that each is invalid, unenforceable, or will not be infringed. These new patents have been added to the pending suit. The suit is in discovery. No trial date has been set at this time. While we believe that Barr's claims are without merit and we expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In March 2004, the office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it has commenced a civil investigation related to our U.S. marketing and promotional practices with respect to Zyprexa, Prozac®, and Prozac Weekly™. In October 2005, the U.S. Attorney's office advised that it is also conducting an inquiry regarding certain rebate agreements we entered into with a pharmacy benefit manager covering Axid, Evista, Humalog, Humulin, Prozac, and Zyprexa. The inquiry includes a review of Lilly's Medicaid best price reporting related to the product sales covered by the rebate agreements. We are cooperating with the U.S. Attorney in these investigations. In June 2005, we received a subpoena from the office of the Attorney General, Medicaid Fraud Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges and fines, penalties, or other monetary or non-monetary remedies. We cannot predict or determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

We have been named as a defendant in approximately 400 product liability cases in the United States involving approximately 790 claimants alleging a variety of injuries from the use of Zyprexa. Most of the cases allege that the product caused or contributed to diabetes or high blood-glucose levels. The lawsuits seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the lawsuits also allege that we improperly promoted the drug. Almost all of the federal cases are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). In addition, we have entered into agreements with various plaintiffs' counsel halting the running of the statutes of limitation (tolling agreements) with respect to more than 6,200 individuals who do not have lawsuits on file and may or may not eventually file suits.

Two cases requesting certification of nationwide class actions on behalf of those who allegedly suffered injuries from the administration of Zyprexa were filed in the Federal District Court for the Eastern District of New York on April 16, 2004 (Ortiz v. Lilly) and May 19, 2004 (Tringali v. Lilly), respectively.

A lawsuit was filed on May 4, 2004 (Dau v. Lilly) that requested a personal injury class action on behalf of Iowa residents who took Zyprexa. In June 2005, another lawsuit was filed in the Eastern District of New York purporting to be a nationwide class action on behalf of all consumers and third party payors, excluding governmental entities, who have made or will make payments on account of their members or insured patients being prescribed Zyprexa. The suit seeks a refund of the cost of Zyprexa; medical expenses paid and to be paid as a result of persons taking Zyprexa; treble damages under certain state consumer protection statutes; punitive damages; and attorney fees. On August 25, 2005, an additional lawsuit was filed in the same court that purports to be a class action on behalf of all consumers and third party payors who have purchased, reimbursed or paid for Zyprexa. As with the previous suits, the new suit alleges that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug. The suit seeks to recover amounts paid for Zyprexa by members of the proposed class. The suit is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, and seeks treble damages, punitive damages, and attorneys fees.

In 2005, we entered into a master settlement agreement with plaintiffs' attorneys involved in the U.S. Zyprexa product liability litigation to settle a majority of the claims against us relating to the medication. The agreement covers over 8,000 claimants, representing approximately 70 percent of the U.S. Zyprexa product liability claims identified to us. The claims included in the settlement are:

- A large number of previously filed lawsuits pending in various state and federal courts, including the MDL;
- The majority of the over 6,200 tolled claims; and
- A number of other informally asserted claims.

In addition, the class action claims in the Ortiz, Tringali and Dau cases were dismissed as a part of the settlement. We are establishing a fund of $690 million for the claimants who agree to settle their claims. Additionally, we are paying $10 million to cover administration of the settlement. The settlement fund will be overseen and distributed by claims administrators appointed by the court. The agreement and the distribution of funds to participating claimants are conditioned upon, among other things, our obtaining full releases from no fewer than 7,193 claimants.

The settlement covers claimants who asserted that they developed diabetes-related conditions from their use of Zyprexa. Claimants who are not covered by the final settlement are those represented by attorneys who are not participating in the agreement. We are prepared to continue our vigorous defense of Zyprexa in the remaining cases.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York. In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses.

In early 2005, we were served with five lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. The allegations in these suits are similar to those in the litigation pending in the United States.

In connection with the Zyprexa product liability claims, certain of our insurance carriers have raised defenses to their liability under the policies and to date have failed to reimburse us for claim-related costs despite demand from the first-layer carriers for payment. However, in our opinion, the defenses identified to date appear to lack substance. In March 2005, we filed suit against several of the carriers in state court in Indiana to obtain reimbursement of costs related to the Zyprexa product liability litigation. The matter has been removed to the federal court in Indianapolis. Several carriers have asserted defenses to their liability and some carriers are seeking rescission of the coverage. While we believe our position is meritorious, there can be no assurance that we will prevail.

In addition, we have been named as a defendant in numerous other product liability lawsuits involving primarily diethylstilbestrol (DES) and thimerosal.

With respect to product liability claims currently asserted against us, we have accrued for our estimated exposures to the extent they are both probable and estimable based on the information available to us. In addition, we have accrued for certain product liability claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. Legal defense costs expected to be incurred in connection with significant product liability loss contingencies are accrued when probable and reasonably estimable. A

portion of the costs associated with defending and disposing of these suits is covered by insurance. We record receivables for insurance-related recoveries when it is probable they will be realized. These receivables are classified as a reduction of the litigation charges on the statement of income. We estimate insurance recoverables based on existing deductibles, coverage limits, our assessment of any defenses to coverage that might be raised by the carriers, and the existing and projected future level of insolvencies among the insurance carriers.

As a result of these matters, in the second quarter of 2005, we recorded a net pre-tax charge of $1.07 billion for product liability matters, which includes the following:

- The $700 million Zyprexa settlement and administration fee;
- Reserves for product liability exposures and defense costs regarding currently known and expected claims to the extent we can formulate a reasonable estimate of the probable number and cost of the claims. A substantial majority of these exposures and costs relate to current and expected Zyprexa claims not included in the settlement. We have estimated these charges based primarily on historical claims experience, data regarding product usage, and our historical product liability defense cost experience.

The $1.07 billion net charge takes into account our estimated recoveries from our insurance coverage related to these matters. The after-tax impact of this net charge was $.90 per share.

We cannot predict with certainty the additional number of lawsuits and claims that may be asserted. In addition, although we believe it is probable, there can be no assurance that the Zyprexa settlement will be concluded. The ultimate resolution of Zyprexa product liability litigation could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

FINANCIAL EXPECTATIONS FOR 2005

For the fourth quarter and full year of 2005, we expect earnings per share to be in the range of $.73 to $.79 per share and $1.90 to $1.96 per share, respectively, including the $.90 per share product liability charge recognized in the second quarter of 2005, and the incremental equity compensation expense as a result of expensing stock options (see Notes to the Consolidated Condensed Financial Statements for additional information) and compensation structural changes.

We caution investors that any forward-looking statements or projections made by us, including those above, are based on management's belief at the time they are made. However, they are subject to risks and uncertainties. Actual results could differ materially and will depend on, among other things, the continuing growth of our currently marketed products; developments with competitive products; the timing and scope of regulatory approvals and the success of our new product launches; foreign exchange rates; wholesaler inventory changes; other regulatory developments, litigation, and government investigations; and the impact of governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals. Other factors that may affect our operations and prospects are discussed in Exhibit 99 to this Form 10-Q. We undertake no duty to update forward-looking statements.

AVAILABLE INFORMATION ON OUR WEBSITE

We make available through our company website, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents.

The website link to our SEC filings is http://investor.lilly.com/edgar.cfm.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the Company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of Sidney Taurel, chairman and chief executive officer, and Charles E. Golden, executive vice president and chief financial officer, evaluated our disclosure controls and procedures as of September 30, 2005, and concluded that they are effective.

(b) Changes in Internal Controls

During the third quarter of 2005, the implementation of a new product distribution information system in the U.S. was completed. The transition cut-over will be completed in the fourth quarter. Previously, we completed the implementation of new software applications for our Geneva, Switzerland Service Center. The implementation included, among others, our Order to Cash, General Accounting, and Purchase to Pay processes. The Service Center processes transactional activity and performs financial reporting primarily for our Middle Eastern, African, and Eastern European operations, as well as some processing for Japanese and European affiliates. Additionally, we implemented new software applications in the U.S. pertaining to the processing of various discounts and rebates to public and private health care payors. These systems will enhance operational effectiveness and efficiencies and are expected to further improve internal controls that were previously considered effective.

During the remainder of 2005, we will perform appropriate testing, under Section 404 of the Sarbanes-Oxley Act as it pertains to the above system implementations, to ensure the effectiveness of internal controls as they relate to the reliability of financial reporting and the fair presentation of our consolidated financial statements. We anticipate other implementations of software applications as part of our global enterprise-wide software conversion to occur during 2005.

Except for the preceding changes, there was no change in the company's internal control over financial reporting during the most recently completed calendar quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 2, Management's Discussion and Analysis, "Legal and Regulatory Matters," for information on various legal proceedings, including but not limited to:

- The U.S. Zyprexa patent litigation
- The U.S. Evista patent litigation
- The civil investigation by the U.S. Attorney for the Eastern District of Pennsylvania relating to our U.S. sales, marketing, and promotional practices
- The Zyprexa product liability litigation, including the agreement to settle the majority of the U.S. claims
- The suits we have filed against several of our product liability insurance carriers with respect to our coverage for the Zyprexa claims

That information is incorporated into this Item by reference.

In Canada, two generic pharmaceutical manufacturers, Apotex Inc. (Apotex) and Novopharm Ltd. (Novopharm) (a wholly-owned subsidiary of Teva), have challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). We currently anticipate a decision from the Canadian Federal Patent Court by January 2007 in the Apotex case and by September 2007 in the Novopharm case. The generic companies allege that our patent is invalid, obtained by fraud, or irrelevant. We are vigorously contesting the legal challenges to this patent. We cannot predict or determine the outcome of this litigation.

We refer to Part I, Item 3, of our Form 10-K annual report for 2004, and Part II, Item 1 of our Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, respectively, for the discussion of litigation brought against us and many other pharmaceutical manufacturers by several counties in New York relating generally to the calculation and reporting of average wholesale prices for

purposes of Medicaid reimbursement. Most of the counties in New York have now joined the litigation. The case still remains in its earliest stages.

In October 2005, we received a subpoena from the U.S. Attorney's office for the District of Massachusetts for the production of documents relating to our business relationship with a long-term care pharmacy organization concerning Actos, Humalog, Humulin, and Zyprexa. We intend to cooperate in responding to the subpoena.

During 2004 we, along with several other pharmaceutical companies, were named in one consolidated case in Minnesota federal court brought on behalf of consumers alleging that the conduct of pharmaceutical companies in preventing commercial importation of prescription drugs from outside the United States violated antitrust laws and one case in California state court brought by several pharmacies in which plaintiffs' claims are less specifically stated, but are substantially similar to the claims asserted in Minnesota. Both cases seek restitution for alleged overpayments for pharmaceuticals and an injunction against the allegedly violative conduct. The federal district court in the Minnesota case has dismissed the federal claims and ruled that the state claims must be brought in separate state court actions. Plaintiffs have appealed that decision to the Eighth Circuit Court of Appeals. The California case is currently in discovery.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the activity related to repurchases of our equity securities during the quarter ended September 30, 2005:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (d)
	(in thousands)			(Dollars in millions)
July 2005	4	$56.23	—	$920.0
August 2005	10	53.79	—	920.0
September 2005	23	54.91	—	920.0
Total	37		—	

The amounts presented in columns (a) and (b) above represent purchases of common stock related to employee stock option exercises. The amounts presented in columns (c) and (d) in the above table represent activity related to our $3.0 billion share repurchase program announced in March 2000. As of September 30, 2005, we have purchased $2.08 billion related to this program. During the third quarter of 2005, no shares were repurchased pursuant to this program and we do not expect to purchase any shares under this program during the remainder of 2005.

Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 10.1	The Eli Lilly and Company Bonus Plan, as amended
EXHIBIT 10.2	Master Settlement Agreement regarding Zyprexa product liability claims
EXHIBIT 11.	Statement re: Computation of Earnings (Loss) per Share
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings From Continuing Operations to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Charles E. Golden, Executive Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 – “Safe Harbor” for Forward-Looking Disclosures

SIGNATURES

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

ELI LILLY AND COMPANY
(Registrant)

Date November 3, 2005

/s/ Robert A. Armitage
Robert A. Armitage
Senior Vice President and
General Counsel

Date November 3, 2005

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

INDEX TO EXHIBITS

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* Portions of this exhibit have been omitted pursuant to a confidential treatment request to the Securities and Exchange Commission.

Exhibit 10.1

The Eli Lilly and Company Bonus Plan
(as amended and restated January 1, 2005)

SECTION 1. PURPOSE

The purpose of The Eli Lilly and Company Bonus Plan is to encourage and promote eligible employees to create and deliver innovative pharmaceutical-based health care solutions that enable people to live longer, healthier and more active lives, to outgrow our competitors through a constant stream of pharmaceutical innovation, and to materially increase shareholder value. The Plan is designed to accomplish the following key objectives:

a. motivate superior employee performance through the implementation of a performance-based bonus system for all eligible management employees, United States employees (including those in Puerto Rico) and other employees as may be designated from time to time;

b. encourage eligible employees to take greater ownership of the company and provide “Answers that Matter” daily by creating a direct relationship between key company measurements and individual bonus payouts; and

c. enable the Company to attract and retain employees that will be instrumental in driving sustained growth and performance of Eli Lilly and Company by providing a competitive bonus program that rewards outstanding performance consistent with the Company’s mission, values and increased shareholder value.

The Plan is intended to satisfy the requirements for providing “performance-based” compensation under Section 162(m) of the Internal Revenue Code.

SECTION 2. DEFINITIONS

The following words and phrases as used in this Plan will have the following meanings unless a different meaning is clearly required by the context. Masculine pronouns will refer both to males and to females:

2.1 Applicable Year means the calendar year immediately preceding the year in which payment of the Company Bonus is payable pursuant to Section 6. For example, the Applicable Year for 2005 payout is January 1, 2004 through December 31, 2004.

2.2 Bonus Target means the percentage of Participant Earnings for each Participant as described in Section 5.6(a) below.

2.3 Committee means (i) with respect to the Executive Officers of Lilly, the Compensation Committee, the members of which will be selected by the Board of Directors of Lilly, from among its members; and (ii) with respect to all other Eligible Employees, the

Compensation Committee of the Board of Directors or its designee. Each member of the Compensation Committee will, to the extent deemed necessary or appropriate by the Board of Directors, satisfy the requirements of an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code.

2.4 Company means Eli Lilly and Company and its subsidiaries.

2.5 Company Bonus means the amount of bonus compensation payable to a Participant as described in Section 5 below. Notwithstanding the foregoing, however, the Committee may determine, in its sole discretion, to reduce the amount of a Participant's Company Bonus if such Participant becomes eligible to participate in such other bonus program of the Company as may be specifically designated by the Committee. Such reduction may be by a stated percentage up to and including 100% of the Company Bonus.

2.6 Company Performance Bonus Multiple means the amount as calculated in Sections 5.3 and 5.4 below.

2.7 Disabled means a Participant who (i) has become eligible for a payment under The Lilly Extended Disability Plan, assuming eligibility to participate in that plan, or (ii) for those employees ineligible to participate in The Lilly Extended Disability Plan, has become otherwise "disabled" under the applicable disability benefit plan or program for the Participant, or, in the event that there is no such disability benefit plan or program, has become disabled under applicable local law.

2.8 Earnings Per Share (EPS) means the diluted earnings per share of the Company as reported in the Company's "Consolidated Statements of Income" in accordance with generally accepted accounting principles and Section 3.4 below.

2.9 Earnings Per Share Growth (EPS Growth) means the percentage increase in EPS in the Applicable Year compared to the prior year.

2.10 Effective Date means January 1, 2004, as amended from time to time.

2.11 Eligible Employee means:

a. with respect to employees of Lilly or its Puerto Rican subsidiaries, a person (1) who is employed as an employee by the Company on a scheduled basis of twenty (20) or more hours per week and is scheduled to work at least five (5) months per year; and (2) who is receiving compensation, including temporary illness pay under Lilly's Illness Pay Program or similar short-term disability program, from the Company for services rendered as an employee. Notwithstanding anything herein to the contrary, the term "Eligible Employee" will not include:

(1) a person who has reached Retirement with the Company;

(2) a person who is Disabled;

(3) a person who is a “leased employee” within the meaning of Section 414(n) of the Internal Revenue Code of 1986, as amended, or whose basic compensation for services on behalf of the Company is not paid directly by the Company;

(4) a person who is classified as a “Fixed Duration Employee”, as that term is used by Lilly;

(5) a person who is classified as a special status employee because his employment status is temporary, seasonal, or otherwise inconsistent with regular employment status;

(6) a person who is eligible to participate in the Eli Lilly and Company Prem1er Rewards Plan or such other Company bonus or incentive program as may be specifically designated by the Committee or its designee; or

(7) a person who submits to the Committee in writing a request that he not be considered eligible for participation in the Plan or is a member of the Board of Directors of Lilly unless he or she is also an Eligible Employee.

(8) any other category of employees designated by the Committee in its discretion with respect to any Applicable Year.

b. with respect to those employees who are employed by the Company, but not by Lilly or a Puerto Rican subsidiary, an employee of the Company designated by the Committee as a Participant in the Plan with respect to any Applicable Year. In its discretion, the Committee may designate Participants either on an individual basis or by determining that all employees in specified job categories, classifications, levels, subsidiaries or other appropriate classification will be Participants.

c. Notwithstanding anything herein to the contrary, the term Eligible Employee will not include any person who is not so recorded on the payroll records of the Company, including any such person who is subsequently reclassified by a court of law or regulatory body as a common law employee of the Company. Consistent with the foregoing, and for purposes of clarification only, the term employee or Eligible Employee does not include any individual who performs services for the Company as an independent contractor or under any other non-employee classification.

2.12 Lilly means Eli Lilly and Company.

2.13 Lilly Executive Officer or Section 162(m) Participant means a Participant who has been designated by the Board of Directors of Lilly as an executive officer pursuant to Rule 3b-7 under the Securities Exchange Act of 1934, as amended. For purposes of this Plan, a Lilly Executive Officer will be considered a Section 162(m) Participant whether or not he is a "covered employee" under Section 162(m).

2.14 Participant means an Eligible Employee who is participating in the Plan.

2.15 Participant Earnings means (A) those amounts described below that are earned during the portion of the Applicable Year during which the employee is a Participant in the Plan:

(i) regular compensation (including applicable deferred compensation amounts), overtime, shift premiums and other forms of additional compensation determined by and paid currently pursuant to an established formula or procedure;

(ii) salary reduction contributions to The Lilly Employee Savings Plan or elective contributions under any similar tax-qualified plan that is intended to meet the requirements of Section 401(k) of the Internal Revenue Code or similar Company savings program;

(iii) elective contributions to any cafeteria plan that is intended to meet the requirements of Section 125 of the Internal Revenue Code or other pre-tax contributions to a similar Company benefit plan;

(iv) payments made under the terms of Lilly's Illness Pay Program or other similar Company or government-required leave program during an Applicable Year to a Participant who is on approved leave of absence and is receiving one hundred percent (100%) of his base pay; and

(v) other legally-mandated or otherwise required pre-tax deductions from a Participant's base salary.

(B) The term "Participant Earnings" does not include:

(i) compensation paid in lieu of earned vacation;

(ii) amounts contributed to the Retirement Plan or any other qualified plan, except as provided in clause (A)(ii), above;

(iii) payments made under the terms of Lilly's Illness Pay Program or other similar Company or government-required leave program during an Applicable Year to a Participant who is on approved leave of absence and is receiving less than the full amount of his base pay;

(iv) amounts paid under this Plan or other bonus or incentive program of the Company;

(v) payments made under The Lilly Severance Pay Plan or any other severance-type benefit (whether company-sponsored or mandated by law) arising out of or relating to a Participant's termination of employment;

(vi) payments based upon the discretion of the Company;

(vii) in the case of a person employed by a Lilly subsidiary, foreign service, cost of living, or other allowances that would not be paid were the person employed by Lilly;

(viii) amounts paid as commissions, sales bonuses, or Market Premiums (as defined under the Retirement Plan); or

(ix) earnings with respect to the exercise of stock options or vesting of restricted stock.

2.16 Performance Benchmarks mean the amounts as calculated in Section 5.3 below. The Performance Benchmarks will be established after considering expected pharmaceutical peer group performance and based on performance measures as described in Section 5.2.

2.17 Plan means The Eli Lilly and Company Bonus Plan as set forth herein and as hereafter modified or amended from time to time. The Plan is an incentive compensation program and is not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), pursuant to Department of Labor Regulation Section 2510.3.

2.18 Plant Closing means the closing of a plant site or other Company location that directly results in termination of employment.

2.19 Reduction in Workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment.

2.20 Retirement means the cessation of employment upon the attainment of age fifty-five with ten years of service (55 and 10) or at least eighty (80) points, as determined by the provisions of the Retirement Plan as amended from time to time, assuming eligibility to participate in that plan. For persons who are not participants in the Retirement Plan, Retirement means the cessation of employment as a retired employee under the applicable retirement benefit plan or program as provided by the Company or applicable law.

2.21 Retirement Plan means The Lilly Retirement Plan.

2.22 Sales means, for any Applicable Year, the consolidated net sales of the Company as set forth in the "Consolidated Statements of Income" as reported by the Company in accordance with generally accepted accounting principles and Section 3.4 below.

2.23 Sales Growth means the percentage increase in Sales in the Applicable Year compared to the prior year.

2.24 Section 162(m) means Section 162(m) of the Internal Revenue Code of 1986, as amended.

2.25 Service means the aggregate time of employment of an Eligible Employee by the Company.

SECTION 3. ADMINISTRATION

3.1 Committee. The Plan will be administered by the Compensation Committee of the Board of Directors of Eli Lilly and Company or, if the name of the Compensation Committee is changed, the Plan will be administered by such successor committee. For all Eligible Employees other than Lilly Executive Officers, the Compensation Committee may delegate all or a portion of its responsibilities within its sole discretion by resolution. Any reference in this Plan to the Committee or its authority will be deemed to include such designees (other than with respect to Lilly Executive Officers or a member of the Board of Directors or for purposes of Section 9).

3.2 Powers of the Committee. The Committee will have the right to interpret the terms and provisions of the Plan and to determine any and all questions arising under the Plan, including, without limitation, the right to remedy possible ambiguities, inconsistencies, or omissions by a general rule or particular decision. The Committee will have authority to adopt, amend and rescind rules consistent with the Plan, to make exceptions in particular cases to the rules of eligibility for participation in the Plan (except with respect to Lilly Executive Officers), and to delegate authority for approval of participation of any Eligible Employee except for Lilly Executive Officers or a member of the Board of Directors. The Committee will take all necessary action to establish annual Performance Benchmarks and approve the timing of payments, as necessary.

3.3 Certification of Results. Before any amount is paid under the Plan, the Committee will certify in writing the calculation of EPS, EPS Growth, Sales and Sales Growth (or other applicable performance measures) for the Applicable Year and the satisfaction of all other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus.

3.4 Adjustments for Significant Events. Not later than 90 days after the beginning of an Applicable Year, the Committee may specify with respect to Company Bonuses for the Applicable Year that the performance measures described in Section 5.2 will be determined before the effects of acquisitions, divestitures, restructurings or special charges or gains, changes in corporate capitalization, accounting changes, and/or events that are treated as extraordinary items for accounting purposes; provided that such adjustments shall be made only to the extent permitted by Section 162(m) in the case of Lilly Executive Officers.

3.5 Finality of Committee Determinations. Any determination by the Committee of Sales, Sales Growth, EPS, EPS Growth, any other performance measure, Performance Benchmarks and the level and entitlement to Company Bonus, and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan, will be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives. The Committee may rely conclusively on determinations made by Lilly and its auditors to determine Sales, Sales Growth, EPS, EPS Growth and related information for administration of the Plan, whether such information is determined by the Company, auditors or a third-party vendor engaged specifically to provide such information to the Company. This subsection is not intended to limit the Committee's power, to the extent it deems proper in its discretion, to take any action permitted under the Plan.

SECTION 4. PARTICIPATION IN THE PLAN

4.1 General Rule. Only Eligible Employees may participate in and receive payments under the Plan.

4.2 Commencement of Participation. An Eligible Employee will become a Participant in the Plan as follows: (i) in the case of Eligible Employees under Section 2.11(a), on the date on which the individual completes at least one hour of employment as an Eligible Employee within the United States or Puerto Rico, and (ii) in the case of Eligible Employees under Section 2.11(b), on the date as of which the Committee has designated the individual to become a Participant in the Plan.

4.3 Termination of Participation. An Eligible Employee will cease to be a Participant upon termination of employment with the Company for any reason, or at the time he otherwise ceases to be an Eligible Employee under the Plan.

SECTION 5. DEFINITION AND COMPUTATION OF COMPANY BONUS

5.1 Computation for Eligible Employees. Company Bonus amounts will depend significantly on Company performance as well as Participants' individual performance for certain Eligible Employees. As more specifically described below, a Participant's Company Bonus is calculated by multiplying the Participant's Bonus Target by his Participant Earnings and the Company Performance Bonus Multiple. For eligible management and Lilly employees and those Participants designated by the Committee, individual performance will also impact the Company Bonus calculation, as described in Section 5.6(c) below. Company Bonuses are paid out to eligible Participants in the manner provided below.

5.2 Establishment of Performance Measures. Not later than 90 days after the beginning of each Applicable Year, the Committee will, in its sole discretion, determine appropriate performance measures for use in calculating Company Bonus amounts. These performance measures may include Sales Growth, EPS Growth, growth in net income, return on assets, return on equity, total shareholder return, EVA, MVA or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains (determined according to objective criteria established by the Committee not later than ninety (90) days after the beginning of the Applicable Year). Unless otherwise specified in a written resolution adopted by the Committee for the Applicable Year, the Committee will use EPS Growth and Sales Growth, in each case before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains (determined as described above) as performance measures.

5.3 Establishment of Performance Benchmarks. Not later than 90 days after the beginning of each Applicable Year, the Committee will establish Performance Benchmarks for the Company based on the performance measures described in Section 5.2 above. Unless otherwise specified in a written resolution adopted by the Committee for the Applicable Year, the Performance Benchmarks will correspond with EPS Growth and Sales Growth amounts for the Applicable Year, established after considering expected pharmaceutical peer group performance. The Performance Benchmarks will correspond to EPS Growth and Sales Growth multiples equal to 1.0. The Committee will also adopt a formula that will determine the extent to which the performance measure multiples will vary as the Company's actual results vary from the Performance Benchmarks.

5.4 Company Performance Bonus Multiple. Unless otherwise specified in a written resolution adopted by the Committee not later than 90 days after the beginning of the Applicable Year, the Company Performance Bonus Multiple is equal to the product of the EPS Growth multiple and 0.75 plus the product of the Sales Growth multiple and 0.25 (i.e., Company Performance Bonus Multiple = (EPS Growth multiple * 0.75) + (Sales Growth multiple * 0.25)).

5.5 Company Performance Bonus Multiple Threshold and Ceiling: Notwithstanding Sections 5.3 and 5.4, the Company Performance Bonus Multiple will not be less than 0.25 or greater than 2.0 in an Applicable Year. If the calculations described in Sections 5.3 and 5.4 above result in a number that is less than 0.25, the Company Performance Bonus Multiple will equal 0.25 for the Applicable Year. If the calculations described in Sections 5.3 and 5.4 above result in a multiple greater than 2.0, the Company Performance Bonus Multiple will equal 2.0 for the Applicable Year. Notwithstanding the foregoing, the Committee may reduce the Company Performance Bonus Multiple (including but not limited to a reduction to below 0.25) for some or all Eligible Employees, in its discretion.

5.6 Participant Company Bonus.

a. Bonus Target. Not later than 90 days after the beginning of the Applicable Year, the Bonus Target for each Participant will be determined by the Committee on a basis that takes into consideration a Participant's pay grade level and job responsibilities. The Bonus Target for each Participant for the Applicable Year will be expressed as a percentage of Participant Earnings as of December 31 of the Applicable Year. Early in the Applicable Year, each Participant will receive information regarding the Participant's Bonus Target.

b. Company Bonus Calculation. Except as described in Section 5.6(c) below, a Participant's Company Bonus will equal the product of the Company Performance Bonus Multiple and the Participant's Bonus Target and the Participant's Earnings.

c. Adjustment for Performance Multiplier, if Applicable.

Notwithstanding anything herein to the contrary, all eligible management employees (except Lilly Executive Officers), United States employees and other employees as may be designated from time to time by the Committee are subject to individual performance multipliers. For all such Participants subject to an individual performance multiplier, the amount calculated in Section 5.5(b) above will be adjusted based on the Participant's performance rating at the end of the Applicable Year as described below. For each such Participant, the performance rating will be determined by the Participant's supervision.

1. Exemplary Performance. If the Participant receives an exemplary or equivalent performance rating (using the applicable performance rating system then in effect for the Participant), the amount calculated in Section 5.6(b) will be multiplied by an amount determined by the Committee, not to exceed 1.5, to obtain the Participant's actual Company Bonus.

2. Satisfactory Performance. If the Participant receives a satisfactory or equivalent performance rating (using the applicable performance rating system then in effect for the Participant), the amount calculated in Section 5.6(b) will be multiplied by 1.0 so that the Participant's actual Company Bonus will equal the amount calculated in Section 5.6(b) above.

3. Unsatisfactory Performance. If the Participant receives a year-end unsatisfactory or equivalent performance rating (using the applicable performance rating system then in effect for the Participant), the amount calculated in Section 5.6(b) will be multiplied by 0.0 so that the Participant's actual Company Bonus will equal $0.00.

In the event that a Participant does not receive a year-end performance rating, but is eligible for a Company Bonus, the amount calculated in Section 5.6(b) will be multiplied by 1.0 so that the Participant's actual Company Bonus will be the amount calculated in Section 5.6(b) above.

5.7 Conditions on Company Bonus. Payment of any Company Bonus is neither guaranteed nor automatic. A Participant's Company Bonus is not considered to be any form of compensation, wages, or benefits, unless and until paid.

5.8 Required Employment. Except as provided below in this Section 5.8 or as otherwise designated by the Committee, if a Participant is not employed by the Company on the last day of the Applicable Year, or is otherwise not an Eligible Employee on that date, the Participant is not entitled to any Company Bonus payment under this Plan for that Applicable Year.

a. Leaves of Absence. A Participant who, on the last day of the Applicable Year, is on approved leave of absence under the Family and Medical Leave Act of 1993, military leave under the Uniformed Services Employment and Reemployment Rights Act, or such other approved leave of absence will be considered to be an Eligible Employee on that date for purposes of this Plan.

b. Transfer. An employee who is a Participant in this Plan for a portion of the Applicable Year and then transfers to a position within the Company in which he is ineligible to participate in this Plan, but who remains employed by the Company on the last day of the Applicable Year, will be treated as satisfying the last-day-of-Applicable Year requirement for purposes of this Plan. In that event, his Company Bonus will be based on his Participant Earnings for the portion of the Applicable Year in which the employee was a Participant in the Plan.

c. Retirement, Disability or Death. A Participant who was an Eligible Employee for some portion of the Applicable Year and then takes Retirement, becomes and remains Disabled through the end of the Applicable Year, or dies during the Applicable Year will be considered to satisfy the last-day-of-Applicable-Year requirement described in this Section 5.8 for purposes of this Plan.

d. Reallocation, Medical Reassignment, Plant Closing or Reduction in Workforce. A Participant who was an Eligible Employee for some portion of the Applicable Year and whose employment is terminated as a result of his failure to locate a position following his reallocation or medical reassignment in the United States, or a Plant Closing or Reduction in Workforce will be considered to satisfy the last-day-of-Applicable Year requirement described in this Section 5.8 for purposes of this Plan. The Committee or its designee's determination regarding whether a Participant's termination is a direct result

of either a Plant Closing or a Reduction in Workforce will be final and binding.

e. Notice of Resignation. In addition, a Participant who submits a notice of resignation from employment with the Company prior to the end of the Applicable Year and whose effective date of resignation is two (2) weeks or less from the date of notice of resignation will be considered employed by the Company for purposes of this Plan until the end of his specified notice period.

5.9 New Participants. If an Eligible Employee began participation in the Plan during an Applicable Year and is eligible for a Company Bonus, his Company Bonus will be based on Participant Earnings earned after the employee became a Participant. An Eligible Employee who became assigned to a position eligible for a Company Bonus at any time other than the first of the month will become a Participant the first of the following month.

5.10 Section 162(m) Requirements, Bonus Maximum. In the case of Lilly Executive Officers, all determinations necessary for computing a Company Bonus for the Applicable Year, including establishment of all components of EPS, EPS Growth, Sales, Sales Growth, Company Performance Bonus Multiple and Bonus Target percentages, shall be made by the Committee not later than 90 days after the commencement of the Applicable Year. As and to the extent required by Section 162(m), the terms of a Company Bonus for a Lilly Executive Officer must state, in terms of an objective formula or standard, the method of computing the amount of compensation payable to the Lilly Executive Officer, and must preclude discretion to increase the amount of compensation payable that would otherwise be due under the terms of the award. Notwithstanding anything elsewhere in the Plan to the contrary, the maximum amount of the Company Bonus that may be payable to a Lilly Executive Officer in respect of any Applicable Year will be $7 million.

SECTION 6. TIME OF PAYMENT

6.1 General Rule. Payment under the Plan will be made prior to April 1 of the year following the Applicable Year.

6.2 Terminated Employee. Except as provided in Section 5.8 above, in the event an Eligible Employee's employment with the Company ends for any reason prior to the last day of the Applicable Year, he will not receive any Company Bonus for the Applicable Year.

6.3 Deceased Eligible Employee. In the event an Eligible Employee dies before payment under the Plan is made, the Committee may, in its sole discretion, authorize the Company to pay to his personal representative or beneficiary an amount not to exceed the amount established by the Committee to reflect the payment accrued at the date of death.

SECTION 7. ADMINISTRATIVE GUIDELINES

7.1 Establishment and Amendment by the Committee. The Committee may establish objective and nondiscriminatory written guidelines for administering those provisions of the Plan that expressly provide for the determination of eligibility, Company Bonus or benefits on the basis of rules established by the Committee. The Committee may, from time to time, amend or supplement the administrative guidelines established in accordance with this subsection 7.1. The administrative guidelines established or amended in accordance with this subsection 7.1 will not be effective to the extent that they materially increase the Plan's liability, or to the extent that they are inconsistent with, or purport to amend, any provision of the Plan set forth in a document other than such administrative guidelines.

7.2. Amendment by Board of Directors. Any administrative guidelines established by the Committee pursuant to subsection 7.1 may be amended or revoked by the Board of Directors, either prospectively or retroactively, in accordance with the general amendment procedures set forth in section 9 below.

SECTION 8. MISCELLANEOUS

8.1 No Vested Right. No employee, participant, beneficiary, or other individual will have a vested right to a Company Bonus or any part thereof until payment is made to him under Section 6.

8.2 No Employment Rights. No provision of the Plan or any action taken by the Company, the Board of Directors of the Company, or the Committee will give any person any right to be retained in the employ of the Company. The right and power of the Company to dismiss or discharge any Participant for any reason or no reason, with or without notice, is specifically reserved.

8.3 No Adjustments. After the certification of the calculation of EPS, EPS Growth, Sales, Sales Growth and any other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus for the Applicable Year as described in Section 3.3 above, no adjustments will be made to reflect any subsequent change in accounting, the effect of federal, state, or municipal taxes later assessed or determined, or otherwise.

8.4 Other Representations. Nothing contained in this Plan, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any employee, participant, beneficiary, legal representative, or any other person. Although Participants generally have no right to any payment from this Plan, to the extent that any Participant acquires a right to receive

payments from the Company under the Plan, such right will be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder will be paid from the general funds of the Company and no special or separate fund will be established, and no segregation of assets will be made, to assure payment of such amount.

8.5 Tax Withholding. The Company will make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local, and other taxes required by law to be withheld with respect to Company Bonus payments under the Plan, including, but not limited to, deducting the amount required to be withheld from the amount of cash otherwise payable under the Plan, or from salary or any other amount then or thereafter payable to an employee, Participant, beneficiary, or legal representative.

8.6 Currency. The Company Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee will determine the appropriate foreign exchange conversion methodology in its discretion.

8.7 Effect of Plan on other Company plans. Nothing contained in this Plan is intended to amend, modify, terminate, or rescind other benefit or compensation plans established or maintained by the Company. Whether and to what extent a Participant's Company Bonus is taken into account under any other plan will be determined solely in accordance with the terms of such plan.

8.8 Construction. This Plan and all the rights thereunder will be governed by, and construed in accordance with, the laws of the state of Indiana, without reference to the principles of conflicts of law thereof.

8.9 Notice. Any notice to be given to the Company or Committee pursuant to the provisions of the Plan will be in writing and directed to Secretary, Eli Lilly and Company, Lilly Corporate Center, Indianapolis, IN 46285.

SECTION 9. AMENDMENT, SUSPENSION, OR TERMINATION

The Board of Directors of the Company will have the right to amend, modify, suspend, revoke, or terminate the Plan, in whole or in part, at any time and without notice, by written resolution of the Board of Directors. The Committee also will have the right to amend the Plan, except that the Committee may not amend this Section 9. Solely to the extent deemed necessary or advisable by the Board (or the Committee) for purposes of complying with Section 162(m), the Board (or the Committee) may seek the approval by the Company's stockholders of the Plan or any amendments to the Plan or any aspect of the Plan or Plan amendments. Any such approval shall be obtained in a separate vote of stockholders, with approval by a majority of the votes cast on the issue, including abstentions to the extent abstentions are counted as voting under applicable state law and the Articles of Incorporation and By-laws of the Company. To the extent deemed necessary or advisable by the Board of Directors to comply with Section 162(m),

the material terms of the performance measures used in calculating Company Bonus amounts will be disclosed to and reapproved by the stockholders of the Company no later than the Company's 2009 annual meeting.

Table of Contents

Exhibit 10.2

CONFIDENTIAL MASTER SETTLEMENT AGREEMENT

TABLE OF CONTENTS

CONFIDENTIAL MASTER SETTLEMENT AGREEMENT

I. INTRODUCTION

Eli Lilly and Company, a corporation (hereinafter defined in section III.C as "Lilly") and certain plaintiffs' counsel representing Zyprexa claimants, including all plaintiffs' counsel who are members of the Plaintiffs' Steering Committee ("PSC") appointed in *In re Zyprexa® Products Liability Litigation*, MDL No. 1596, in the United States District Court for the Eastern District of New York and other plaintiffs' counsel representing Zyprexa claimants have reached a confidential settlement of certain Zyprexa actions, disputes and claims subject to the terms and conditions set forth in this document. The matters included in the settlement are: a) cases pending in various state and federal courts, including the multi-district litigation, *In re Zyprexa Products Liability Litigation*, MDL No. 1596, pending before the Honorable Jack Weinstein ("MDL"); b) claims subject to a tolling agreement; or c) informally asserted claims. These lawsuits and claims are collectively referred to as "Participating Claimants" (hereinafter defined in Section III.A). Notwithstanding the generality of the foregoing, Participating Claimants are expressly limited to those cases and claims that are being handled or controlled by the attorneys and law firms who are members of the PSC or other non-PSC law firms ("Participating Law Firms") that are identified on the lists submitted to Lilly in accordance with Section IV.D below.

The terms and conditions of this Confidential Master Settlement Agreement ("Agreement") are as follows:

II. RECITALS

Each of the Participating Claimants has asserted a claim against Lilly. Lilly disputes

these claims and denies that it has any liability with respect to these claims.

In an effort to resolve their outstanding disputes, Participating Claimants and Lilly have reached a settlement of all actual or potential claims that have arisen between them relating to Participating Claimants' use of Zyprexa, in accordance with the provisions of this Agreement.

III. DEFINITIONS

A. PARTICIPATING CLAIMANTS

"Participating Claimants" as used in this Agreement shall refer to those persons or derivative claimants who are claiming an injury due to the use of Zyprexa and whose cases and claims are subject to the terms of this Agreement. A final list of Participating Claimants has been provided to Lilly. This list contains confidential and private information regarding each individual claimant and, as such, will be kept by Lilly, the trustee for the Participating Law Firms and the Special Settlement Masters in a separate file as an addendum to this Agreement. Each Participating Claimant who wishes to resolve his or her claim pursuant to the terms of this Agreement shall be entitled to participate in a claims review process and to receive compensation, if any, as may be awarded by the Special Settlement Masters and upon execution of the Confidential Individual Release attached hereto as Exhibit A, and in accordance with the terms of this Agreement. Prior to signing a Confidential Individual Release (Exhibit A), a Participating Claimant may (i) withdraw from the claims administration process established by the Special Settlement Masters or (ii) reject the Settlement Amount that may be offered by the Special Settlement Masters, and thereafter pursue or dismiss his or her claim, as may be appropriate.

B. PARTICIPATING LAW FIRMS

"Participating Law Firms" are the law firms and all attorney members within each firm, that represent the Participating Claimants whose cases and/or claims are the subject of this Agreement. Participating Law Firms comprise law firms and attorneys who were appointed as members of the PSC for MDL No. 1596, as well as non-PSC law firms and attorneys. A list of Participating Law Firms has been provided to Lilly.

C. LILLY

"Lilly" as used and referred to in this Agreement shall include Eli Lilly and Company, a corporation, and the entire company, its officers, directors, employees and shareholders, and its past, present and future parents, subsidiaries, affiliates, controlling persons, suppliers, distributors, contractors, agents, assigns, servants, counsel and insurers, and all of their officers, directors, employees, shareholders, predecessors, successors, assigns, heirs, executors, estate administrators or personal representatives (or the equivalent thereto).

D. SPECIAL SETTLEMENT MASTERS

Pursuant to Case Management Order No. 12, Kenneth R. Feinberg, Michael K. Rozen, Honorable John K. Trotter (retired), and Catherine Yanni are appointed as "Special Settlement Masters" to assist in the claims administration process described in this Agreement. The powers and responsibilities of the Special Settlement Masters will be specified in subsequent Case Management Orders entered by the Court in MDL No. 1596.

IV. AGREEMENT

A. AUTHORITY OF COUNSEL

Each Participating Law Firm warrants and represents that it has provided a list of its Participating Claimants who have asserted a claim against Lilly arising out of the use of Zyprexa. Each Participating Law Firm warrants and represents that they represent the Participating Claimants set forth on their respective list. Each Participating Law Firm further warrants and represents that it will recommend to each of its Participating Claimants that they participate in a settlement process to be jointly established by the Participating Law Firms and the Special Settlement Masters.

B. BASIC AGREEMENT

For and in consideration of a release of all past, existing, and future claims relating to Zyprexa, whether known or unknown, and other agreements as set forth herein, and in complete settlement of the cases and/or claims asserted by Participating Claimants, Lilly hereby agrees to make payment to Participating Claimants as described below.

C. SETTLEMENT EFFORTS/WAIVER OF STATUTE OF LIMITATIONS

Participating Claimants, Participating Law Firms and Lilly acknowledge and agree that there will need to be substantial efforts by all concerned to effectuate the terms of this Agreement, including efforts to provide appropriate client disclosures, obtain adequate consent, prepare individual releases, and otherwise carry out the terms of this Agreement. Participating Claimants, Participating Law Firms and Lilly agree to (i) exercise best efforts toward the resolution of these cases under the terms of this Agreement, and (ii) jointly seek a stay of any

case, including but not limited to case specific or generic discovery or trials, which a Participating Claimant has pending in any court while the parties continue their best efforts to finalize the settlement of the claims subject to this Agreement.

Further, in order to avoid the necessity of filing or pursuing a Zyprexa related claim, Lilly hereby agrees with respect to all Participating Claimants to waive any statute of limitations defense that it may otherwise have against any such Participating Claimant, subject only to the following limitations. In the event that the conditions of this settlement are not met, or any Participating Claimant does not resolve his or her case and/or claim under this agreement, then Lilly hereby agrees to waive any applicable statute of limitations defense that it otherwise may have for the time commencing from the earlier of (i) June 8, 2005, the date the Memorandum of Understanding ("MOU") was signed, or (ii) the date on which any tolling agreement was entered into between Lilly and the Participating Claimant, in each case until 30 days after notice that the conditions of this Agreement have not been met or 30 days notice that the Participating Claimant's claim is not resolved under this Agreement, whichever event occurs sooner. All tolling agreements otherwise entered into between a Participating Claimant and Lilly are otherwise terminated and superseded by this Agreement, except as provided above.

Accordingly, the Participating Law Firms and Participating Claimants may agree to promptly dismiss without prejudice any pending lawsuits.

D. PARTICIPATING CLAIMANTS AND LAW FIRMS

This Agreement is subject to the Participating Law Firms providing Lilly with the following information:

1. A list of Participating Claimants numbering no fewer than 7,993. Pursuant to the terms of the MOU dated June 8, 2005, the Participating Law Firms have submitted a list to Lilly of Participating Claimants, which exceeds the required 7,993 claimants and which identifies the claimant or claim (such as the claimant's full name, social security number and/or date of birth). Each Participating Law Firm warrants and represents that the list provided to Lilly includes 100% of their represented Zyprexa clients. The Participating Claimants and claims identified herein shall constitute the total universe of claims subject to this Master Settlement Agreement. Even though Participating Law Firms have provided a list of claimants in excess of 7,993, Lilly acknowledges and agrees that the minimum number of releases and qualified cases as set forth in Paragraph IV(I) will not change.

2. A list of Participating Law Firms. This list was provided to Lilly and identifies the names of the law firms participating in this Agreement.

E. SETTLEMENT FUND

1. Funding Terms and Schedule

In consideration of Participating Claimants' promises, releases and other agreements as set forth in this Agreement and because a list of at least 7,993 Participating Claimants and a list of Participating Law Firms has been provided to Lilly, Lilly will pay $700 million (the "Settlement Amount") into a settlement fund held in escrow by Citibank, N.A., as escrow agent, the following sums at the times stated:

September 7, 2005:	Lilly will pay $300 million.
September 15, 2005:	Lilly will pay $200 million.
December 15, 2005:	Lilly will pay $200 million.

The settlement funds will be used as outlined below and distributed pursuant to escrow instructions to be agreed to by the parties:

(a) $690 million for the resolution and satisfaction of the Participating Claimants' claims; and

(b) $10 million for administrative expenses, costs and services in connection with the resolution of claims including those incurred by the Participating Law Firms and third parties in creating the settlement fund and in setting up the procedures necessary to implement the claims settlement process as envisioned by this Agreement.

Lilly will also pay no later than December 15, 2005 the difference between the actually accrued interest on the settlement fund, and that amount that would have accrued had the entire amount been deposited on July 29, 2005 ("Accrued Interest"). Lilly's obligation to pay interest will be fifty percent (50%) of the Accrued Interest that would have been accrued between July 29, 2005 and August 29, 2005 and 100% from August 30, 2005 and thereafter. The rate of interest shall be based on the actual rate earned by the Citibank Institutional Market Deposit Account from between July 29, 2005 and the date the final deposit is made by Lilly. Lilly shall have no further responsibility for the payment of any further funds under this settlement.

Lilly further agrees that in the event that the Special Settlement Masters verify that the claims administration process has been completed before December 15, 2005, Lilly will immediately pay into the settlement fund any monies that would not otherwise be owed until December 15, 2005.

2. Establishment and Administration of Qualified Settlement Fund

The Settlement Amount is intended to be deposited into a "Qualified Settlement Fund" within the meaning of Treas. Reg. Sec. 1.468B-1, which shall be designated as the "Qualified Settlement Fund 'A' for Certain Zyprexa Products Claims ("Settlement Fund"). The U.S. District Court for the Eastern District of New York has authorized the establishment of the Settlement Fund, subject to the Court's jurisdiction. The parties agree that Citibank N.A. shall act as the escrow agent ("Escrow Agent") and Seeger Weiss LLP, acting through Christopher A. Seeger on behalf of the Participating Law Firms shall be designated as the trustee of the Settlement Fund.

It is agreed and understood by the parties to this Agreement that Lilly accepts no responsibility or liability for any allocation or division of the settlement fund as among the claimants. Further Lilly and their counsel accept no responsibility for any tax liability that may attach to the proceeds of the Settlement Fund and the Participating Claimants and Participating Law Firms acknowledge that Lilly has not made any representations regarding the taxability or non-taxability of such proceeds.

F. RELEASE OF FUNDS FROM THE SETTLEMENT FUND

The payment of administrative expenses, costs and services outlined above shall be released by the Escrow Agent pursuant to written escrow instructions provided by the parties.

The payment of awards from the Settlement Fund to Participating Claimants in resolution and satisfaction of their claims shall only be released by the Escrow Agent pursuant to written escrow instructions to be provided by Lilly and the Participating Law Firms and subject to the following:

(a) Within 15 days of receipt of at least 7,193 releases and waivers required to be provided under Paragraph IV (I) (2), and confirmation from the Special Settlement Masters that the releases and waivers conform to the minimum requirements set forth in Paragraph IV (I), i.e. that at least 7,193 releases are from Zyprexa users, who are U.S. residents **[** * **]**: (1) Lilly shall either (i) confirm in writing to the Participating Law Firms and the Special Settlement Masters that it has accepted the releases and waivers provided and the confirmation of the Special Masters, or (ii) notify the Participating Law Firms and the Special Settlement Masters that the releases and waivers received and/or the confirmation received from the Special Settlement Masters fail to meet the requirements under this Agreement. If Lilly rejects the releases and waivers as tendered or fails to accept the confirmation of the Special Settlement Masters, Lilly shall state its reasons with reasonable detail and the parties shall meet and confer promptly to attempt to resolve any dispute.

(b) If Lilly has given the confirmations called for by paragraph (a)(i) above, Lilly and the Settlement Fund trustee shall within 10 days issue joint written escrow instructions to the Escrow Agent to release up to $50 million from the Settlement Fund for payment to Participating Claimants that are entitled to receive an award as determined by the Special Settlement Masters.

(c) Any and all remaining settlement funds available to satisfy awards made to Participating Claimants shall be distributed after the Special Settlement Masters have certified by notice to the Participating Law Firms and to Lilly that the conditions of Paragraph IV(H) and Paragraph IV(I) have been satisfied.

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* Material has been omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

(d) If the confirmations called for by paragraph (c) above are issued, Lilly and the Settlement Fund trustee shall within 5 days issue joint written instructions to the Escrow Agent to release the balance of the funds remaining in the Settlement Fund for the payment of awards to the Participating Claimants and/or for payment of administrative costs incurred or services provided in connection with the creation and implementation of the claims administration process and this settlement, as determined by the Special Settlement Masters.

Assuming the conditions of this Agreement are met, any interest which has accrued on the Settlement Fund shall be paid as determined by the Special Settlement Masters consistent with the applicable ethical rules in the following order: first, for administrative expenses or costs incurred, or services provided, by Participating Law Firms and third parties for their efforts in creating the Settlement Fund and in setting up the procedures necessary to establish and implement the claims settlement process as envisioned by this Agreement, and second, to the Participating Claimants on a pro-rata basis, pursuant to protocols developed by the Special Settlement Masters. Interest accumulated in the Settlement Fund will not in anyway inure to the benefit of Lilly, unless the conditions of this Agreement are not satisfied.

If the conditions of this Agreement are not met, all monies deposited by Lilly and any interest accumulated into the Settlement Fund, other than any monies released for administrative costs and expenses outlined above, shall be returned to Lilly.

Lilly shall have no further responsibility for the payment of any funds other than as outlined above.

G. CLAIMS ADMINISTRATION

The Special Settlement Masters shall establish a claims administration process that shall include guidelines and procedures for the administration of the settlement and the establishment

of escrow accounts as may be necessary to satisfy all lienholder claims that have been or may be asserted against Participating Claimants in connection with their use of Zyprexa.

The claims administration process shall have been completed when the Special Settlement Masters have determined that (i) provision has been made for the payment of all administrative expenses, costs and services, (ii) releases have been provided to Lilly for all Participating Claimants that are eligible for awards, and (iii) the audit set forth in Paragraph IV(H) has been completed.

H. CLAIM VERIFICATION

The Special Settlement Masters shall audit, report and confirm to Lilly that the conditions in Paragraph IV(I) are met prior to the issuance of any award to any Participating Claimant. The Special Settlement Masters shall provide to Lilly information on the manner in which the audit and confirmation process was conducted in a format to be mutually agreed upon by the parties and the Special Settlement Masters.

I. RELEASES, WAIVERS AND DISMISSALS

1. Minimum Requirement. This Agreement and the distribution of funds to Participating Claimants are conditioned upon:

a. Lilly obtaining releases and waivers of all past, present and future claims from no fewer than 7,193 Participating Claimants ("Distribution Threshold"), which number represents ninety percent (90%) of the minimum 7,993 Participating Claimants referenced in Paragraph IV(D). Settlement payments shall only be issued to persons who are

U.S. residents who took Zyprexa. The parties agree that before any individual Participating Claimant receives a settlement payment, such Participating Claimant must either dismiss with prejudice his or her Zyprexa-related lawsuit and provide a waiver and release as noted below, or if no such lawsuit has been commenced, provide Lilly with a waiver and release of all Zyprexa-related claims, whether or not asserted by the Participating Claimant. Such dismissals and waivers shall terminate the subject lawsuit or released claim as to all named parties in its entirety. Dismissals shall be effective as to all named defendants, including but not limited to claims against present or former Lilly employees involving the use and/or prescription of Zyprexa by third party defendant physicians, health care providers, hospitals and other medical facilities.

[*]

2. Release Provisions. Releases of liability must be provided to Lilly by any Participating Claimant who receives an award through the claims administration process. Such releases shall be obtained by Lilly from no fewer than 7,193 Participating Claimants. The releases from all Participating Claimants shall release all claims which each individual Participating Claimant ever had, or now has, or hereafter can, shall or may have in the future against Lilly arising out of, relating to, resulting from, or in any way connected with Zyprexa, including those claims and damages of which the Participating Claimant is not aware and/or that Participating Claimant has not yet anticipated and shall also extend to all named defendants in pending cases and all other third parties as described more fully in the Confidential Individual Release attached hereto as Exhibit A, the content of which is incorporated herein and made part

* Material has been omitted pursuant to a request for confidential treatment. The omitted material has been filed with the Securities and Exchange Commission.

of this Agreement. The Confidential Individual Release shall not be modified except upon written consent by Lilly.

J. DISMISSALS OF THIRD PARTIES AND SETTLEMENTS WITH THIRD PARTIES

Any dismissal of a lawsuit against Lilly shall extend to and include a dismissal with prejudice of the entire action or claim as to all named defendants, including but not limited to physicians, health care providers, hospitals and other medical facilities, as well as any present or former Lilly employees.

Participating Claimants agree not to seek any settlement with any third party as to a case subject to this Agreement. If a Participating Claimant has reached a settlement with a third party or a named defendant in a lawsuit that is the subject of this Agreement, the fact and amount of settlement must be disclosed to Lilly and the Special Settlement Masters. The amount of any such settlement shall be considered by the Special Settlement Masters in making any award.

K. CLASS ACTION CLAIMANTS

The individual plaintiffs in *Ortiz, et al., v. Eli Lilly and Company*, No. 04-CV-1587 (JBW), *Tringali, et al., v. Eli Lilly and Company*, No. 04-CV-2104 (JBW) and *Dau, et al., v. Eli Lilly and Company*, No. 04-CV-4732 (JBW) currently pending in *In re Zyprexa Products Liability Litigation*, MDL No. 1596, in the United States District Court for the Eastern District of New York, have decided after consultation with their counsel that they choose to participate in the settlement process contemplated by this Agreement and have agreed to stipulate to the dismissals of the above-stated actions and together with Lilly will seek court approval of the

dismissals of such actions without costs or fees to any party. It is acknowledged that none of the above-stated class action cases have received class certification.

L. LIENS, ASSIGNMENT RIGHTS AND OTHER THIRD PARTY PAYOR CLAIMS

Each Participating Claimant shall identify for the Special Settlement Masters all known lien holders, as described below, lawsuits or interventions, including by subrogation, through procedures and protocols to be established by the Special Settlement Masters. Similarly, each Participating Claimant shall also identify government payors, including Medicare or Medicaid liens if they exist regardless of notice, through procedures and protocols to be established by the Special Settlement Masters. The lien holders and parties who hold rights through statutory assignments or otherwise (hereinafter referred to collectively as "lien holders") who must be identified are those third-party payors (public or private) that have paid for and/or reimbursed Participating Claimants for Zyprexa and/or any drug costs, hospital expenses, medical expenses, physician expenses or any other health care provider expenses arising from or based upon the provision of medical care or treatment provided to the Participating Claimant in connection with his or her claimed injury due to the use of Zyprexa. Prior to receiving his or her award, each Participating Claimant shall represent and warrant that any liens, assignment rights, or other claims identified above have been or will be satisfied by the Participating Claimant. Satisfaction of any liens, assignments, or other claims as identified above is the sole responsibility of the Participating Claimant and his or her attorney and must be established to the satisfaction of the Special Settlement Masters, which may include an agreement to compromise any such liens, before settlement funds can be disbursed. Upon request to the Special Settlement Masters, Lilly

shall be entitled to proof of lien or claim satisfaction and/or payment of such for each Participating Claimant for liens arising from or in connection with their use of Zyprexa.

Participating Claimants hereinafter agree under this Agreement that they are releasing Lilly from all future medical expenses, including but not limited to drug costs, hospital, medical, physician or health care provider expenses relating to any past, present or future medical care or treatment arising from or in connection with the use of Zyprexa.

M. INDEMNITY

Participating Claimants agree to indemnify and defend Lilly against and hold Lilly harmless from any and all damages or losses Lilly may incur, including attorneys' fees and costs, in connection with: (i) claims or actions seeking damages for or attributable to the personal injuries and/or death, specific to any Participating Claimant allegedly related in any way to Zyprexa, including without limitation, any such claim or action by any potential claimant under applicable law, including the Participating Claimant's heirs, surviving spouse, (including a putative or common law spouse), surviving domestic partner, next of kin, successors, assigns, agents, representatives, guardians, duly-appointed trustees, executors, estate administrators or personal representatives (or equivalent thereto), and (ii) liens, assignments, subrogated interests, encumbrances, causes of action, suits or judgment asserted by lien holders as defined in Paragraph L above specific to a Participating Claimant's claims for drug costs, hospital, medical, physician or health care provider expenses spent for medical care or treatment to any Participating Claimant arising from or in connection with their use of Zyprexa.

N. NO ADMISSION OF LIABILITY

This Agreement is entered into solely by way of compromise and settlement and is not and shall not be construed as an admission of liability, responsibility or fault of or by Lilly.

O. RETURN OF CONFIDENTIAL DOCUMENTS

The parties acknowledge that Lilly has entered into a protective order with each Participating Law Firm and that Lilly intends to enforce and the Participating Law Firms intend to abide by the protective orders while the Participating Law Firms and Lilly are working towards meeting the conditions of this Agreement. Further, all documents produced by Lilly or any third party and that have been designated as Confidential or protected under any Protective Order in any pending Participating Claimant case resolved pursuant to this Agreement shall be returned to Lilly pursuant to the provisions of the applicable Protective Orders, unless otherwise directed by an order of the Court in MDL No. 1596, which order shall be controlling. Notwithstanding the generality of the foregoing, in no event shall any Participating Claimant be required to return any medical records or other document(s) pertaining specifically to such Participating Claimant.

The parties acknowledge that each Participating Law Firm's obligation to comply with the provisions of any applicable protective order concerning confidential documents does not supersede any existing law and may be modified by order of the Court in MDL No. 1596, which order shall be controlling.

P. CONFIDENTIALITY

1. Confidentiality Agreement. The terms of this Agreement and the amount of settlement awards made to Participating Claimants under this Agreement are confidential, except as may be required by law and then only to the extent necessary. Any and all evaluation processes and procedures utilized in conjunction with the claims administration or award distribution process shall also be kept strictly confidential among the Participating Claimants and the Participating Law Firms.

Agreement to, and maintenance of, confidentiality are material terms of this Agreement. It is agreed that the following language shall be included in individual settlement releases and is incorporated in this Agreement:

> Participating Claimant and his/her attorneys shall keep strictly confidential and agree not to publicize, disclose or characterize to any third party, person or entity, at any time, the following information, except as it may otherwise appear in the public domain: Memorandum of Understanding dated June 8, 2005, the Confidential Settlement Agreement and Release and any of the terms and conditions of this settlement, the amount of this settlement, the history, background and/or substance of the negotiations, directly or indirectly, leading up to this Settlement Agreement, or any other information which would assist a third party in receiving or otherwise learning about this Confidential Settlement Agreement and Release, and such terms, conditions, amounts, history, background and/or the substance of any such negotiations (all which shall be and is “Confidential Information”), except as required by any law. Participating Claimant and his/her attorneys may, however, make disclosure of the money received by Participating Claimant to their accountants and/or financial advisors who shall, however, upon such

disclosure, be instructed to maintain and honor the confidentiality of such information. If inquiry is made by any third person concerning the status of Participating Claimant's lawsuit, other than as identified above and as necessary to resolve the liens identified above, Participating Claimant and his/her attorneys shall respond only that the suit has been resolved, and make no further comments.

Participating Claimants and his/her attorneys further agree not to communicate, publish or cause to be published, in any public or business forum or context, any statement, whether written or oral, concerning the specific events, facts or circumstances giving rise to a Participating Claimant's claims. The parties agree that any violations of the confidentiality provisions of this Settlement Agreement shall entitle the non-breaching party to bring an action against the breaching party to seek and recover immediate relief, redress and damages associated with such breach, including injunctive relief, as may be proven.

2. Inadmissibility of Settlement and Related Documents. Participating Law Firms, and Participating Claimants who receive awards pursuant to this Agreement, shall not offer in evidence or in any way refer to in any civil, criminal, administrative or other related action or proceeding, the Memorandum of Understanding dated June 8, 2005 and any addendum thereto, this Agreement, its terms or any Confidential Discovery Materials as defined in Case Management Order No. 3 (protective order) filed on August 9, 2004 in MDL No. 1596, or in any other protective order issued in any pending case, other than as may be necessary to consummate or enforce this Agreement. If the subject of the MOU, this Agreement, its terms or any Confidential Discovery Materials shall arise in any such legal proceedings, Participating

Claimants and Participating Law Firms shall, to the extent possible, 1) oppose disclosure, 2) give Lilly notice and an opportunity to intervene and oppose disclosure, 3) file under seal any documents disclosing this Agreement, its terms or any Confidential Discovery Materials, and 4) take reasonable measures to ensure that this Agreement, its terms and any Confidential Discovery Material are kept confidential and that any disclosure thereof takes place in camera. In the event that there is a proceeding to consummate or enforce this Agreement, including but not limited to any proceeding involving a minor's compromise, death compromise, divorce or any other judicial proceeding, Participating Claimant will file under seal any documents which disclose or refer to this Agreement, its terms or any Confidential Discovery Materials, will conduct all related proceedings under seal, and will take reasonable measures to ensure that this Agreement, its terms and any Confidential Discovery Materials are kept confidential and that any disclosure thereof takes place in camera.

The above agreements shall be null and void, assuming the conditions of this Agreement are not met and Lilly elects not to go forward with this settlement.

Q. SUCCESSORS AND ASSIGNS.

The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of each party hereto.

R. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of Indiana without regard to choice of law principles.

S. CHALLENGES TO OR DISPUTES INVOLVING THIS AGREEMENT

Any challenges to or disputes arising out of or relating to an alleged violation of this Agreement, including but not limited to disputes between Lilly and Participating Law Firms and/or Participating Claimants and disputes between or among Participating Law Firms and/or members of Participating Law Firms arising out of or in connection with this Agreement, shall be referred for binding determination to Judicial Arbitration Mediation Services ("JAMS") for resolution. The parties shall work together to agree on a binding neutral arbitrator to resolve any and all disputes and if an agreed upon arbitrator can not be selected, JAMS' complex resolution procedures shall control the selection of a neutral arbitrator.

T. ATTORNEYS' FEES

Nothing in this Agreement shall affect the obligation of any Participating Claimant to pay attorneys' fees and costs pursuant to any agreement such Participating Claimant may have with his or her counsel. Lilly shall have no responsibility whatsoever for the payment of Participating Claimants' attorneys' fees. Any division of the Settlement Amount is to be determined by Participating Claimant and Participating Law Firms and shall in no way affect the validity of this Agreement or the Confidential Individual Release executed by any Participating Claimant.

U. MERGER AND INTEGRATION

This Agreement supersedes and replaces any prior agreement, tolling agreement or writing between the parties and constitutes the entire Agreement between Lilly, the Participating Law Firms and the Participating Claimants.

V. NOTICE

Any notices required under this Agreement shall be provided as follows:

(a) For the Participating Law Firms, notice shall be provided to:

Christopher A. Seeger
Seeger Weiss LLP
One William Street
New York, NY 10004
212-584-0700 (phone)
212-584-0799 (fax)
cseeger@seegerweiss.com

Thomas A. Schultz
Lopez, Hodes, Restaino, Milman & Skikos
450 Newport Center Drive, Second Floor
Newport Beach, CA 92660
949-640-8222 (phone)
949-640-8294 (fax)
tschultz@lopez-hodes.com

(b) For Lilly, notice shall be provided to:

Nina M. Gussack
Pepper Hamilton LLP
3000 Two Logan Square
Philadelphia, PA 19103
215-981-4950 (phone)
215-981-4307 (fax)
gussackn@pepperlaw.com

(c) For the Special Settlement Masters, notice shall be provided to:

Honorable John B. Trotter (retired)
JAMS
500 N. State College Blvd., Ste. 600
Orange, CA 92868
714-939-1300 (phone)
714-939-8710 (fax)
tlunceford@jamsadr.com

Catherine Yanni
JAMS
Two Embarcadero Center, Ste. 1100
San Francisco, CA 94111
415-982-5267 (phone)
415-527-9611 (fax)
cayanni@comcast.net

Kenneth Feinberg
Michael Rozen
The Feinberg Group
780 Third Avenue, 26th Floor
New York, NY 10017-2024
212-527-9600 (phone)
212-527-9611
rsrosen@feinberggroup.com

(d) For the escrow agent, notice shall be provided to:

Kerry M. McDonough, Vice President
The Citigroup Private Bank
Preferred Custody Services
120 Broadway, 2nd Floor
New York, NY 10271
212-804-5499 (phone)
212-804-5401 (fax)

Executed on ___, 2005.

SO AGREED ON BEHALF OF THE PARTICIPATING CLAIMANTS AND THE PARTICIPATING LAW FIRMS:

Melvyn I. Weiss Milberg Weiss Bershad & Schulman LLP One Pennsylvania Plaza, 49th Floor New York, NY 10119	Ramon Rossi Lopez Lopez, Hodes, Restaino, Milman & Skikos 450 Newport Center Drive, Second Floor Newport Beach, CA 92660
Christopher A. Seeger Seeger Weiss LLP One William Street New York, NY 10004	Nancy Hersh Hersh & Hersh 601 Van Ness Avenue, Suite 2080 San Francisco, CA 94102
H. Blair Hahn Richardson, Patrick, Westbrook & Brickman LLC 1037 Chuck Dawley Blvd., Bldg. A Mt. Pleasant, SC 29464	Mark Robinson Robinson, Calcagnie & Robinson 620 Newport Center Drive, 7th Floor Newport Beach, CA 92660
Jerrold S. Parker Parker & Waichman 111 Great Neck Road Great Neck, NY 11021	Perry Weitz Weitz & Luxenberg 180 Maiden Lane New York, NY 10038

Michael Heaviside
Ashcraft & Gerel
2000 L Street, N.W., Suite 400
Washington, D.C. 20036

Michael A. London
Douglas & London
111 John Street, 8th Floor
New York, NY 10038

Troy Rafferty
Levin Papantonio Thomas Mitchell
Echsner & Proctor PA
316 South Baylen Street, Suite 600
Pensacola, FL 32502

Michael Burg
Burg Simpson Eldredge Hersh & Jardine PC
40 Inverness Drive East
Englewood, CO 80112

Tommy Fibich
Fibich, Hampton, Leebron & Garth
Five Houston Center
1401 McKinney, Suite 1800
Houston, TX 77010

Scott Levensten
The Beasley Firm
1125 Walnut Street
Philadelphia, PA 19107

Dennis Reich
Reich & Binstock
4265 San Felipe, Suite 100
Houston, TX 77027

Michael Schmidt
The Schmidt Law Firm
8401 North Central Expressway, Suite 880
Dallas, TX 75225

Ron Meneo
Early & Meneo, LLP
One Century Tower
265 Church Street
New Haven, CT 06508-1806

SO AGREED ON BEHALF OF ELI LILLY AND COMPANY:

Nina M. Gussack Pepper Hamilton LLP 3000 Two Logan Square Philadelphia, PA 19103	Colleen T. Davies Reed Smith LLP 1999 Harrison Street Suite 2400 Oakland, CA 94612
George Lehner Pepper Hamilton 600 14th Street N.W. Washington, D.C. 20005	Steven M. Kohn Reed Smith LLP 1999 Harrison Street, Suite 2400 Oakland, CA 94612

EXHIBIT 11. STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars and shares in millions except per-share data)			
BASIC				
Net income	$ 794.4	$ 755.2	$1,279.0	$1,812.5
Average number of common shares outstanding	1,088.6	1,084.8	1,087.6	1,083.0
Contingently issuable shares	.3	—	.2	—
Adjusted average shares	1,088.9	1,084.8	1,087.8	1,083.0
Basic earnings per share	$ .73	$ .70	$ 1.18	$ 1.67
DILUTED				
Net income	$ 794.4	$ 755.2	$1,279.0	$1,812.5
Average number of common shares outstanding	1,088.6	1,084.8	1,087.6	1,083.0
Incremental shares — stock options and contingently issuable shares	2.8	4.4	3.5	5.9
Adjusted average shares	1,091.4	1,089.2	1,091.1	1,088.9
Diluted earnings per share	$ .73	$ .69	$ 1.17	$ 1.66

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

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Nine Months Ended September 30,	Years Ended December 31,				
	2005	2004	2003	2002	2001	2000
Consolidated pretax income	$1,822.8	$2,941.9	$3,261.7	$3,457.7	$3,506.9	$3,858.7
Interest	166.0	162.9	121.9	140.0	253.3	225.4
Less interest capitalized during the period	(105.1)	(111.3)	(60.9)	(60.3)	(61.5)	(43.1)
Earnings	$1,883.7	$2,993.5	$3,322.7	$3,537.4	$3,698.7	$4,041.0
Fixed charges	$ 166.0	$ 162.9	$ 121.9	$ 140.0	$ 253.3	$ 225.4
Ratio of earnings to fixed charges	11.3	18.4	27.3	25.3	14.6	17.9

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

CERTIFICATIONS

I, Sidney Taurel, chairman of the board and chief executive officer, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 2, 2005

By: /s/ Sidney Taurel
Sidney Taurel
Chairman of the Board
and Chief Executive Officer

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

CERTIFICATIONS

I, Charles E. Golden, executive vice president and chief financial officer, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 2, 2005

By: /s/ Charles E. Golden
Charles E. Golden
Executive Vice President
and Chief Financial Officer

EXHIBIT 32. Section 1350 Certification

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Eli Lilly and Company, an Indiana corporation (the “Company”), does hereby certify that, to the best of their knowledge:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date November 2, 2005

/s/ Sidney Taurel
Sidney Taurel
Chairman of the Board and
Chief Executive Officer

Date November 2, 2005

/s/ Charles E. Golden
Charles E. Golden
Executive Vice President and
Chief Financial Officer

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

Certain forward-looking statements are included in this Form 10-K and may be made by spokespeople based on then-current expectations of management. All forward-looking statements made by us are subject to risks and uncertainties. One can identify forward-looking statements by the use of words such as “expects,” “plans,” “will,” “estimates,” “forecasts,” “projects,” “believes,” “anticipates,” and other words of similar meaning. Forward-looking statements do not relate strictly to historical or current facts. They are likely to address our growth strategy, financial results, regulatory issues, and status of product approvals, development programs, litigation, and investigations.

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

- Competitive factors can lead to declining demand for our products. These factors include new patented products or expanded indications for existing products introduced by competitors; generic competition as patents on key products expire; and pricing pressures, both in the U.S. and abroad.
- Government health care cost-containment measures can significantly affect our sales and profitability. These include federal, state, and foreign laws and regulations that negatively affect pharmaceutical pricing, such as Medicaid and Medicare; pharmaceutical importation laws; and other laws and regulations that, directly or indirectly, impose governmental controls on the prices at which our products are sold.
- There are many difficulties and uncertainties inherent in new product development and introduction of new products. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, limited scope of approved uses, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. In addition, it can be very difficult to predict sales growth rates of new products.
- Delays and uncertainties in the FDA approval process and the approval processes in other countries can result in delays in product launches and lost market opportunity.
- Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals, or declining sales.
- Patent challenges, including challenges to our patents by generic pharmaceutical manufacturers under the Hatch-Waxman Act or patent infringement suits brought against us by other patent holders, can cause us to prematurely lose market exclusivity for, or preclude commercialization of, our products. In particular, see Part I, Item 2, “Legal and Regulatory Matters,” for a discussion of Hatch-Waxman Act challenges to our patents for Zyprexa and Evista.
- Changes in inventory levels maintained by pharmaceutical wholesalers can cause reported sales for a particular period to differ significantly from underlying prescriber demand.
- Regulatory issues concerning compliance with current Good Manufacturing Practice (cGMP) regulations for pharmaceutical products can lead to product recalls and seizures, interruption of production, and delays in the approvals of new products pending resolution of the cGMP issues.
- Other legal factors, including product liability or other liability claims, claims related to marketing and promotional practices asserted by federal and state governmental authorities and private payors, antitrust and pricing litigation, environmental matters, and privacy regulations can result in significant additional expense to the company. In particular, See Part I, Item 2, “Legal and Regulatory Matters,” for the discussions of the U.S. sales and marketing practices investigations and the Zyprexa product liability litigation.
- We have experienced difficulties in obtaining product liability insurance due to a very restrictive insurance market, and therefore will be largely self-insured for future product liability losses. In addition, there is no assurance that we will be able to fully collect from our insurance carriers on past claims.

- Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits, can affect our net income.
- Economic factors over which we have no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas can affect our results of operations.
- Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, and the Emerging Issues Task Force can affect reported results.
- Our results can also be affected by internal factors, such as changes in business strategies and the impact of restructurings, asset impairments, technology acquisition and disposition transactions, and business combinations.

We undertake no duty to update forward-looking statements.