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 MARCH 31, 2001

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 X No _____

The number of shares of common stock outstanding as of April 30, 2001:

Class	Number of Shares Outstanding
Common	1,123,882,663

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2001	2000
	(Dollars in millions except per-share data)	
Net sales	$2,805.7	$2,451.1
Cost of sales	522.3	508.7
Research and development	515.5	458.5
Marketing and administrative	768.9	688.3
Interest expense	41.4	46.8
Other (income) expense - net	(76.8)	(273.7)
	1,771.3	1,428.6
Income before income taxes	1,034.4	1,022.5
Income taxes	227.6	177.0
Net income	$ 806.8	$ 845.5
Earnings per share - basic	$ .75	$ .78
Earnings per share- diluted	$ .74	$ .77
Dividends paid per share	$ .28	$ .26

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES

	March 31, 2001	December 31, 2000
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,231.3	$ 4,114.9
Short-term investments	514.3	503.3
Accounts receivable, net of allowances of $106.4 (2001) and $115.3 (2000)	1,471.3	1,630.7
Other receivables	293.5	335.4
Inventories	883.3	883.1
Deferred income taxes	97.3	269.5
Prepaid expenses	377.1	206.1
TOTAL CURRENT ASSETS	6,868.1	7,943.0
OTHER ASSETS		
Prepaid retirement	1,036.8	1,032.5
Investments	1,277.5	395.7
Sundry	1,395.4	1,143.0
	3,709.7	2,571.2
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	7,792.9	7,784.7
Less allowances for depreciation	(3,618.3)	(3,608.1)
	4,174.6	4,176.6
	$14,752.4	$14,690.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 432.5	$ 184.3
Accounts payable	495.4	661.9
Employee compensation	239.2	468.3
Dividends payable	-	315.4
Income taxes payable	2,278.2	2,200.2
Other liabilities	1,023.9	1,130.6
TOTAL CURRENT LIABILITIES	4,469.2	4,960.7
LONG-TERM DEBT	2,656.5	2,633.7
DEFERRED INCOME TAXES	89.0	91.6
RETIREE MEDICAL BENEFIT OBLIGATION	78.3	83.3
OTHER NONCURRENT LIABILITIES	865.8	874.6
	3,689.6	3,683.2
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock	703.1	704.4
Additional paid-in capital	2,610.0	2,610.0
Retained earnings	6,866.8	6,223.2
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(133.6)	(135.0)
Accumulated other comprehensive loss	(709.1)	(611.2)
	6,702.2	6,156.4
Less cost of common stock in treasury	108.6	109.5
	6,593.6	6,046.9
	$14,752.4	$14,690.8

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2001	2000
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 806.8	$ 845.5
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(412.6)	(91.8)
Depreciation and amortization	120.4	116.2
Change in deferred taxes	(22.4)	(14.4)
Gain related to sale of Kinetra, net of tax	-	(214.4)
Other, net	35.4	(30.9)
NET CASH PROVIDED BY OPERATING ACTIVITIES	527.6	610.2
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(154.0)	(110.0)
Purchase of investments	(909.0)	(139.7)
Proceeds from sale of investments	15.9	452.2
Other, net	(19.5)	(22.9)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,066.6)	179.6
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(302.0)	(282.2)
Purchase of common stock and other capital transactions	(307.0)	(241.8)
Issuances under stock plans	42.7	44.7
Net change in short-term borrowings	249.9	(188.4)
Net issuances (repayments) of long-term debt	25.0	(6.0)
NET CASH USED FOR FINANCING ACTIVITIES	(291.4)	(673.7)
Effect of exchange rate changes on cash and cash equivalents	(53.2)	(18.7)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(883.6)	97.4
Cash and cash equivalents at January 1	4,114.9	3,700.4
CASH AND CASH EQUIVALENTS AT MARCH 31	$ 3,231.3	$ 3,797.8

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2001	2000
	(Dollars in millions)	
Net income	$ 806.8	$ 845.5
Other comprehensive income (loss)/1/	(97.9)	(88.2)
Comprehensive income	$ 708.9	$ 757.3

/1/ The significant component of other comprehensive income was a loss of $91.7 million from foreign currency translation adjustments for the three months ended March 31, 2001, as compared to a loss of $69.9 million for the three months ended March 31, 2000.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

The company operates in one significant business segment - pharmaceutical products. Operations of the animal health business are not material and share many of the same economic characteristics as pharmaceutical products. The company's business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business for the first quarters of 2001 and 2000 was approximately $50 million and $45 million, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the first quarters of 2001 and 2000 were as follows:

	Three Months Ended March 31,	
	2001	2000
	(Dollars in millions)	
Net sales - to unaffiliated customers		
Neurosciences	$1,321.3	$1,104.2
Endocrinology	706.1	575.2
Anti-infectives	201.0	233.0
Oncology	177.8	141.3
Animal health	164.1	155.4
Cardiovascular	145.4	158.0
Gastrointestinal	75.8	67.9
Other pharmaceuticals	14.2	16.1
Net sales	$2,805.7	$2,451.1

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

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

CONTINGENCIES

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking U.S. Food and Drug Administration (FDA) approval to market generic forms of Prozac(R) before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a $4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company has filed a petition requesting a rehearing by the Court of Appeals.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac, challenging one or both of the patents. In late 1998, Zenith Goldline Pharmaceuticals, Inc. (Zenith); Teva Pharmaceuticals USA (Teva); and Cheminor Drugs, Ltd., together with one of its subsidiaries (Cheminor), notified the company that they had filed ANDAs challenging the 2003 patent. Also in 1998, Novex Pharma, a division of Apotex, Inc., notified the company that it had filed an ANDA challenging both patents. In 1999, Cheminor notified the company that it had filed an ANDA for an additional dosage form. In 2000, Barr and Teva both notified the company that they had filed additional ANDAs for the additional dosage form, and Alphapharm Pty. Ltd. also notified the company that it had filed ANDAs for two dosage forms.

The company has filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that all these challenges to the patent(s) are without merit. The cases are awaiting resolution of the petition for rehearing by the Court of Appeals in the original Barr case.

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

Zenith has submitted an ANDA seeking permission to market a generic version of Zyprexa(R) prior to the expiration of the company's U.S. patents for the product, alleging that the patents are invalid or not infringed. On April 2, 2001, the company filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. The company believes that Zenith's claims are without merit and expects to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the company will prevail. An unfavorable outcome could have a material adverse impact on the company's consolidated results of operations, liquidity, and financial position.

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol (DES) and Prozac. The company has accrued for its estimated exposure with respect to all current product liability claims. In addition, the company has accrued for certain claims incurred, but not filed, to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The company also continues remediation of certain of its own sites. The company has accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to payment of those costs. The company has reached a settlement with its primary liability insurance carrier and certain excess carriers providing for coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately $137.6 million at March 31, 2001. Estimated insurance recoverables of approximately $73.3 million at March 31, 2001, have been reflected as assets in the consolidated balance sheet.

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

EARNINGS PER SHARE

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

SHAREHOLDERS' EQUITY

The company announced a $3 billion share repurchase program in 2000. Approximately 4.0 million shares were repurchased during the first quarter of 2001, at a cost of approximately $316.3 million. In connection with the share repurchase program, the company has entered into agreements to purchase shares of the company's stock. As of March 31, 2001, the company has agreements to purchase up to approximately 4.6 million shares of company stock from an independent third party at various times through the expiration of the agreements in June 2003, at prices ranging from $77 to $100 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. In addition, as of March 31, 2001, written equity put options, purchased call options and other derivative contracts, which provide for purchase of a total of approximately 5.9 million shares, remain outstanding at prices ranging from $66 to $90 per share with expiration dates ranging from May 2001 to November 2002. If the options are exercised, the contracts allow the company, at its discretion, to repurchase the shares for cash or deliver to the holder cash or shares for the difference between the contractual exercise price and the market price of the company's stock. The company's objective with the above agreements is to reduce the average price of repurchased shares.

ACCOUNTING CHANGES

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The company enters into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally the Japanese yen and the euro). Generally, foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from subsidiary foreign currency balances. These contracts are recorded at fair value with the gain or loss recognized in current earnings. The purchased option contracts are used to hedge anticipated foreign currency transactions, primarily intercompany inventory activities expected to occur within the next year. These contracts are designated as cash flow hedges of those future transactions and the impact on earnings is included in cost of sales. The company may enter into foreign currency forward contracts and currency swaps as fair value hedges of firm commitments. Forward and option contracts generally have maturities not exceeding 12 months.

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

During the quarter ended March 31, 2001, net losses related to ineffectiveness and net losses related to the portion of fair value and cash flow hedging instruments excluded from the assessment of effectiveness, were not material.

At March 31, 2001, the amount reflected in accumulated other comprehensive loss related to the effective portion of cash flow hedges is not material. The company expects to reclassify approximately $26 million of net gains on cash flow hedges from accumulated other comprehensive loss to earnings during the next twelve months.

UNUSUAL ITEMS

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

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

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

OPERATING RESULTS

Net income was $806.8 million, or $.74 per share, for the first quarter of 2001, compared with $845.5 million, or $.77 per share, for the first quarter of 2000. Comparisons between the first quarter of 2001 and the first quarter of 2000 are made difficult by the impact of two unusual items that are reflected in the company's operating results in 2000. Excluding these unusual items, which are discussed further below, net income for the first quarter of 2000 would have been $692.3 million, or $.63 per share. Net income and earnings per share for the first quarter of 2001 increased 17 percent from these adjusted results. Net income was favorably affected by increased sales and improved gross margins, offset somewhat by higher operating expenses (as defined below).

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

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

The company's reported sales for the first quarter of 2001 increased 14 percent, to $2.81 billion, compared with the first quarter of 2000. Adjusting for the impact of year-2000 wholesaler buying, worldwide sales increased 10 percent. Sales growth was led by Zyprexa, Evista(R), Gemzar(R) and diabetes care revenues. Revenue growth was partially offset by lower sales of anti-infectives. Sales in the U.S. increased 19 percent, to $1.80 billion, for the first quarter of 2001, compared with the first quarter of 2000. Sales outside the U.S. increased 7 percent, to $1.00 billion. Worldwide sales reflected volume growth of 16 percent, partially offset by an unfavorable exchange rate impact of 3 percent, while global selling prices increased 1 percent.

Zyprexa had worldwide sales of $637.1 million in the first quarter of 2001, representing an increase of 39 percent. U.S. sales increased 50 percent, to $450.7 million, and sales outside the U.S. increased 18 percent, to $186.4 million. Adjusting for year-2000-related sales, worldwide Zyprexa sales grew by 34 percent.

Prozac and Sarafem(TM) had combined worldwide sales of $622.9 million in the first quarter of 2001, representing an increase of 4 percent. Sarafem, launched in the U.S. in August 2000 for the treatment of premenstrual dysphoric disorder (PMDD), had sales of $12.9 million in the first quarter of 2001. Prozac and Sarafem combined sales in the U.S. increased 7 percent, to $541.5 million. Prozac sales outside the U.S. decreased 8 percent, to $81.4 million, primarily due to continued generic competition. Adjusting for year-2000-related sales, worldwide Prozac and Sarafem combined sales grew by 2 percent. On August 9, 2000, the Court of Appeals for the Federal Circuit affirmed a lower court decision upholding the company's February 2001 U.S. patent on Prozac but ruled that the company's December 2003 patent is invalid. Reference is made to the discussion of the Prozac patent litigation under Part II, Item 1 of this Form 10-Q. For additional information on the expected financial impact of the ruling, see the "Financial Expectations for 2001" section below.

Diabetes care products, composed primarily of Humulin(R), Humalog(R), and Actos(R), had worldwide revenues of $482.9 million, representing an increase of 19 percent. Diabetes care revenues in the U.S. increased 27 percent, to $303.4 million, and increased 8 percent outside the U.S., to $179.5 million. Worldwide Humulin sales were flat at $273.5 million compared with the first quarter of 2000, due in part to the continued shift by patients to Humalog and Humalog mix products. Worldwide Humalog sales of $125.2 million increased 74 percent. Sales of Humalog benefited from the U.S. launch of Humalog Mix75/25(R) Pen in March 2000. The company received service revenues of $64.0 million in the first quarter of 2001 relating to sales of Actos, a 51 percent increase over the first quarter of 2000. Actos is manufactured and sold in the U.S. by Takeda Chemical Industries, Ltd., and is copromoted by Takeda and the company. Adjusting for year-2000-related sales, worldwide diabetes care revenues grew by 13 percent.

Gemzar had worldwide sales of $174.0 million in the first quarter of 2001, representing an increase of 28 percent. Sales in the U.S. increased 29 percent to $101.5 million, and sales outside the U.S. increased by 27 percent, to $72.5 million. Adjusting for year-2000-related sales, worldwide Gemzar sales grew by 25 percent.

Evista had worldwide sales of $149.0 million in the first quarter of 2001, representing an increase of 48 percent over the first quarter of 2000. Sales in the U.S. increased 44 percent, to $120.3 million. Sales outside the U.S. increased 67 percent, to $28.8 million.

ReoPro(R) worldwide sales of $110.7 million for the first quarter of 2001 were flat, compared with the first quarter of 2000. Sales outside the U.S. increased by 7 percent. Sales in the U.S. decreased 2 percent due to increased competition. Relative to the fourth quarter of 2000, sales have improved following the release of the Merck-sponsored TARGET data which showed that ReoPro was superior to Aggrastat(R)* in reducing the risk of death, myocardial infarction, and urgent intervention based on 30-day data.

Anti-infectives had worldwide sales of $201.0 million for the first quarter of 2001, representing a decrease of 14 percent. Lower sales of anti-infectives were primarily the result of continuing competitive pressures, with Keflex(R) and cefaclor accounting for the majority of the decline. Sales in the U.S. decreased 60 percent while sales outside the U.S. decreased 1 percent.

For the first quarter of 2001, gross margins were 81.4 percent, compared with 79.2 percent for the first quarter of 2000. The improved gross margin was primarily the result of favorable product mix. During the quarter, higher margin products, such as Zyprexa, Actos, Evista, and Gemzar, experienced strong growth, while lower margin products, such as anti-infectives, declined.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 12 percent for the first quarter of 2001. Investment in research and development increased 12 percent, to $515.5 million, for the first quarter as the company continued to invest in both the early and late stages of its product pipeline. Marketing and administrative expenses increased 12 percent from the first quarter of 2000 due, in part, to increased sales and marketing spending, including sales force expansions, to support the company's current growth products and upcoming product launches.

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*Aggrastat(R) is a registered trademark of Merck & Co., Inc.

Net other income for the first quarter of 2001 increased $16.5 million, to $76.8 million, excluding the first quarter 2000 gain on the sale of Kinetra LLC. The increase was primarily due to an increase in interest income.

For the first quarter of 2001, the effective tax rate was 22.0 percent compared with 17.3 percent for the first quarter of 2000. Excluding the impact of the unusual items discussed previously, the effective tax rate would have been 22.0 percent for both periods.

FINANCIAL CONDITION

As of March 31, 2001, cash, cash equivalents and short-term investments totaled $3.75 billion as compared with $4.62 billion at December 31, 2000. Cash flow from operations of $527.6 million and net cash from issuance of debt of $274.9 million were offset by purchase of investments of $909.0 million, dividends paid of $302.0 million, shares repurchased and other capital transactions of $307.0 million, and capital expenditures of $158.0 million. The shares were repurchased pursuant to the company's previously announced $3 billion share repurchase program. Total debt at March 31, 2001, was $3.09 billion, an increase of $271.0 million from December 31, 2000, primarily due to the issuance of $250 million of one-year resettable notes in March 2001.

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

EURO CONVERSION

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

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

OTHER MATTERS

As a result of observations noted by the FDA in two recent Lilly plant inspections, one of which resulted in a warning letter from the agency, the company is in the process of implementing comprehensive, company-wide improvements in its manufacturing quality operations to assure compliance with current Good Manufacturing Practices (cGMP) regulations. In addition, the company has entered into agreements under which Lonza Biologics, PLC is manufacturing the bulk active ingredient for drotrecogin alfa (activated), the company's investigational compound for sepsis, and Catalytica Pharmaceuticals, Inc., a subsidiary of DSM N.V., is manufacturing the finished product. Prior to product approval both firms must successfully complete a pre-approval inspection by the FDA. Catalytica is also subject to a warning letter from the FDA with respect to cGMP matters not specifically related to drotrecogin alfa (activated). Lilly is working closely with the FDA to implement the necessary improvements in its own quality systems and procedures. It is also providing support and consultation to both Lonza and Catalytica to assist in preparation for their FDA inspections. Lilly does not currently expect a material financial impact from the cGMP issues discussed above or the cost of improvements that Lilly is implementing in its operations. However, the timing and nature of the resolution of cGMP issues will depend on the manufacturer's ability to

demonstrate to the satisfaction of the FDA the quality and reliability of its manufacturing controls and procedures. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the satisfaction of the FDA could be subject to product recalls or seizures, interruption of production, and the withholding of approvals of new drug applications pending resolution of the cGMP issues.

FINANCIAL EXPECTATIONS FOR 2001

As noted above, a federal appeals court has upheld the company's February 2001 U.S. Prozac patent but ruled that the 2003 patent is invalid. The company is seeking to overturn that decision on rehearing or appeal. In addition, the FDA has granted the company an additional six months of market exclusivity for Prozac under a federal statute encouraging pediatric studies of certain medicines, extending U.S. market exclusivity for Prozac to August 2, 2001. The company expects a very substantial decline in Prozac sales in the U.S. in the 12 months following the entry of generic fluoxetine in the U.S. market, which could occur as soon as August, 2001. Prozac sales in the U.S. represent a significant portion of the company's overall sales, accounting for approximately 19 percent of the company's consolidated worldwide sales in the first quarter of 2001. The company believes that the loss of Prozac market exclusivity will not have a material adverse effect on the company's consolidated financial position or liquidity.

Based on the above, looking forward to full-year 2001 results excluding unusual items, the company continues to expect earnings per share to be in the range of $2.75 to $2.85 assuming the entry of generic fluoxetine in August, 2001. For the second quarter of 2001, the company expects earnings per share to be in the range of $.73 to $.75, excluding any unusual items.

Actual results could differ materially and will depend on, among other things, the outcome of the appeal of the Federal Circuit ruling regarding Prozac; the timing, number of entrants, and pricing strategies of generic fluoxetine competitors; the continuing growth of the company's other currently marketed products; developments with competitive products; the timing of regulatory approvals, including the necessary FDA approvals of manufacturing operations in connection with pending new drug applications as discussed above under "Other Matters"; and the timing and success of expected new product launches.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

PART II. OTHER INFORMATION
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Item 1. Legal Proceedings

PROZAC PATENT LITIGATION

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a $4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company has filed a petition requesting a rehearing by the Court of Appeals.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac, challenging one or both of the patents. In late 1998, Zenith Goldline Pharmaceuticals, Inc. (Zenith); Teva Pharmaceuticals USA (Teva); and Cheminor Drugs, Ltd., together with one of its subsidiaries (Cheminor), notified the company that they had filed ANDAs challenging the 2003 patent. Also in 1998, Novex Pharma, a division of Apotex, Inc., notified the company that it had filed an ANDA challenging both patents. In 1999, Cheminor notified the company that it had filed an ANDA for an additional dosage form. In 2000, Barr and Teva both notified the company that they had filed additional ANDAs for the additional dosage form, and Alphapharm Pty. Ltd. also notified the company that it had filed ANDAs for two dosage forms.

The company has filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that all these challenges to the patent(s) are without merit. The cases are awaiting resolution of the petition for rehearing by the Court of Appeals in the original Barr case.

For additional information on the impact of the Prozac patent litigation, see the "Financial Expectations for 2001" under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

ZYPREXA PATENT LITIGATION

Zenith has submitted an ANDA seeking permission to market a generic version of Zyprexa prior to the expiration of the company's U.S. patents for the product, alleging that the patents are invalid or not infringed. On April 2, 2001, the company filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. The company believes that Zenith's claims are without merit and expects to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the company will prevail. An unfavorable outcome could have a material adverse impact on the company's consolidated results of operations, liquidity, and financial position.

OTHER MATTERS

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

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

Item 2. Changes in Securities and Use of Proceeds

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

Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 10. The Eli Lilly and Company EVA(R)Bonus Plan, as amended and restated through April 16, 2001*

EXHIBIT 11. Statement re: Computation of Earnings Per Share

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

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

(b) Reports on Form 8-K.

The company filed no reports on Form 8-K during the first quarter of 2001.

*EVA(R) is a registered trademark of Stern Stewart & Co.

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 May 14, 2001

/S/ Alecia A. DeCoudreaux

Alecia A. DeCoudreaux
Secretary and Deputy General Counsel

Date May 14, 2001

/S/ Arnold C. Hanish

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

INDEX TO EXHIBITS

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EXHIBIT 10

Eli Lilly and Company EVA Bonus Plan

(As amended and restated effective January 1, 2001)

Table of Contents

ARTICLE I

Bonus Plan Statement of Purpose and Summary

1.1 The purpose of the Plan is to provide a system of bonus compensation for selected employees of Eli Lilly and Company and subsidiaries which will promote the maximization of shareholder value over the long term, by linking performance incentives to increases in shareholder value. The Plan ties bonus compensation to Economic Value Added ("EVA"), and thereby rewards employees for long-term, sustained improvement in shareholder value. The Plan is intended to satisfy the requirements for providing "performance-based" compensation under Section 162(m) of the Internal Revenue Code.

1.2 EVA will be used as the performance measure of value creation. EVA reflects the benefits and costs of capital employment. Employees create economic value when the operating profits from a business exceed the capital charge associated with the capital assets employed.

ARTICLE II

Definitions of Certain Terms

Unless the context requires a different meaning, the following terms shall have the following meanings:

2.1 "Company" means Eli Lilly and Company and its subsidiaries.

2.2 "Committee" means the Compensation Committee, the members of which shall be selected by the Board of Directors of Eli Lilly and Company from among its members. Each Committee member shall, at all times while serving, satisfy the requirements of an "outside director" within the meaning of Section 162(m).

2.3 "Participant" means any employee of the Company designated by the Committee as a participant in the Plan with respect to any Plan 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 or levels shall be Participants.

2.4 "Plan" means this Eli Lilly and Company EVA Bonus Plan.

2.5 "Plan Year" means the applicable calendar year.

2.6 "Retirement" means the cessation of employment upon the attainment of at least eighty age and benefit years of service points, as determined by the provisions of The Lilly Retirement Plan as amended from time to time, assuming eligibility to participate in that plan.

2.7 "Disability" means the time at which a Participant becomes eligible for a payment under The Lilly Extended Disability Plan, assuming eligibility to participate in that plan.

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

2.9 "Section 162(m) Participant" means a Participant who, in the determination of the Committee, is or may in the future become a "covered employee" under Section 162(m).

ARTICLE III

Definition and Components of EVA

The following terms set forth the calculation of EVA and the components of calculating EVA. The calculation of EVA for a Plan Year is used in determining the bonuses earned by Participants under the Plan, as set forth in Article IV.

3.1 "Economic Value Added" or "EVA" means the excess NOPAT that remains after subtracting the Capital Charge.

3.2 "Net Operating Profit After Tax" or "NOPAT" means the after tax operating earnings of the Company for the Plan Year. NOPAT is determined by adding net sales plus other net income and subtracting the following: cost of goods sold, marketing and administrative expenses (excluding goodwill amortization and interest expense), amortization of research and development, taxes (excluding the tax benefit of interest expense) and amounts associated with discontinued operations.

3.3 "Capital Charge" means the deemed opportunity cost of employing capital for the Company. The Capital Charge is calculated by multiplying Operating Capital times Operating Cost of Capital (OC*) and Cash Capital times Non-operating Cost of Capital (NOC*), then summing the two products.

3.4 "Operating Capital" means the net investment employed in the operations of the Company produced by operations. Operating Capital is calculated by adding together current assets (excluding cash and short-term marketable securities), net property, plant and equipment, gross goodwill, net intangibles, other assets, and capitalized research and development, and the present value of operating leases, and subtracting the following: non-interest bearing liabilities and capital associated with discontinued operations.

3.5 "Cash Capital" means the aggregate balances of any cash plus short-term marketable securities.

3.6 "Cost of Operating Capital" or "OC*" is the percentage calculated from the weighted average of Cost of Debt and Cost of Equity. Cost of Operating Capital for each Plan Year is determined by the Chief Financial Officer and approved by the Committee.

3.7 "Cost of Non-operating Capital" or "NOC*" is the after-tax opportunity cost of capital associated with Cash Capital, as deemed appropriate for Cash Capital by the Chief Financial Officer and approved by the Committee.

3.8 "Cost of Debt" capital is the marginal long-term borrowing rate adjusted for the credit rating of the Company times (one minus the tax rate).

3.9 "Cost of Equity" capital is the risk-free rate plus (beta times the market risk premium). For this purpose, the risk-free rate, the beta and the market risk premium are determined by the Chief Financial Officer and approved by the Committee.

ARTICLE IV

Definition and Computation of the EVA Bonus

Bonuses earned under the Plan for a Plan Year are determined based on a comparison of actual EVA to the "Target EVA" for the year, which is established as described below to motivate improvement in EVA from year to year. The result of this comparison is adjusted by a "Leverage Factor" measuring the volatility of industry EVA returns. The factor produced is referred to as the "Bonus Multiple," which is multiplied by the Participant's applicable "Target Bonus" amount established for the year to produce the actual bonus earned. This amount, referred to as the "Declared Bonus," is credited to the Participant's "Bonus Bank" balance and paid out in the manner provided below.

4.1 Target Bonus. The Target Bonus Award will be determined by the Committee on a basis that takes into consideration a Participant's salary grade level, job responsibilities as well as past and expected future job performance. Target Bonus Awards for a particular Plan Year are expressed as a percentage of annual base salary as in effect on the fixed annual merit date in that Plan Year or on the first day of the Plan Year if there is no merit date in a given Plan Year. Early in the Plan Year, each Participant (except Section 162(m) Participants) will receive three Target Bonus Awards to correspond with each of the three performance ratings. The actual Target Bonus used to calculate the Declared Bonus will be determined by the individual's performance rating for the given Plan Year as determined by the individual's supervision. Section 162(m) Participants shall receive a single Target Bonus Award. If a Participant moves from any salary grade level to a G-6 or above salary grade level during a Plan Year, he/she will receive an award that is pro-rated according to time based on the Target Bonus percentage and base salary applicable to each such salary grade. For purposes of pro-rating, the individual's performance rating at the end of the Plan Year will apply to the entire Plan Year. The Target Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee shall determine the appropriate foreign exchange conversion methodology in its discretion.

4.2 Declared Bonus. A Declared Bonus is the applicable Target Bonus times the Bonus Multiple.

4.3 Bonus Multiple. The Bonus Multiple is Actual EVA less Target EVA (positive or negative), divided by the Leverage Factor, plus one. In years in which the Bonus Multiple is equal to or less than zero, the Target Bonus used to calculate the Declared Bonus will be the Target Bonus associated with the "Successful" or middle performance rating.

4.4 Bonus Bank. All bonus payments are made from the Bonus Bank. Each Participant's beginning Bonus Bank balance in his/her first year of participation is zero. The Bonus Bank is increased or decreased for any Plan Year by the amount of Declared Bonus. If the available Bonus Bank balance after the inclusion of the Declared Bonus is positive, the Participant will be paid from such balance up to the applicable Target Bonus Award, plus one third of any such balance that remains after subtracting the Target Bonus Award from the available Bonus Bank balance. If the available Bonus Bank balance is negative, no payment will occur. After any payment as calculated above, the beginning Bonus Bank balance for the subsequent Plan Year shall be as follows:

(a) Any positive balance shall be carried forward as the new beginning Bonus Bank balance.

(b) Any negative balance resulting from a negative Bonus Multiple shall be carried forward as the new beginning (negative) Bonus Bank balance.

(c) If the Bonus Bank balance has been completely depleted because of a Bonus Multiple between zero and 1.0, the new beginning Bonus Bank balance shall be zero.

4.5 Target EVA. The Target EVA for each year will be calculated as follows:

Target EVA = Prior Year's Actual EVA + Expected Improvement

4.6 Expected Improvement. The Expected Improvement is the additional EVA amount determined by the Committee that is used to assure that a minimum level of improvement is achieved in order to earn target awards.

4.7 Leverage Factor. The Leverage Factor determines the rate of change in bonuses as EVA surpasses or falls short of Target EVA, determined by the Committee from an evaluation of the long term volatility of industry returns.

4.8 Section 162(m) Requirements, Bonus Maximum. In the case of Section 162(m) Participants, all determinations necessary for computing Declared Bonuses for a Plan Year, including establishment of all components of the EVA calculation and of the Target Bonus percentages, shall be made by the Committee not later than 90 days after the commencement of the Plan Year. As and to the extent required by Section 162(m), the terms of a Declared Bonus for a Section 162(m) Participant must state, in terms of an objective formula or standard, the method of computing the amount of compensation payable to the Section 162(m) Participant, 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 Declared Bonus that may be paid from the Bonus Bank to a Section 162(m) Participant during any one calendar year shall be $5 million.

ARTICLE V

Plan Administration

5.1 Time of Payment. Payment from the Bonus Bank will be made before April 1 of the year following the Plan Year.

5.2 Certification of Results. Before any amount is paid under the Plan, the Committee shall certify in writing the calculation of EVA for the Plan Year and the satisfaction of all other material terms of the calculation of the Declared Bonus.

5.3 New Hires, Promotions. New hires or individuals promoted who are first selected for participation by the Committee effective on a date other than January 1 will participate on a pro-rata basis in their first year of participation, based on the Declared Bonus determined for the Plan Year, pro-rated for that period of the year during which the Participant was selected for participation in the Plan. Any such Participant's Target Bonus Award for that Plan Year will be determined, as applicable, based on his or her annual base salary as in effect on (i) the fixed annual merit date in that Plan Year, (ii) January 1 in years when there is no merit date in that Plan Year, or (iii) on the date of hire or promotion if hired or promoted after the fixed annual merit date in that Plan Year. Notwithstanding the foregoing, in the case of any Section 162(m) Participant who first becomes eligible to participate in the Plan after January 1 of a Plan Year, such Participant's Declared Bonus may be determined, at the discretion of the Committee exercised at the time such participation begins, in a manner that complies with the requirements for "performance-based compensation" under Section 162(m).

5.4 Termination of Employment, Demotions. If a Participant ceases employment with the Company on or before the last day of a Plan Year for reasons other than Retirement, Disability or death, or is demoted to a non-global job level with the Company effective on or before the last day of a Plan Year, the Participant shall receive no Declared Bonus for that Plan Year, and his/her Bonus Bank balance shall be forfeited. The Committee may make complete or partial exceptions to this rule, in its sole discretion, and, with respect to employees other than executive officers, may delegate to the vice president responsible for human resources the authority to make such exceptions. Notwithstanding the foregoing, with respect to the Declared Bonus for a Section 162(m) Participant, any such termination of employment or demotion shall result in payment of a bonus based on the Declared Bonus determined for the Plan Year but pro-rated for the period of the year prior to such event, subject to the Committee's discretion to forfeit all or any portion of such bonus, and the Bonus Bank balance shall be forfeited as well.

5.5 Leave of Absence. If a Participant takes an approved leave of absence from employment during a Plan Year, the Participant will not be eligible for the Declared Bonus for the Plan Year. The Committee may make complete or partial exceptions to this rule, in whatever manner it deems appropriate, and, with respect to employees other than executive officers, may delegate to the vice president responsible for human resources the authority to make such exceptions. The Participant will retain his Bonus Bank balance if he returns to employment following the period of leave of absence. Notwithstanding the foregoing, with respect to the Declared Bonus for a Section 162(m) Participant, any such leave of absence

shall result in payment of a bonus based on the Declared Bonus determined for the Plan Year but pro-rated for the period of the year that the Participant was actively employed by the Company, subject to the Committee's discretion to forfeit all or any portion of such bonus.

5.6 Retirement, Disability or Death. If a Participant ceases employment with the Company on or before the last day of the Plan Year because of Retirement, Disability or death, the Participant or personal representative, as the case may be, shall receive into his or her Bonus Bank before April 1 of the next year a Declared Bonus based on the Declared Bonus determined for the Plan Year but pro-rated for that period of the Plan Year during which the Participant was an active employee of the Company. Following payment of such bonus in accordance with Section 4.4, any remaining positive Bonus Bank balance shall be paid.

5.7 Plan Participation. A Participant may not participate in this Plan for any portion of a Plan Year for which he/she is entitled to receive payment under the Eli Lilly and Company Contingent Compensation Plan, The Eli Lilly and Company Premier Rewards Plan, or such other bonus program of the Company or a subsidiary or affiliate of the Company as may be specifically designated by the Committee or its designee. Such Participants will participate in this Plan on a pro-rata basis, based on the Declared Bonus for the Plan Year, pro-rated for that period of the year during which the Participant participated in this Plan. Alternatively, the Committee or its designee may determine that the Participant who is eligible to participate in such other plan may continue to participate in this Plan but with reduced Target Bonus Awards for any period during which the Participant is also participating in such other plan.

5.8 Forfeiture Events. Notwithstanding any other provision of this Plan to the contrary, the Committee may, in its sole discretion, upon the occurrence of a Forfeiture Event (as defined below), forfeit all or any portion of a Participant's Declared Bonus and Bonus Bank balance and terminate such Participant's future participation in the Plan. For purposes hereof, a "Forfeiture Event" shall mean the occurrence of one or more of the following events with respect to a Participant: (i) the termination or forced resignation from employment of the Participant for "misconduct" (as defined in the Company's Employee Information Handbook), (ii) any violation by the Participant of the Guidelines of Company Policy (the "Redbook") that is detrimental to the Company, (iii) any breach of a noncompetition, nonsolicitation, nondisclosure or other restrictive covenant that may apply by written agreement between the Company and the Participant or (iv) Participant's having engaged in any other activity that, in the judgment of the Committee, is detrimental to the business, affairs or reputation of the Company (including, without limitation, engaging in any criminal activity). Except with respect to executive officers, the Committee may delegate the authority granted under this section to the vice president responsible for human resources.

ARTICLE VI

General Provisions

6.1 Withholding of Taxes. The Company shall have the right to withhold the amount of taxes which in the sole determination of the Company are required to be withheld under law with respect to any amount due or payable under the Plan.

6.2 Expenses. All expenses and costs in connection with the adoption and administration of the Plan shall be borne by the Company.

6.3 No Prior Right or Offer, No Right to Future Participation. Participation in the Plan for Plan Years is determined from year-to-year by the Committee in its sole discretion. Except and until expressly granted pursuant to the Plan, nothing in the Plan shall be deemed to give any employee any contractual or other right to participate in the benefits of the Plan. No award to any such Participant in any Plan Year shall be deemed to create a right to receive any award or to participate in the benefits of the Plan in any subsequent Plan Year.

6.4 Rights Personal to Employee. Any rights provided to an employee under the Plan shall be personal to such employee, shall not be transferable, except by will or pursuant to the laws of descent or distribution, and shall be exercisable during his/her lifetime, only by such employee, or a court-appointed guardian for the employee.

6.5 Non-Allocation of Award. In the event of a suspension of the Plan in any Plan Year, as described in Section 11.1, no awards under the Plan for the Plan Year during which such suspension occurs shall affect the calculation of awards for any subsequent period in which the Plan is continued.

ARTICLE VII

Limitations

7.1 No Continued Employment. Neither the establishment of the Plan nor the grant of an award thereunder shall be deemed to constitute an express or implied contract of employment of any Participant for any period of time or in any way abridge the rights of the Company to determine the terms and conditions of employment or to terminate the employment of any employee with or without notice or cause at any time.

7.2 No Vested Rights. Except as expressly provided herein, no employee or other person shall have any claim of right (legal, equitable, or otherwise) to any award, allocation, or distribution or any right, title, or vested interest in any amounts in his/her Target Bonus or Bonus Bank and no officer or employee of the Company or any other person shall have any authority to make representations or agreements to the contrary.

7.3 Non-alienation. No interest conferred herein to a Participant shall be assignable or subject to claim by a Participant's creditors. Except as provided in Subsection 6.1, no Participant or

other person shall have any right or power, by draft, assignment, or otherwise, to mortgage, pledge or otherwise encumber in advance any payment under the Plan, and every attempted draft, assignment, or other disposition of any interest or payment under this Plan shall be absolutely void.

ARTICLE VIII

Committee Authority

8.1 Authority to Interpret and Administer. Except as otherwise expressly provided herein, full power and authority to interpret and administer this Plan shall be vested in the Committee. The Committee may from time to time make such decisions and adopt such rules and regulations for implementing the Plan as it deems appropriate for any Participant under the Plan. Except as to Participants who are treated by the Company as executive officers of the Company for federal securities law reporting purposes (including any Section 162(m) Participant), the Committee may delegate in writing to officers or employees of the Company the power and authority granted by this Section 8.1 to interpret and administer this Plan. Any decision taken by the Committee or officer or employee to whom authority has been delegated, arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be final, conclusive and binding upon all Participants and any person claiming under or through Participants.

8.2 Adjustments for Significant Events. Prior to the beginning of a Plan Year, the Committee may specify with respect to Declared Bonuses for the Plan Year that EVA will be determined before the effects of acquisitions, divestitures, restructurings or 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 Section 162(m) Participants.

8.3 Financial And Accounting Terms. Except as otherwise provided, financial and accounting terms, including terms defined herein, shall be determined by the Committee in accordance with generally accepted accounting principles and as derived from the audited consolidated financial statements of the Company, prepared in the ordinary course of business.

8.4 Section 162(m) Deferrals. To the extent that, notwithstanding the terms of the Plan, the Company's tax deduction for remuneration in respect of the payment of bonuses under the Plan to a Section 162(m) Participant would be disallowed under Section 162(m) by reason of the fact that such Participant's applicable employee remuneration, as defined in Section 162(m), either exceeds or, if such bonus were paid, would exceed the $1,000,000 limitation in Section 162(m), any such excess (as determined by the Committee in its sole discretion) shall be automatically deferred under the terms of The Lilly Deferred Compensation Plan. Payment of any deferred amounts shall be made to the Participant in the first year thereafter that the Company's tax deduction in respect of the payment would not be disallowed under Section 162(m).

ARTICLE IX

Notice

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

ARTICLE X

Effective Date

10.1 This Plan, as amended and restated herein, shall be effective for the Plan Year commencing January 1, 2001. The terms of this restated plan shall apply to Declared Bonuses earned in 2001 and future Plan Years. All Declared Bonuses earned in Plan Years prior to 2001 shall be payable in accordance with the terms of the Plan as in effect for the year to which the Declared Bonus relates. The final Plan Year of this Plan, unless amended by the Board (or the Committee) and approved by the stockholders to the extent provided in Article XI, shall be the 2002 Plan Year.

ARTICLE XI

Amendments and Termination

11.1 This Plan may be amended, suspended or terminated at any time at the discretion of the Board of Directors of Eli Lilly and Company, and may, except for this Section 11.1, be amended at any time by the Committee. 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 of any such amendment by the Company's stockholders. Any such approval shall be by the affirmative votes of a majority of the stockholders of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with applicable state law and the Articles of Incorporation and By-laws of the Company. The material terms of EVA must be disclosed to and reapproved by the stockholders of the Company no later than the Company's annual meeting of stockholders that occurs in the year 2003.

ARTICLE XII

Applicable Law

12.1 This Plan shall be governed by and construed in accordance with the provisions of the laws of the State of Indiana without regard to the conflicts-of-law principles of Indiana.

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2001	2000
BASIC		
Net income	$ 806.8	$ 845.5
Average number of common shares outstanding	1,078.1	1,083.6
Contingently issuable shares	.4	.6
Adjusted average shares	1,078.5	1,084.2
Basic earnings per share	$ .75	$ .78
DILUTED		
Net income	$ 806.8	$ 845.5
Average number of common shares outstanding	1,078.1	1,083.6
Incremental shares - stock options and contingently issuable shares	14.0	14.1
Adjusted average shares	1,092.1	1,097.7
Diluted earnings per share	$ .74	$ .77

Dollars in millions except per share data. Shares in millions.

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

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Three Months Ended March 31, 2001	Years Ended December 31, 2000	1999	1998	1997	1996
Consolidated pretax income from continuing operations before extraordinary item	$1,034.4	$3,858.7	$3,245.4	$2,665.0	$2,901.1	$2,131.3
Interest from continuing operations and other fixed charges	54.9	225.4	213.1	198.3	253.1	323.8
Less interest capitalized during the period from continuing operations	(13.5)	(43.1)	(29.3)	(17.0)	(20.4)	(35.8)
Earnings	$1,075.8	$4,041.0	$3,429.2	$2,846.3	$3,133.8	$2,419.3
Fixed charges /1/	$ 54.9	$ 225.4	$ 213.2	$ 200.5	$ 256.8	$ 328.5
Ratio of earnings to fixed charges	19.6	17.9	16.1	14.2	12.2	7.4

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

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

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

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

- - Competitive factors, including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and new patented products or expanded indications for existing products introduced by competitors, which can lead to declining demand for the company's products.

- - Changes in inventory levels maintained by pharmaceutical wholesalers can cause reported sales for a particular period to differ significantly from underlying prescriber demand.

- - Economic factors over which the company has no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas such as Latin America.

- - Governmental factors, including federal, state and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which the company's products are sold.

- - The difficulties and uncertainties inherent in new product development. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others.

- - Delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in lost market opportunity.

- - Regulatory issues concerning compliance with current good manufacturing practice (cGMP) regulations for pharmaceutical products. In particular, as a result of observations noted by the FDA in two recent Lilly plant inspections, one of which resulted in a warning letter from the agency, the company is in the process of implementing comprehensive, company-wide improvements in its manufacturing quality operations to assure compliance with current Good Manufacturing Practices (cGMP) regulations. The company is working closely with the FDA to implement the improvements and does not currently expect a material financial impact from the issues raised by the FDA or the cost of the improvements the company is implementing. However, the timing and nature of the resolution of the cGMP issues will depend on the company's ability to demonstrate to the satisfaction of the FDA the quality and reliability of its manufacturing controls and procedures. A failure to correct cGMP deficiencies to the satisfaction of the FDA could lead to product recalls and seizures, interruption of production, and the withholding of approvals of new drug applications pending resolution of the cGMP issues. Similar issues can arise with other companies that perform third-party manufacturing for Lilly.

- - Unexpected safety or efficacy concerns arising with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.

- - Legal factors including unanticipated litigation of product liability or other liability claims; antitrust litigation; environmental matters; and patent disputes with competitors that could preclude commercialization of products or negatively affect the profitability of existing products. In particular, see "Financial Expectations for 2001" under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of the expected impact of litigation involving the company's U.S. patents on Prozac.

- - Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits.

- - Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, and the American Institute of Certified Public Accountants which are adverse to the Company.

- - Internal factors such as changes in business strategies and the impact of restructurings and business combinations.

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