

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 QUARTER ENDED JUNE 30, 1994

COMMISSION FILE NUMBER 1-6351

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

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

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

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

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

Yes No

The number of shares of common stock outstanding as of
July 31, 1994:

Class	Number of Shares Outstanding
-----	-----
Common	292,100,954

1

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months		Six Months	
	Ended June 30,	Ended June 30,	Ended June 30,	Ended June 30,
	1994	1993	1994	1993

(Dollars in millions except per-share data)

Net Sales	\$1,678.5	\$1,561.0	\$3,315.5	\$3,121.0
Cost of Sales	524.5	469.5	1,042.4	916.1

Research & Development	250.6	233.0	477.8	447.2
Marketing & Administrative	428.3	401.8	802.4	792.7
Special Charges	10.0	-	66.0	-
Other Income - Net	(40.9)	(35.2)	(61.8)	(56.7)
	-----	-----	-----	-----
	1,172.5	1,069.1	2,326.8	2,099.3

Income before Income Taxes and Cumulative Effect of Change in Accounting Principles	506.0	491.9	988.7	1,021.7
Income Taxes	159.4	145.1	311.4	301.4
	-----	-----	-----	-----
Income before Cumulative Effect of Change in Accounting Principles	346.6	346.8	677.3	720.3
Cumulative Effect of Change in Accounting Principles (Net of Taxes)	-	-	-	(10.9)
	-----	-----	-----	-----
Net Income	\$346.6	\$346.8	\$677.3	\$709.4
	=====	=====	=====	=====
Earnings Per Share:				
Before Cumulative Effect of Change in Accounting Principles	\$1.20	\$1.18	\$2.34	\$2.45
Net Income	1.20	1.18	2.34	2.42
Dividends Paid Per Share	\$.625	\$.605	\$1.25	\$1.21

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
Eli Lilly and Company and Subsidiaries

	June 30, 1994	December 31, 1993

	(Millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$706.8	\$539.6
Short-term investments	568.6	447.5
Accounts receivable, net of allowances of \$34.9 (1994) and \$32.3 (1993)	995.4	950.1
Inventories	1,131.3	1,103.0
Deferred income taxes	293.3	334.0
Other current assets	303.8	322.9
	-----	-----
TOTAL CURRENT ASSETS	3,999.2	3,697.1
OTHER ASSETS		
Prepaid Retirement	309.1	266.0
Investments	257.9	221.7
Goodwill and other intangibles, net of allowances for amortization of \$304.4 (1994) and \$289.9 (1993)	398.1	405.0
Sundry	924.1	833.6
	-----	-----
	1,889.2	1,726.3
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	6,842.4	6,566.5
Less allowances for depreciation	2,553.3	2,366.3
	-----	-----
	4,289.1	4,200.2
	-----	-----
	10,177.5	\$9,623.6
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$676.3	\$524.8
Accounts payable	208.7	329.6
Employee compensation	228.6	328.6
Dividends payable	-	183.3
Other liabilities	1,041.9	1,115.7
Income taxes payable	392.3	446.0
	-----	-----
TOTAL CURRENT LIABILITIES	2,547.8	2,928.0
LONG-TERM DEBT		
	1,173.3	835.2
DEFERRED INCOME TAXES	179.2	127.5
RETIREE MEDICAL BENEFIT OBLIGATION	193.8	183.9
OTHER NONCURRENT LIABILITIES	934.1	980.2
SHAREHOLDERS' EQUITY		
Common stock	183.0	183.0
Additional paid-in capital	280.5	294.6
Retained earnings	5,000.8	4,500.9
Deferred costs-ESOP	(230.1)	(242.8)
Currency translation adjustments	(66.4)	(163.5)
	-----	-----
	5,167.8	4,572.2
Less cost of common stock in treasury	18.5	3.4
	-----	-----
	5,149.3	4,568.8
	-----	-----
	\$10,177.5	\$9,623.6
	=====	=====

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Six Months Ended June 30,	
	1994	1993
	----- (Millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$677.3	\$709.4
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Changes in operating assets and liabilities	(405.7)	(391.0)
Change in deferred taxes	93.6	42.2
Special charges	13.8	-
Other items, net	108.3	125.8
Cumulative effect of accounting change	-	10.9
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	487.3	497.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to property and equipment	(251.1)	(284.0)
Additions to intangibles and other assets	(47.6)	(38.7)
Reduction of investments	645.7	387.1
Additions to investments	(801.0)	(500.6)
	-----	-----
NET CASH USED FOR INVESTING ACTIVITIES	(454.0)	(436.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(361.7)	(354.2)
Purchase of common stock and other capital transactions	(29.2)	(9.2)
Net additions to short-term borrowings	157.2	119.8
Net additions to long-term debt	342.3	211.3
	-----	-----
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	108.6	(32.3)
Effect of exchange rate changes on cash	25.3	(13.5)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	167.2	15.3
Cash and cash equivalents at January 1	539.6	432.4
	-----	-----
CASH AND CASH EQUIVALENTS AT JUNE 30	\$706.8	\$447.7
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

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 flow in conformity with generally accepted accounting principles. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) that are necessary to a fair statement of the results for the periods shown.

INVENTORIES

Inventories consisted of the following:

	June 30, 1994	December 31, 1993
	-----	-----
Finished products	\$314.3	\$272.5
Work in process	610.8	667.7
Raw materials and supplies	298.6	271.5
	-----	-----
	1,223.7	1,211.7
Less reduction to LIFO cost	92.4	108.7
	-----	-----
	\$1,131.3	\$1,103.0
	=====	=====

CONTINGENCIES

The Company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac(R). The Company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the Company has accrued for certain future anticipated product liability claims 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 recoveries is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

The Company is a party to various patent litigation matters involving Humatrope(R), Humulin(R), bovine somatotropin, and various products within the Medical Devices and Diagnostics Division. Based upon historical and industry data, the Company has accrued for the anticipated cost of resolution of the claims.

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 certain 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 those costs. The Company has reserved its right to pursue

claims for insurance with respect to certain environmental liabilities. However, because of uncertainties with respect to the timing and ultimate realization of those claims, the Company has not recorded any environmental insurance recoveries.

The product, patent, and environmental liabilities have been reflected in the Company's consolidated balance sheets at their gross amounts (approximately \$492 million at June 30, 1994). Estimated insurance recoverables appear as assets in the consolidated balance sheets (approximately \$168 million at June 30, 1994).

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 continues to believe the costs associated with all such matters will not have a material adverse effect on its consolidated financial position.

EARNINGS PER SHARE

Earnings per share for 1994 are calculated based on the average number of outstanding common shares. For 1993 earnings per share were calculated on a fully diluted basis based on the average number of outstanding common shares and common share equivalents (primarily stock options). The difference in earnings per share calculated under these methods is not material.

ACCOUNTING CHANGES

During the first quarter of 1994, the Company adopted two new accounting pronouncements. Effective January 1, 1994, the Company's debt and equity investments have been accounted for under the provisions of FAS 115, "Accounting For Certain Investments in Debt and Equity Securities". All "available-for-sale" securities have been marked to market with unrealized holding gains and losses reported as a net amount in shareholders' equity. There was no income statement impact of this accounting change.

Also, beginning in 1994, the Company implemented the provisions of AICPA Statement of Position 93-6, "Employers' Accounting For Employee Stock Ownership Plans". The principal impact of the adoption was to reduce the average shares outstanding for the quarter by 3.3 million which represents shares owned by the ESOP that have not been allocated to participants' accounts.

Effective January 1, 1993, the Company elected the early adoption of FAS 112, "Employers' Accounting for Postemployment Benefits." FAS 112 requires employers to recognize currently the obligation to provide postemployment benefits to former or inactive employees and others. Prior to 1993, the Company expensed these obligations when paid.

SPECIAL CHARGES

During the first six months the company incurred \$66 million of pre-tax charges associated with the March 31 voluntary recall of three of the Company's liquid oral antibiotics. The recall, which was initiated by the Company after consultation with the FDA, was made after four instances were reported of small plastic caps being found in the antibiotics. Shipments of certain products were resumed during the second quarter.

SUBSEQUENT EVENTS

In July, 1994, the Company announced that it had entered into a definitive agreement with McKesson Corporation for the Company to purchase PCS Health Systems, Inc. (PCS), McKesson's pharmacy benefit management business, for \$4 billion in cash. The acquisition is subject to federal regulatory clearance, acceptance of a tender offer by the holders of a majority of the shares of

McKesson common stock, and certain other conditions. Prior to the completion of the tender offer, McKesson will spin off to its shareholders all of its businesses other than the pharmacy benefit management business. The Company plans to finance the acquisition by borrowing \$4 billion in short-term and intermediate-term debt. The pharmacy benefit management business of McKesson, which is conducted primarily through PCS, had revenues of \$173.4 million and net income of \$25.6 million for the fiscal year ended March 31, 1994.

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

RESULTS OF OPERATIONS:

The Company's sales for the second quarter of 1994 increased 8 percent from the second quarter of 1993. Overall, sales inside and outside the United States increased 9 percent and 5 percent, respectively. Compared with the second quarter of 1993, the increase in sales was due primarily to volume which increased 11 percent, while prices decreased 3 percent and the foreign exchange rates effect was negligible.

The Company's sales for the first six months of 1994 increased 6 percent when compared with the same period in 1993. Sales outside the United States increased 8 percent, while sales in the United States increased 5 percent. Compared with the first six months of 1993, volume increased 9 percent, while prices and foreign exchange rates had a 2 percent and 1 percent unfavorable impact, respectively.

Worldwide sales of pharmaceutical products, led by Prozac, increased 8 percent in the second quarter compared with the same period last year. Strong worldwide growth of Prozac more than offset declining anti-infective sales due to global competitive pressures. Other products contributing to the growth in sales of worldwide pharmaceutical products were Axid(R), Humatrope, and Humulin. While pharmaceutical sales increased both inside and outside the United States, the domestic market was largely responsible for the record performances of pharmaceutical products worldwide for this quarter. Volume increased 11% in both the domestic and international markets. Pharmaceutical sales growth in the U.S. was negatively affected by downward pressure on prices due to higher federally-mandated Medicaid rebates and increased participation in managed-care programs, by continued competition in the Company's anti-infectives product line and the continued decline in sales of Dobutrex(R) due to the expiration of its U.S. patent. For the first six months, worldwide pharmaceutical sales increased 6 percent.

Sales of medical devices and diagnostics (MDD) products increased 8 percent in the second quarter and 10% the first six months. Growth for the quarter was led by IVAC Corporation, Cardiac Pacemakers, Inc. (CPI) and Physio-Control Corporation. IVAC benefited from sales of its Medsystem III infusion pump, while CPI's sales growth can be attributed primarily to sales of the Endotak(R) lead system. Physio-Control's results were attributed to the resumption of domestic shipments of its Lifepak(R) product line. Sales at other companies within the MDD division continued to reflect competitive pressures.

Worldwide sales of animal health products increased 4 percent in the second quarter and 5 percent in the first six months compared with the same periods last year. The increase in the quarter was due to growth in international sales that was partially offset by a decline in domestic sales. Strong international growth can be attributed to Monensin(R) and Tylan(R).

Cost of sales in the second quarter was 31.2 percent of sales, approximately 1 percentage point higher than the second quarter of 1993. During the first six months, manufacturing costs increased to 31.4 percent of sales compared with 29.4 percent for the same period in 1993. The increase is primarily the result of reduced annual production requirements designed to reduce levels of certain in-process inventory. The Company expects this higher level of cost of sales to continue throughout the year.

Operating expenses for the second quarter reflect an additional special pre-tax charge of \$10 million related to the first-quarter recall of oral antibiotics. The total charge incurred for the Company's recall for the first six months is \$66 million.

Other operating expenses increased 7 percent in the second quarter and 3 percent in the first six months compared with the same periods in 1993. The operating expense savings attributed to the positive effects of the 1993 early-retirement program and ongoing expense management programs have been offset primarily by expanded research efforts, in both global clinical trials, reflecting the large number of compounds entering the final phases of clinical research, and internal discovery programs. Additionally, marketing expenses increased due to the start-up of certain new disease-state management programs. Administrative expenses included, among other things, higher legal fees associated with certain ongoing litigation.

Other income increased in the second quarter and the first six months compared with the same periods in 1993, due primarily to higher net interest income from higher interest rates and reduced foreign exchange losses. The Company's 1994 estimated tax rate was 31.5 percent in the second quarter and first six months of 1994 compared with a tax rate of 29.5 percent for the same periods in 1993. The increase in the tax rate was due to the higher statutory rate and reduced Puerto Rican tax benefit.

For the second quarter, net income was essentially equal to the 1993 level, while earnings per share increased 2 percent when compared with 1993. Net income and earnings per share for the first half of 1994 decreased 5 percent and 3 percent respectively from 1993. Net income and earnings per share for the first six months of 1994 were negatively affected by the recall-related special charge.

FINANCIAL CONDITION:

As of June 30, 1994, cash, cash equivalents and short-term investments totaled \$1,275.4 million as compared with \$987.1 million at December 31, 1993. Total debt at June 30, 1994, was \$1,849.6 million, an increase of \$489.6 million from December 31, 1993.

In April, the Company announced that it had signed a definitive agreement for the acquisition of Sphinx Pharmaceuticals Corporation, a company engaging in drug discovery and development by generating combinatorial chemistry libraries of small molecule compounds and high throughput screening against biological targets central to human diseases.

Under the terms of the definitive agreement, the aggregate purchase price will be approximately \$80 million. The transaction is subject to the approval of Sphinx stockholders. A special meeting of Sphinx stockholders is scheduled during August to vote on the transaction.

Lawsuits have been filed by certain Sphinx stockholders seeking, among other things, to enjoin Sphinx and Lilly from proceeding with the proposed transaction. Sphinx believes the acquisition is in the best interests of the company and its stockholders. Accordingly, Sphinx intends to defend the lawsuits vigorously and to submit the definitive agreement for approval by stockholders at the earliest practicable date.

In June the Company announced its intention to form a new company, Guidant Corporation, that will be publicly owned and will consist of five of its nine Medical Devices and Diagnostics (MDD) Division businesses and headquarters staff. The five MDD businesses that will comprise Guidant are Advanced Cardiovascular Systems, Inc.; Cardiac Pacemakers, Inc.; Devices for Vascular Intervention, Inc.; Origin Medsystems, Inc.; and Heart Rhythm Technologies, Inc. On July 29, the Company sold Physio-Control Corporation to Bain Capital, Inc. The Company is continuing its efforts to sell the remaining three businesses within the division.

On June 8, 1994, three of the aforementioned Guidant businesses, Advanced Cardiovascular Systems, Inc., Cardiac Pacemakers, Inc., and Devices for Vascular Intervention, Inc. entered into three revolving credit agreements aggregating \$700 million. The proceeds from the bank facility will be used to fund dividends to Lilly and to purchase certain Lilly MDD assets. On June 16, 1994, \$318 million of the facility was drawn down. Guidant will offer the public up to 20% of its common stock (thereby reducing Lilly's ownership to 80%) through an initial public offering planned during the fourth quarter of 1994. It is expected that by the end of 1994, a portion of the proceeds from the initial public offering will be used to reduce borrowing under the bank facility.

OTHER MATTERS:

In July, 1994, the Company announced that it had entered into a definitive agreement with McKesson Corporation for the Company to purchase PCS Health Systems, Inc., McKesson's pharmacy benefit management business, for \$4 billion in cash. The acquisition is subject to federal regulatory clearance, acceptance of a tender offer by the holders of a majority of the shares of McKesson common stock, and certain other conditions. It is anticipated that required approvals will allow the acquisition to be completed by late September or early October. Prior to the completion of the tender offer, McKesson will spin off to its shareholders all of its businesses other than its pharmacy benefit management business. The Company plans to finance the acquisition by borrowing \$4 billion in short-term and intermediate-term debt. The pharmacy benefit management business of McKesson, which is conducted primarily through PCS, had revenues of \$173.4 million and net income of \$25.6 million for the fiscal year ended March 31, 1994.

Following the announcement of the proposed PCS acquisition, Standard & Poor's ratings group and Moody's Investors Service, Inc. announced that they had placed the long-term debt ratings of the Company under review for possible downgrade. Ratings on the long-term debt are currently AAA from Standard & Poor's and Aa1 from Moody's. The Company's short-term debt ratings of A-1+ and P-1 were reaffirmed and are not under review.

PART II OTHER INFORMATION

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

The Company held its annual meeting of shareholders on April 18, 1994. The following is a summary of the matters voted on at the meeting.

(a) Election of Directors to serve three-year terms ending at the Company's 1997 annual meeting:

Nominee -----	For ---	Withhold Vote -----
Kenneth L. Lay	255,574,614	2,029,588
Stephen A. Stittle	251,305,907	6,298,295
Sidney Taurel	255,661,285	1,942,917
Alva O. Way	254,734,581	2,869,621
Richard D. Wood	194,415,898	63,188,304

(b) Ratification of appointment of Ernst & Young as the Company's principal independent auditors:

For:	256,249,584
Against:	763,374
Abstain:	591,244

(c) Approval of the Company's 1994 Lilly Stock Plan:

For:	231,224,528
Against:	25,060,323
Abstain:	1,319,351

Item 6. Exhibits and Reports on Form 8-K

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

- 11. Statement re: Computation of Earnings Per Share on
Primary and Fully Diluted Bases
- 12. Statement re: Computation of Ratio of Earnings to
Fixed Charges
- 99. Attachment to Form 10-Q: Contingent Payment
Obligation Units

(b) Reports on Form 8-K. During the quarter for which this report is
----- filed, the Company filed no reports on
Form 8-K.

SIGNATURES

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

ELI LILLY AND COMPANY

(Registrant)

Date August 11, 1994

s/Daniel P. Carmichael

Daniel P. Carmichael
Secretary and Deputy General Counsel

Date August 11, 1994

s/Arnold C. Hanish

Arnold C. Hanish
Director, Corporate Accounting
and Chief Accounting Officer

INDEX TO EXHIBITS

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

Exhibit	Page
11. Statement re: Computation of Earnings Per Share on Primary and Fully Diluted Bases	14
12. Statement re: Computation of Ratio of Earnings to Fixed Charges	15
99. Attachment to Form 10-Q: Contingent Payment Obligation Units	16

EXHIBIT 11. STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE ON PRIMARY
AND FULLY DILUTED BASES
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993

(Dollars in millions except per-share data)				
(Shares in thousands)				
PRIMARY:				
Net income	\$346.6	\$346.8	\$677.3	\$ 709.4
Average number of common shares outstanding	289,259	292,686	289,336	292,687
Add incremental shares:				
Stock plans and contingent payments	2,352	853	2,030	896
Adjusted average shares	291,611	293,539	291,366	293,583
Primary earnings per share	\$1.19	\$1.18	\$2.32	\$2.42
FULLY DILUTED:				
Net income	\$346.6	\$346.8	\$677.3	\$709.4
Average number of common shares outstanding	289,259	292,686	289,336	292,687
Add incremental shares:				
Stock plans and contingent payments	2,840	860	2,593	898
Adjusted average shares	292,099	293,546	291,929	293,585
Fully diluted earnings per share	\$1.19	\$1.18	\$2.32	\$2.42

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

Eli Lilly and Company and Subsidiaries

	Six Months Ended June 30,		Years Ended December 31,			
	1994	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----	-----
Consolidated						
Pretax Income before						
Accounting Changes	\$988.7	\$701.9	\$1,182.3	\$1,879.2	\$1,599.0	\$1,329.9
Interest	47.8	96.7	109.1	88.9	93.8	57.1
Less Interest Capitalized						
during the Period	(12.1)	(25.5)	(37.4)	(49.1)	(27.4)	(15.8)
	-----	-----	-----	-----	-----	-----
Earnings	\$1,024.4	\$773.1	\$1,254.0	\$1,919.0	\$1,665.4	\$1,371.2
	=====	=====	=====	=====	=====	=====
Fixed Charges:						
Interest Expense	\$ 47.8	\$ 96.7	\$ 109.1	\$ 88.9	\$ 93.8	\$ 57.1
	=====	=====	=====	=====	=====	=====
Ratio of Earnings to						
Fixed Charges	21.4	8.0	11.5	21.6	17.8	24.0
	=====	=====	=====	=====	=====	=====

In connection with the acquisition of Hybritech Incorporated by the Company on March 18, 1986, the Company issued Contingent Payment Obligation Units (CPUs). The following information is provided relative to the CPUs.

Hybritech Sales and Gross Profits (Unaudited)

	SECOND QUARTER			FIRST HALF		
	1994*	1993*	1992*	1994*	1993*	1992*
	(Millions)			(Millions)		
Sales	\$32.7	\$40.1	\$44.3	\$65.1	\$80.3	\$91.2
Gross profits	\$17.0	\$22.5	\$25.1	\$32.2	\$44.2	\$53.5

* Includes results of Pacific Biotech, Inc., another subsidiary of Eli Lilly and Company.

Sales for the second quarter were \$32.7 million compared with \$40.1 million during the same period in 1993, a decrease of 18 percent. Sales declines were experienced in both domestic and international markets as the Company's prostate cancer test, Tandem(R) Prostate Specific Antigen (PSA) continues to experience increased competition.

Gross profits for the second quarter were \$17.0 million compared with \$22.5 million in the same period last year.

Computation of Contingent Payment Obligation Unit Payment

CPU holders are entitled to receive cash payments based upon the annual sales and gross profits of Hybritech over the period ending December 31, 1995 if certain performance criteria are achieved. The total amount payable for each year will equal the sum of 6 percent of Hybritech's sales and 20 percent of Hybritech's gross profits for that year, less a deductible amount. Sales is defined in the Indenture governing the CPUs to include net sales of products and royalties but to exclude contract revenues. Gross profits are the excess of sales over costs of products sold and do not represent the net income of Hybritech. The deductible amount was \$11 million for 1986 and increases by 35 percent in each subsequent year. The deductible for 1994 is \$121.4 million. The total amount payable, if any, is then divided by 12,933,894 to determine the payment per CPU. The maximum payment that may be made on each CPU if the criteria are achieved cannot, however, exceed \$22. No payments have been made to date.