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 JUNE 30, 2006

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ☑

The number of shares of common stock outstanding as of July 20, 2006:

Class	Number of Shares Outstanding
Common	1,130,398,796

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions, except per-share data)			
Net sales	$3,866.9	$3,667.7	$7,581.6	$7,165.1
Cost of sales	860.6	871.3	1,667.1	1,730.3
Research and development	774.8	762.4	1,515.6	1,464.6
Marketing and administrative	1,237.9	1,146.1	2,380.8	2,236.5
Asset impairments, restructuring, and other special charges	—	1,073.4	—	1,073.4
Other income – net	(46.9)	(45.4)	(79.1)	(144.0)
	2,826.4	3,807.8	5,484.4	6,360.8
Income (loss) before income taxes	1,040.5	(140.1)	2,097.2	804.3
Income taxes	218.5	111.9	440.4	319.7
Net income (loss)	$ 822.0	$ (252.0)	$1,656.8	$ 484.6
Earnings (loss) per share — basic	$ .76	$ (.23)	$ 1.53	$ .45
Earnings (loss) per share — diluted	$ .76	$ (.23)	$ 1.53	$ .44
Dividends paid per share	$ .40	$ .38	$ .80	$ .76

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
ELI LILLY AND COMPANY AND SUBSIDIARIES

	June 30, 2006 (Unaudited)	December 31, 2005
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,669.7	$ 3,006.7
Short-term investments	1,921.0	2,031.0
Accounts receivable, net of allowances of $64.9 (2006) and $66.3 (2005)	2,101.8	2,313.3
Other receivables	415.0	448.4
Inventories	2,099.2	1,878.0
Deferred income taxes	648.9	756.4
Prepaid expenses	733.0	362.0
TOTAL CURRENT ASSETS	10,588.6	10,795.8
OTHER ASSETS		
Prepaid pension	2,360.8	2,419.6
Investments	1,287.8	1,296.6
Sundry	2,110.4	2,156.3
	5,759.0	5,872.5
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	13,568.1	13,136.0
Less allowances for depreciation	(5,480.1)	(5,223.5)
	8,088.0	7,912.5
	$24,435.6	$24,580.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 738.6	$ 734.7
Accounts payable	648.9	781.3
Employee compensation	374.1	548.8
Dividends payable	438.3	436.5
Income taxes payable	700.9	884.9
Other current liabilities	1,744.5	2,330.1
TOTAL CURRENT LIABILITIES	4,645.3	5,716.3
LONG-TERM DEBT	5,578.0	5,763.5
DEFERRED INCOME TAXES	759.4	695.1
OTHER NONCURRENT LIABILITIES	1,524.4	1,614.0
SHAREHOLDERS' EQUITY		
Common stock	707.0	706.9
Additional paid-in capital	3,365.2	3,323.8
Retained earnings	10,817.6	10,027.2
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(103.7)	(106.3)
Accumulated other comprehensive loss	(120.0)	(420.6)
	12,031.1	10,896.0
Less cost of common stock in treasury	102.6	104.1
	11,928.5	10,791.9
	$24,435.6	$24,580.8

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Six Months Ended June 30, 2006	2005
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,656.8	$ 484.6
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(1,357.3)	(369.0)
Depreciation and amortization	414.0	317.4
Stock-based compensation expense	191.3	208.2
Change in deferred taxes	120.7	(175.9)
Asset impairments, restructuring, and other special charges, net of tax	—	979.7
Other, net	(83.3)	33.9
NET CASH PROVIDED BY OPERATING ACTIVITIES	942.2	1,478.9
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(392.1)	(619.9)
Net change in short-term investments	103.9	1,337.8
Purchase of noncurrent investments	(1,003.2)	(218.1)
Proceeds from sales and maturities of noncurrent investments	906.2	270.8
Other, net	126.9	(145.1)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(258.3)	625.5
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(864.6)	(821.2)
Purchases of common stock	(122.1)	—
Repayment of long-term debt	(100.1)	(94.0)
Issuances of common stock under stock plans	13.9	34.9
Net change in short-term borrowings	4.9	(1,791.9)
Other, net	.2	7.9
NET CASH USED IN FINANCING ACTIVITIES	(1,067.8)	(2,664.3)
Effect of exchange rate changes on cash and cash equivalents	46.9	(163.0)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(337.0)	(722.9)
Cash and cash equivalents at January 1	3,006.7	5,365.3
CASH AND CASH EQUIVALENTS AT JUNE 30	$ 2,669.7	$ 4,642.4

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)			
Net income (loss)	$822.0	$(252.0)	$1,656.8	$ 484.6
Other comprehensive income (loss)[1]	170.5	(345.9)	300.7	(517.0)
Comprehensive income (loss)	$992.5	$(597.9)	$1,957.5	$ (32.4)

1 The significant components of other comprehensive income (loss) were gains of $172.5 million and $223.3 million from foreign currency translation adjustments for the three months and six months ended June 30, 2006, respectively, compared to losses from foreign currency translation adjustments of $247.9 million and $386.4 million for the three months and six months ended June 30, 2005, respectively. Gains from cash flow hedges were $11.5 million and $78.3 million for the three months and six months ended June 30, 2006, respectively, compared to losses of $104.7 million and $114.3 million from cash flow hedges for the three months and six months ended June 30, 2005, respectively.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment – pharmaceutical products. Operations of our animal health business segment are not material and share many of the same economic and operating characteristics as our pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting. Our business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business for the second quarter of 2006 and 2005 was $40.9 million and $47.3 million, respectively, and $75.1 million and $87.3 million for the six months ended June 30, 2006 and 2005, respectively.

SALES BY PRODUCT CATEGORY

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)			
Net sales – to unaffiliated customers				
Neurosciences	$1,686.2	$1,547.4	$3,193.3	$2,975.2
Endocrinology	1,231.2	1,141.8	2,459.8	2,286.5
Oncology	496.7	454.4	965.8	855.3
Animal health	201.0	201.0	399.3	396.5
Cardiovascular	127.5	155.7	270.6	323.8
Anti-infectives	69.6	112.8	157.5	222.0
Other pharmaceuticals	54.7	54.6	135.3	105.8
Net sales	$3,866.9	$3,667.7	$7,581.6	$7,165.1

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

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

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2005.

CONTINGENCIES

We are engaged in the following patent litigation matters brought pursuant to procedures set out in the Hatch-Waxman Act (the Drug Price Competition and Patent Term Restoration Act of 1984):

- Dr. Reddy's Laboratories, Ltd. (Reddy), Teva Pharmaceuticals, and Zenith Goldline Pharmaceuticals, Inc., which was subsequently acquired by Teva Pharmaceuticals (together, Teva), each submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa® prior to the expiration of our relevant U.S. patent (expiring in 2011) and alleging that this patent was invalid or not enforceable. We filed lawsuits against these companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the patent is valid, enforceable and being infringed. The district court ruled in our favor on all counts on April 14, 2005. We are now awaiting a decision by the Court of Appeals for the Federal Circuit, which on April 6, 2006, heard Reddy's and Teva's respective appeals of this ruling. We are confident Reddy's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail on appeal. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- Barr Laboratories, Inc. (Barr), submitted an ANDA in 2002 seeking permission to market a generic version of Evistaâ prior to the expiration of our relevant U.S. patents (expiring in 2012-2017) and alleging that these patents are invalid, not enforceable, or not infringed. In November 2002, we filed a lawsuit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid, enforceable, and being infringed by Barr. Teva has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a lawsuit against Teva in the U.S. District Court for the Southern District of Indiana, seeking a ruling that our relevant U.S. patents (expiring in 2012-2014) are valid, enforceable, and being infringed by Teva. No trial date has been set in either case. We believe Barr's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- Sicor Pharmaceuticals, Inc. (Sicor), a subsidiary of Teva, submitted ANDAs in November 2005 seeking permission to market generic versions of Gemzar® prior to the expiration of our relevant U.S. patents (expiring in 2010 and 2013), and alleging that these patents are invalid. In February, we filed a lawsuit against Sicor in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid and are being infringed by Sicor. In response to our lawsuit, Sicor filed a declaratory judgment action in the U.S. District Court for the Central District of California. No trial date has been set in either matter. We believe Sicor's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations.

In March 2004, the office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it has commenced a civil investigation related to our U.S. marketing and promotional practices, including our communications with physicians and remuneration of physician consultants and advisors, with respect to Zyprexa, Prozac®, and Prozac Weekly™. In October 2005, the U.S. Attorney's office advised that it is also conducting an inquiry regarding certain rebate agreements we entered into with a pharmacy benefit manager covering Axid®, Evista, Humalogâ, Humulinâ, Prozac, and Zyprexa. The inquiry includes a review of Lilly's Medicaid best price reporting related to the product sales covered by the rebate agreements. We are cooperating with the U.S. Attorney in these investigations, including providing a broad range of documents and information relating to the

investigations. In June 2005, we received a subpoena from the office of the Attorney General, Medicaid Fraud Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges and fines, penalties, or other monetary or nonmonetary remedies. We cannot predict or determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

We have been named as a defendant in a large number of Zyprexa product liability lawsuits in the United States and have been notified of many other claims of individuals who have not filed suit. The lawsuits and unfiled claims (together the “claims”) allege a variety of injuries from the use of Zyprexa, with the majority alleging that the product caused or contributed to diabetes or high blood-glucose levels. The claims seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the claims also allege that we improperly promoted the drug. Almost all of the federal lawsuits are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). The MDL includes three lawsuits requesting certification of class actions on behalf of those who allegedly suffered injuries from the administration of Zyprexa. We have entered into agreements with various plaintiffs’ counsel halting the running of the statutes of limitation (tolling agreements) with respect to a number of claimants who do not have lawsuits on file.

Since June 2005, we have entered into agreements with various claimants’ attorneys involved in U.S. Zyprexa product liability litigation to settle a majority of the claims. The agreements cover approximately 10,500 claimants, including a large number of previously filed lawsuits (including the three purported class actions mentioned above), tolled claims, and other informally asserted claims. The settlements are being overseen and distributed by court-approved claims administrators. The agreements are subject to certain conditions, including obtaining full releases from a specified number of claimants.

The U.S. Zyprexa product liability claims not subject to these agreements include approximately 1,400 lawsuits in the U.S. covering approximately 7,600 claimants, and approximately 850 tolled claims. In addition, we have been served with a lawsuit seeking class certification in which the members of the purported class are seeking refunds and medical monitoring. Finally, in early 2005, we were served with four lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. One of these four lawsuits has been certified for residents of Quebec. The allegations in the Canadian actions are similar to those in the litigation pending in the United States. We are prepared to continue our vigorous defense of Zyprexa in all remaining cases.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York. In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses. In 2006, we were served with similar lawsuits filed by the states of Alaska, West Virginia, and Mississippi in the courts of the respective states.

In 2005, two lawsuits were filed in the Eastern District of New York purporting to be nationwide class actions on behalf of all consumers and third-party payors, excluding governmental entities, which have made or will make payments for their members or insured patients being prescribed Zyprexa. These actions have now been consolidated into a single lawsuit, which is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, seeking a refund of the cost of Zyprexa, treble damages, punitive damages, and attorneys’ fees. Four additional lawsuits were filed in 2006: two in the Eastern District of New York, one in the Southern District of Indiana, and one in Indiana state court, all on similar grounds. As with the product liability suits, these lawsuits allege that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug.

We have insurance coverage for a portion of our Zyprexa product liability claims exposure. The third-party insurance carriers have raised defenses to their liability under the policies and are seeking to rescind the policies. The dispute is now the subject of litigation in the federal court in Indianapolis against certain of the carriers and in arbitration in Bermuda against other carriers. While we believe our position is meritorious, there can be no assurance that we will prevail.

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

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

In the second quarter of 2005, we recorded a net pre-tax charge of $1.07 billion for product liability matters. The $1.07 billion net charge takes into account our estimated recoveries from our insurance coverage related to these matters. The charge covers the following:

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

During 2005, $700.0 million was paid in connection with Zyprexa settlements, while the cash related to other reserves for product liability exposures and defense costs is expected to be paid out over the next several years, including 2006. The timing of our insurance recoveries is uncertain.

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

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability claims for other products in the future. We have experienced difficulties in obtaining product liability insurance due to a very restrictive insurance market, and therefore will be largely self-insured for future product liability losses. In addition, as noted above, there is no assurance that we will be able to fully collect from our insurance carriers on past claims.

In June 2002, we were sued by Ariad Pharmaceuticals, Inc., the Massachusetts Institute of Technology, the Whitehead Institute for Biomedical Research and the President and Fellows of Harvard College in the U.S. District Court for the District of Massachusetts alleging that sales of two of our products, Xigris® and Evista, were inducing the infringement of a patent related to the discovery of a natural cell signaling phenomenon in the human body and seeking royalties on past and future sales of these products. We believe that these allegations are without legal merit and that we will ultimately prevail on these issues. In June 2005, the United States Patent and Trademark Office commenced a re-examination of the patent in order to consider certain issues raised by us relating to the validity of the patent. A jury trial commenced in Boston on April 10, 2006 on the patent validity and infringement issues. On May 4, 2006, the jury issued an initial decision in the case that Xigris and Evista sales infringe the patent. The jury awarded the plaintiffs approximately $65 million in damages, calculated by applying a 2.3 percent royalty to all U.S. sales of Xigris and Evista from the date of issuance of the patent through the date of trial. We will seek to have the jury verdict overturned by the trial court judge, and if unsuccessful, will appeal the decision to the Court of Appeals for the Federal Circuit. In addition, a separate bench trial with the U.S. District Court of Massachusetts is scheduled to begin on August 7, 2006, and will be held on our contention that the patent is unenforceable and will also consider the patent's improper coverage of natural processes.

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

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

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

EARNINGS PER SHARE

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

STOCK-BASED COMPENSATION

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2005. SFAS 123R requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options and performance awards. We recognized pretax stock-based compensation cost in the amount of $91.1 million and $100.0 million in the second quarter of 2006 and 2005, respectively. In the first half of 2006 and 2005, we recognized stock-based compensation expense of $191.3 million and $208.2 million, respectively.

As of June 30, 2006, the total remaining unrecognized compensation cost related to nonvested stock options and performance awards amounted to $183.4 million and $102.4 million, respectively, which will be amortized over the weighted-average remaining requisite service periods, which are approximately 19 months and 6 months, respectively.

Under our policy, all stock option awards are approved prior to the date of grant and the exercise price is the average of the high and low market price on the date of grant. The Compensation Committee of the Board of Directors approves the value of the award and the date of grant. All option awards for senior management are approved by the Compensation Committee. Options that are awarded as part of annual total compensation for senior management and other employees are made on specific grant dates scheduled in advance. With respect to option awards given to new hires, our policy requires approval of such awards prior to the grant date, and the options are granted on a pre-determined monthly date immediately following the date of hire.

RETIREMENT BENEFITS

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

	Defined Benefit Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 68.8	$ 74.3	$ 138.1	$ 154.4
Interest cost	81.5	74.2	162.2	149.0
Expected return on plan assets	(120.8)	(112.9)	(240.2)	(223.0)
Amortization of prior service cost	1.5	1.9	2.9	3.9
Recognized actuarial loss	32.8	26.0	63.1	52.2
Net periodic benefit cost	$ 63.8	$ 63.5	$ 126.1	$ 136.5

	Retiree Health Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 16.3	$ 14.7	$ 36.0	$ 29.4
Interest cost	24.4	20.0	48.8	40.1
Expected return on plan assets	(23.0)	(18.7)	(45.0)	(35.7)
Amortization of prior service cost	(3.9)	(4.0)	(7.7)	(8.0)
Recognized actuarial loss	28.8	21.5	53.9	43.1
Net periodic benefit cost	$ 42.6	$ 33.5	$ 86.0	$ 68.9

In 2006, we expect to contribute approximately $30 million to our defined benefit pension plans to satisfy minimum funding requirements for the year. In addition, we expect to contribute approximately $140 million of additional discretionary funding in 2006 to our defined benefit plans. We also expect to contribute approximately $90 million of discretionary funding to our postretirement health benefit plans during 2006. As of June 30, 2006, $42.6 million of contributions have been made to these plans and the majority of our remaining expected contributions were made in early July 2006.

OTHER INCOME — NET

Other income – net, was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)			
Interest expense	$ 65.8	$ 12.0	$ 130.8	$ 36.6
Interest income	(68.4)	(46.3)	(128.1)	(92.3)
Joint venture (income) loss	(22.5)	.5	(42.3)	13.1
Other	(21.8)	(11.6)	(39.5)	(101.4)
	$(46.9)	$(45.4)	$ (79.1)	$(144.0)

The joint venture (income) loss represents our share of the Lilly ICOS LLC joint venture results of operations, net of income taxes.

SHAREHOLDERS' EQUITY

As of June 30, 2006, we have purchased $2.58 billion of our previously announced $3.0 billion share repurchase program. During the six months ended June 30, 2006, we acquired 2.1 million shares pursuant to this program. We do not expect any share repurchases for the remainder of 2006.

IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

In the fourth quarter of 2005, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. FIN 47 requires us to record the fair value of a liability for conditional asset retirement obligations in the period in which it is incurred, which is adjusted to its present value each subsequent period. In addition, we are required to capitalize a corresponding amount by increasing the carrying amount of the related long-lived asset, which is depreciated over the useful life of the related long-lived asset. The adoption of FIN 47 on December 31, 2005, resulted in a cumulative effect of a change in accounting principle of $22.0 million, net of income taxes of $11.8 million.

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006; therefore, we will be required to adopt this Interpretation in the first quarter of 2007. We are currently evaluating FIN 48 and have not yet determined the impact, if any, the adoption of this Interpretation will have on our consolidated financial position or results of operations.

POTENTIAL ASSET IMPAIRMENTS, RESTRUCTURING, AND OTHER SPECIAL CHARGES

As part of our ongoing efforts to maximize performance and efficiencies, including the streamlining of manufacturing operations and research and development activities, we are discussing the future of three European facilities, including proposals to close the sites, which include two research and development sites and one manufacturing site. Any site closures would be subject to consultations with employee representatives at the affected sites. Following these consultations, which could take several months, final recommendations will be made to the Lilly Board of Directors, which must approve any action. No final decisions have been made about the future of the sites at this time. However, if the proposals proceed, the majority of the 900 employees plus contractors at those sites would be laid off and we would attempt to dispose of the facilities. As a consequence, we would incur severance and impairment charges that would likely be significant.

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

OPERATING RESULTS

Executive Overview

I. Financial Results

The second-quarter and first-half 2006 net income was $822.0 million, or $.76 per share, and $1.66 billion, or $1.53 per share, respectively. Second-quarter 2005 net loss and loss per share was $252.0 million and $.23. However, net income was $484.6 million, or $.44 per share for the first half of 2005. The net loss and loss per share in the second quarter of 2005 was the result of a product liability litigation charge of $1.07 billion (pretax) in the quarter. In addition to this product liability charge, changes in earnings between the periods were driven primarily by increased sales and decreased cost of sales for the second quarter and first half of 2006, offset partially by decreased total other income in the first half of 2006.

II. Recent Product and Late-Stage Pipeline Developments

- Gemzar was approved in the U.S. for the treatment of recurrent ovarian cancer in combination with carboplatin.
- We submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for review of ruboxistaurin mesylate (proposed brand name Arxxant™) as an oral medication to reduce the risk of vision loss associated with diabetic retinopathy. The FDA subsequently informed us that our Arxxant application is fileable and will be given a priority review. We also submitted Arxxant for approval in Europe for the same indication.
- We submitted a supplemental NDA to the FDA for Cymbaltaâ for the treatment of generalized anxiety disorder. We are also conducting Phase III studies on Cymbalta for the treatment of fibromyalgia, a chronic, often debilitating pain disorder.
- We initiated a Phase III clinical trial to study enzastaurin as a maintenance therapy to prevent relapse in patients with diffuse large B-cell lymphoma. Enzastaurin, a targeted oral agent, is also being studied in Phase III trials for the treatment of relapsed glioblastoma multiforme, an aggressive and malignant form of brain cancer.

III. Legal, Regulatory, and Other Matters

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

We have reached agreements with claimants' attorneys involved in certain U.S. Zyprexa product liability litigation to settle a majority of the claims against us relating to the medication. A large number of claims remain. As a result of our product liability exposures, the substantial majority of which were related to Zyprexa, we recorded a net pretax charge of $1.07 billion in the second quarter of 2005.

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

We announced that we are discussing the future of three European facilities, including proposals to close the sites. Any site closures would be subject to consultations with employee representatives at the affected sites and final approval by the Board of Directors. No final decisions have been made at this time. If the sites are closed, the majority of the 900 employees would be laid off and we would record charges that would likely be significant.

In the United States, implementation of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), which provides a prescription drug benefit under the Medicare program, took effect January 1, 2006. While it is difficult to predict the business impact of this legislation, we currently anticipate a modest short-term increase in sales. However, in the long term there is additional risk of increased pricing pressures. While the MMA prohibits the Secretary of Health and Human Services (HHS) from directly negotiating prescription drug prices with manufacturers, we expect continued challenges to that prohibition over the next several years. Also, the MMA retains the authority of the Secretary of HHS to prohibit the importation of prescription drugs, but we expect Congress to consider several measures that could remove that authority and allow for the importation of products into the U.S. regardless of their safety or cost. If adopted, such legislation would likely have a negative effect on our U.S. sales. We believe there is some chance that the new and expanded prescription drug coverage for seniors under the MMA will alleviate the perceived need for a federal importation scheme. Additionally, notwithstanding the federal law prohibiting drug importation, approximately a dozen states have implemented importation schemes for their citizens, usually involving a website that links patients to selected Canadian pharmacies. One state has such a program for its state employees.

As a result of the passage of the MMA, aged and disabled patients jointly eligible for Medicare and Medicaid began receiving their prescription drug benefits through the Medicare program, instead of Medicaid, on January 1, 2006. This may relieve some state budget pressures but is unlikely to result in reduced pricing pressures at the state level. A majority of states have implemented supplemental rebates and restricted formularies in their Medicaid programs, and these programs are expected to continue in the post-MMA environment. Moreover, under the 2005 federal Deficit Reduction Act, states will have greater flexibility to impose new cost-sharing requirements on Medicaid beneficiaries for non-preferred prescription drugs that will result in certain beneficiaries bearing more of the cost. Several states also are attempting to extend discounted Medicaid prices to non-Medicaid patients. As a result, we expect pressures on pharmaceutical pricing to continue.

As it relates to the new Medicare program, we announced in the second quarter of 2006 that we have temporarily extended our U.S. patient assistance program, LillyAnswers. The temporary extension of LillyAnswers allows patients who are not enrolled in Medicare Part D access to the LillyAnswers program until December 31, 2006. We also temporarily extended LillyAnswers for patients who have enrolled in a Medicare Part D plan and need assistance for Zyprexa and Forteoâ. We have asked the U.S. Department of Health and Human Services Office of the Inspector General (OIG) for an opinion on our proposal for an “Outside Part D” patient assistance program (i.e., the LillyMedicareAnswers program) which would provide assistance primarily for Zyprexa and Forteo, beyond the end of this year to patients enrolled in a Medicare Part D plan. We currently anticipate that the specific LillyAnswers program extension involving Zyprexa and Forteo for patients enrolled in a Medicare Part D plan will continue to be available until a decision is rendered by the OIG on our proposal. In order to participate in either the temporary extension as described above or the new proposed LillyMedicareAnswers program, certain eligibility and certification requirements must be met.

International operations also are generally subject to extensive price and market regulations, and there are many proposals for additional cost-containment measures, including proposals that would directly or indirectly impose additional price controls or reduce the value of our intellectual property protection.

Sales

Second-quarter and first-half 2006 sales growth of 5 and 6 percent, respectively, was driven primarily by sales growth of Cymbalta, Forteo, Alimtaâ, and Byettaâ. The growth comparisons also benefited from an estimated $160 million of wholesaler destocking in the first six months of 2005 as a result of restructuring our arrangements with our U.S. wholesalers in the first quarter of 2005. Sales in the U.S. increased by $158.4 million, or 8 percent, and $349.0 million, or 9 percent, for the second quarter and first half of 2006, respectively, compared with the same periods of 2005. Sales outside the U.S. increased $40.8 million, or 2 percent, and $67.4 million, or 2 percent, for the second quarter and first half of 2006, respectively. For the second quarter, sales volume and selling prices each increased sales by 3 percent, while exchange rates decreased sales by 1 percent. For the first six months of 2006, worldwide sales volume and selling prices increased 5 percent and 3 percent, respectively, while exchange rates decreased 2 percent.

The following tables summarize our net sales activity for the three- and six-month periods ended June 30, 2006 and 2005:

Product	Three Months Ended June 30, 2006 U.S.[1]	Outside U.S.	Total	Three Months Ended June 30, 2005 Total	Percent Change from 2005
	(Dollars in millions)				
Zyprexa	$ 542.9	$ 572.1	$1,115.0	$1,096.8	2
Gemzar	150.0	193.5	343.5	343.0	0
Humalog	196.6	123.9	320.5	296.2	8
Cymbalta	269.9	40.5	310.4	161.4	92
Evista	175.0	100.5	275.5	261.6	5
Humulin	79.9	139.9	219.8	249.8	(12)
Animal health products	92.7	108.3	201.0	201.0	0
Alimta	87.7	65.3	153.0	111.2	38
Forteo	101.0	45.1	146.1	101.9	43
Strattera	125.9	18.2	144.1	123.5	17
Humatrope	52.0	56.0	108.0	108.9	(1)
Actos	50.9	41.7	92.6	105.0	(12)
Fluoxetine products	39.5	40.5	80.0	114.2	(30)
ReoPro	28.3	44.0	72.3	77.7	(7)
Anti-infectives	3.5	66.1	69.6	112.8	(38)
Byetta	52.1	—	52.1	3.3	NM
Cialis[2]	0.8	49.7	50.5	45.1	12
Xigris	25.1	23.3	48.4	57.7	(16)
Other pharmaceutical products	23.9	40.6	64.5	96.6	(33)
Total net sales	$2,097.7	$1,769.2	$3,866.9	$3,667.7	5

Product	Six Months Ended June 30, 2006 U.S.[1]	Outside U.S.	Total	Six Months Ended June 30, 2005 Total	Percent Change from 2005
	(Dollars in millions)				
Zyprexa	$1,036.8	$1,085.6	$2,122.4	$2,135.0	(1)
Gemzar	299.7	382.6	682.3	647.6	5
Humalog	385.2	239.8	625.0	582.4	7
Cymbalta	475.8	67.9	543.7	268.2	103
Evista	324.1	192.9	517.0	510.5	1
Humulin	168.1	270.2	438.3	506.7	(13)
Animal health products	176.7	222.6	399.3	396.5	1
Strattera	261.2	35.2	296.4	243.2	22
Alimta	165.6	117.6	283.2	205.1	38
Actos	202.3	79.4	281.7	273.6	3
Forteo	188.2	84.9	273.1	168.7	62
Humatrope	100.2	104.4	204.6	213.4	(4)
Fluoxetine products	75.6	81.8	157.4	226.7	(31)
Anti-infectives	24.3	133.2	157.5	222.0	(29)
ReoPro	57.8	88.6	146.4	154.4	(5)
Cialis[2]	1.9	104.3	106.2	84.0	26
Xigris	52.9	45.7	98.6	117.3	(16)
Byetta	88.0	—	88.0	3.3	NM
Other pharmaceutical products	48.6	111.9	160.5	206.5	(22)
Total net sales	$4,133.0	$3,448.6	$7,581.6	$7,165.1	6

NM – Not Meaningful

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

2 Cialisâ had worldwide second-quarter and first-half 2006 sales of $233.2 million and $456.1 million, respectively, representing increases of 22 and 34 percent, respectively, compared with the same periods of 2005. The sales shown in the tables above represent results in the territories in which we market Cialis exclusively. The remaining sales relate to the joint-venture territories of Lilly ICOS LLC (North America, excluding Puerto Rico, and Europe). Our share of the joint-venture territory sales, net of expenses, is reported in other income — net in our consolidated condensed statements of income.

Product Highlights

Zyprexa sales in the U.S. decreased 1 percent and 3 percent in the second quarter and first half of 2006, respectively, compared with the same periods of 2005. This decrease was a result of a decline in the underlying demand, offset in part by higher net effective selling prices. The increase in net effective selling prices was partially due to the transition of certain low income patients from Medicaid to Medicare. Despite the decline in demand as compared to prior year, we are seeing improving U.S. prescription trends. Specifically, Zyprexa's U.S. prescriptions have held steady during the first six months of 2006. Sales of Zyprexa outside the U.S. increased by 5 percent in the second quarter and 2 percent in the first half of 2006, due to increased demand, offset partially by the unfavorable impact of foreign exchange rates.

Diabetes care products, composed primarily of Humalog, Humulin, Actosâ, and Byetta, had worldwide net sales of $701.7 million and $1.47 billion in the second quarter and first half of 2006, respectively, an increase of 5 percent compared with the same periods last year. Diabetes care revenues in the U.S. increased 6 percent and 9 percent, to $392.6 million and $868.1 million for the second quarter and first half of 2006, led by sales of Byetta. Diabetes care revenues outside the U.S. increased 4 percent and remained flat, to $309.1 million and $597.0 million in the second quarter and first half of 2006, respectively. Humalog sales in the U.S. increased 8 percent during both the second quarter and first half of 2006, due to higher prices, which were partially offset by a decline in demand during the second quarter. Humalog sales outside of the U.S. increased 8 percent and 7 percent during the second quarter and first half of 2006, respectively, due primarily to increased demand, offset in part by the unfavorable impact of foreign exchange rates. Humulin sales decreased 22 percent and 19 percent in the U.S. in the second quarter and first half of 2006, respectively, driven primarily by the decline in demand due to continued competitive pressures. Humulin sales outside of the U.S. decreased 5 percent and 10 percent during the second quarter and first half of 2006, respectively, due to decreased demand and the unfavorable impact of foreign exchange rates. Actos revenues, the majority of which represent service revenues from a copromotion agreement in the U.S. with Takeda Pharmaceuticals North America (Takeda), decreased 29 percent and 3 percent in the second quarter and first half of 2006 in the U.S. Actos is manufactured by Takeda Chemical Industries, Ltd., and sold in the U.S. by Takeda. As previously disclosed, since our share of revenue from the agreement with Takeda will vary from quarter to quarter based on contract terms, Actos revenue will not necessarily track with product sales. As a result, it is difficult to make quarterly comparisons for Actos revenue. Our U.S. marketing rights with respect to Actos expire in September 2006; however, we will continue receiving royalties from Takeda. As a result, our U.S. revenues from Actos will decline in 2006 and each subsequent year. Our arrangement in the U.S. ceases after October 2009, although our arrangement outside the U.S. continues. Sales of Byetta, a first-in-class treatment for type 2 diabetes that we market with Amylin Pharmaceuticals and launched in the U.S. in June 2005, were $98.6 million and $166.6 million for the second quarter and first half of 2006, respectively. We report as revenue our 50 percent share of Byetta's gross margin and our sales of Byetta's pen delivery devices to Amylin.

Gemzar sales decreased 3 percent and increased 6 percent in the U.S. for the second quarter and first half of 2006, respectively, reflecting decreased demand due to competitive pressures in the second quarter. Gemzar sales outside the U.S. increased 3 and 4 percent for the second quarter and first half of 2006, respectively, due to increased demand, offset partially by the unfavorable impact of foreign exchange rates.

U.S. sales of Cymbalta, a treatment of major depressive disorder and diabetic peripheral neuropathic pain, increased 79 percent and 88 percent in the second quarter and first half of 2006, respectively, reflecting increased demand. Also during the second quarter, Cymbalta's U.S. market share growth accelerated. Specifically, Cymbalta's U.S. share of new prescriptions increased 0.96 percentage points in the second quarter, compared with a 0.35 percentage point gain in the first quarter of 2006, per IMS Health, National Prescription Audit™ *Plus 7*, July 2006. Sales outside the U.S. reflect international launches in key markets, including Germany, the U.K., Italy, Spain, Mexico, and Brazil.

Evista sales in the U.S. increased 7 percent and 1 percent in the second quarter and first half of 2006, respectively, due to price increases in both periods, offset partially by decreased demand in the first half of 2006. Evista sales outside the U.S. increased 2

percent in the second quarter and first half of 2006 compared with the same periods of 2005, due to increased demand, offset partially by lower prices and the unfavorable impact of foreign exchange rates.

Stratteraâ, a treatment for attention-deficit hyperactivity disorder (ADHD) in children, adolescents, and adults, generated increases in U.S. sales of 13 percent and 17 percent for the second quarter and first half of 2006, compared with the same periods in 2005. The sales increases for both periods were primarily due to reductions in the U.S. wholesaler inventory levels in 2005 and higher prices, offset partially by a decline in demand in the U.S.

Alimta, a treatment for malignant pleural mesothelioma and second-line treatment of non-small-cell lung cancer, generated increased U.S. sales of 26 percent and 25 percent in the second quarter and first half of 2006, respectively; while sales outside the U.S. increased 56 percent and 63 percent for the same periods in 2005.

Forteo, a treatment for severe osteoporosis, increased 43 percent and 67 percent in the U.S. in the second quarter and first half of 2006, respectively; while sales outside the U.S. increased 45 percent and 52 percent for the same periods. Increased sales in the U.S. were due in part to greater access to medical coverage through the MMA program.

Cialis sales in the second quarter and first half of 2006 were comprised of $50.5 million and $106.2 million of sales in our territories, respectively, which are reported in our net sales, and $182.7 million and $349.9 million of sales in the joint-venture territories. Within the joint-venture territories, the U.S. sales of Cialis were $93.8 million and $176.3 million in the second quarter and first half of 2006, respectively, compared with $71.1 million and $113.9 million in the same periods of 2005. Cialis sales in our territories are reported in revenue, while our 50 percent share of the joint-venture territory sales, net of expenses, is reported in other income – net. Cialis sales growth reflects both gains in market share and growth of the erectile dysfunction market during the second quarter and first half of 2006.

Gross Margin, Costs, and Expenses

For the second quarter of 2006, gross margins increased 1.5 percentage points, to 77.7 percent of net sales, compared with the second quarter of 2005. For the first half of 2006, gross margins increased 2.1 percentage points, to 78.0 percent of net sales, compared with the first half of 2005. This increase was primarily due to favorable product mix and the favorable impact of foreign exchange rates, partially offset by higher manufacturing-related costs.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 5 percent for both the second quarter and first half of 2006. Investment in research and development increased 2 percent, to $774.8 million, and 3 percent, to $1.52 billion, for the second quarter and first half of 2006, respectively, due primarily to increased discovery research expenses. Marketing and administrative expenses increased 8 percent, to $1.24 billion, and 6 percent, to $2.38 billion, for the second quarter and first half of 2006, respectively, primarily due to increased marketing expenses in support of newer products, offset partially by the impact of foreign exchange rates.

Other income — net consists of interest expense, interest income, the after-tax operating results of the Lilly ICOS joint venture, and all other income and expense items.

- Second-quarter and first-half 2006 interest expense increased $53.8 million, to $65.8 million, and $94.2 million to $130.8 million, respectively, as a result of higher interest rates and less capitalized interest due to the completion in late 2005 of certain manufacturing facilities.
- Interest income increased $22.1 million, to $68.4 million and $35.8 million to $128.1 million for the second quarter and first half of 2006, respectively, due to higher interest rates.
- The Lilly ICOS joint-venture income was $22.5 million in the second quarter of 2006, compared with a loss of $.5 million in the second quarter of 2005. For the first half of 2006, income was $42.3 million, compared with a loss of $13.1 million in the first half of 2005. The increase in both periods was due to increased Cialis sales and decreased selling and marketing expenses.
- Net other income and expense items increased $10.2 million to $21.8 million for second-quarter 2006 and decreased $61.9 million to $39.5 million for first-half 2006. The first-half decrease is largely a result of less income from business development transactions.

We incurred a tax expense of $218.5 million and $440.4 million, for the second quarter and first half of 2006, respectively, representing an effective tax rate of 21 percent in both periods. Comparisons to prior year are not meaningful due to the net loss before income taxes experienced in the second quarter of 2005.

FINANCIAL CONDITION

As of June 30, 2006, cash, cash equivalents, and short-term investments totaled $4.59 billion compared with $5.04 billion at December 31, 2005. Cash flow from operations of $942.2 million during the first six months of 2006 was more than offset by dividends paid of $864.6 million, net capital expenditures of $392.1 million, and repurchases of common stock of $122.1 million.

Total debt at June 30, 2006, was $6.32 billion, a decrease of $181.6 million from December 31, 2005. Our current debt ratings from Standard & Poor's and Moody's remain at AA and Aa3, respectively.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our operating needs, including debt service, capital expenditures, dividends, and taxes in 2006. We believe that amounts available through our existing commercial paper program should be adequate to fund maturities of short-term borrowings, if necessary. We currently have $1.23 billion of unused committed bank credit facilities, $1.20 billion of which backs our commercial paper program. We currently expect to repay approximately $1.5 billion of debt during 2006, using available cash. Various risks and uncertainties, including those discussed in the Financial Expectations for 2006 section, may affect our operating results and cash generated from operations.

LEGAL AND REGULATORY MATTERS

We are engaged in the following patent litigation matters brought pursuant to procedures set out in the Hatch-Waxman Act (the Drug Price Competition and Patent Term Restoration Act of 1984):

- Dr. Reddy's Laboratories, Ltd. (Reddy), Teva Pharmaceuticals, and Zenith Goldline Pharmaceuticals, Inc., which was subsequently acquired by Teva Pharmaceuticals (together, Teva), each submitted abbreviated new drug applications (ANDAs) seeking permission to market generic versions of Zyprexa prior to the expiration of our relevant U.S. patent (expiring in 2011) and alleging that this patent was invalid or not enforceable. We filed lawsuits against these companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the patent is valid, enforceable and being infringed. The district court ruled in our favor on all counts on April 14, 2005. We are now awaiting a decision by the Court of Appeals for the Federal Circuit, which on April 6, 2006, heard Reddy's and Teva's respective appeals of this ruling. We are confident Reddy's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail on appeal. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- Barr Laboratories, Inc. (Barr), submitted an ANDA in 2002 seeking permission to market a generic version of Evista prior to the expiration of our relevant U.S. patents (expiring in 2012-2017) and alleging that these patents are invalid, not enforceable, or not infringed. In November 2002, we filed a lawsuit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid, enforceable, and being infringed by Barr. Teva has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a lawsuit against Teva in the U.S. District Court for the Southern District of Indiana, seeking a ruling that our relevant U.S. patents (expiring in 2012-2014) are valid, enforceable, and being infringed by Teva. No trial date has been set in either case. We believe Barr's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- Sicor Pharmaceuticals, Inc. (Sicor), a subsidiary of Teva, submitted ANDAs in November 2005 seeking permission to market generic versions of Gemzar prior to the expiration of our relevant U.S. patents (expiring in 2010 and 2013), and alleging that these patents are invalid. In February, we filed a lawsuit against Sicor in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid and are being infringed by Sicor. In response to our lawsuit, Sicor filed a declaratory judgment action in the U.S. District Court for the Central District of California. No trial date has been set in either matter. We believe Sicor's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations.

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

Attorney in these investigations, including providing a broad range of documents and information relating to the investigations. In June 2005, we received a subpoena from the office of the Attorney General, Medicaid Fraud Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges and fines, penalties, or other monetary or nonmonetary remedies. We cannot predict or determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

We have been named as a defendant in a large number of Zyprexa product liability lawsuits in the United States and have been notified of many other claims of individuals who have not filed suit. The lawsuits and unfiled claims (together the “claims”) allege a variety of injuries from the use of Zyprexa, with the majority alleging that the product caused or contributed to diabetes or high blood-glucose levels. The claims seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the claims also allege that we improperly promoted the drug. Almost all of the federal lawsuits are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). The MDL includes three lawsuits requesting certification of class actions on behalf of those who allegedly suffered injuries from the administration of Zyprexa. We have entered into agreements with various plaintiffs’ counsel halting the running of the statutes of limitation (tolling agreements) with respect to a number of claimants who do not have lawsuits on file.

Since June 2005, we have entered into agreements with various claimants’ attorneys involved in U.S. Zyprexa product liability litigation to settle a majority of the claims. The agreements cover approximately 10,500 claimants, including a large number of previously filed lawsuits (including the three purported class actions mentioned above), tolled claims, and other informally asserted claims. The settlements are being overseen and distributed by court-approved claims administrators. The agreements are subject to certain conditions, including obtaining full releases from a specified number of claimants.

The U.S. Zyprexa product liability claims not subject to these agreements include approximately 1,400 lawsuits in the U.S. covering approximately 7,600 claimants, and approximately 850 tolled claims. In addition, we have been served with a lawsuit seeking class certification in which the members of the purported class are seeking refunds and medical monitoring. Finally, in early 2005, we were served with four lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. One of these four lawsuits has been certified for residents of Quebec. The allegations in the Canadian actions are similar to those in the litigation pending in the United States. We are prepared to continue our vigorous defense of Zyprexa in all remaining cases.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York. In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses. In 2006, we were served with similar lawsuits filed by the states of Alaska, West Virginia, and Mississippi in the courts of the respective states.

In 2005, two lawsuits were filed in the Eastern District of New York purporting to be nationwide class actions on behalf of all consumers and third-party payors, excluding governmental entities, which have made or will make payments for their members or insured patients being prescribed Zyprexa. These actions have now been consolidated into a single lawsuit, which is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, seeking a refund of the cost of Zyprexa, treble damages, punitive damages, and attorneys’ fees. Four additional lawsuits were filed in 2006: two in the Eastern District of New York, one in the Southern District of Indiana, and one in Indiana state court, all on similar grounds. As with the product liability suits, these lawsuits allege that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug.

We have insurance coverage for a portion of our Zyprexa product liability claims exposure. The third-party insurance carriers have raised defenses to their liability under the policies and are seeking to rescind the policies. The dispute is now the subject of litigation in the federal court in Indianapolis against certain of the carriers and in arbitration in Bermuda against other carriers. While we believe our position is meritorious, there can be no assurance that we will prevail.

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

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

In the second quarter of 2005, we recorded a net pre-tax charge of $1.07 billion for product liability matters. The $1.07 billion net charge takes into account our estimated recoveries from our insurance coverage related to these matters. The charge covers the following:

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

During 2005, $700.0 million was paid in connection with Zyprexa settlements, while the cash related to other reserves for product liability exposures and defense costs is expected to be paid out over the next several years, including 2006. The timing of our insurance recoveries is uncertain.

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

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability claims for other products in the future. We have experienced difficulties in obtaining product liability insurance due to a very restrictive insurance market, and therefore will be largely self-insured for future product liability losses. In addition, as noted above, there is no assurance that we will be able to fully collect from our insurance carriers on past claims.

In June 2002, we were sued by Ariad Pharmaceuticals, Inc., the Massachusetts Institute of Technology, the Whitehead Institute for Biomedical Research and the President and Fellows of Harvard College in the U.S. District Court for the District of Massachusetts alleging that sales of two of our products, Xigris and Evista, were inducing the infringement of a patent related to the discovery of a natural cell signaling phenomenon in the human body and seeking royalties on past and future sales of these products. We believe that these allegations are without legal merit and that we will ultimately prevail on these issues. In June 2005, the United States Patent and Trademark Office commenced a re-examination of the patent in order to consider certain issues raised by us relating to the validity of the patent. A jury trial commenced in Boston on April 10, 2006 on the patent validity and infringement issues. On May 4, 2006, the jury issued an initial decision in the case that Xigris and Evista sales infringe the patent. The jury awarded the plaintiffs approximately $65 million in damages, calculated by applying a 2.3 percent royalty to all U.S. sales of Xigris and Evista from the date of issuance of the patent through the date of trial. We will seek to have the jury verdict overturned by the trial court judge, and if unsuccessful, will appeal the decision to the Court of Appeals for the Federal Circuit. In addition, a separate bench trial with the U.S. District Court of Massachusetts is scheduled to begin on August 7, 2006, and will be held on our contention that the patent is unenforceable and will also consider the patent's improper coverage of natural processes.

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

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

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

FINANCIAL EXPECTATIONS FOR 2006

We expect third-quarter earnings per share of $.77 to $.79, representing 5 percent to 8 percent growth compared with third-quarter 2005 earnings per share of $.73. For the full year of 2006, we expect earnings per share to be in the range of $3.10 to $3.20. This guidance excludes future material unusual items, such as any charges related to the three potential European site closures discussed previously. We expect full-year 2006 sales to grow at approximately the low end of our previous guidance of 7 percent to 9 percent. In addition, we expect gross margins as a percent of sales to improve modestly compared with 2005, operating expenses to grow in the mid-single digits in the aggregate, and other income — net, to contribute approximately $175 million to $275 million. Excluding the tax associated with the potential charges discussed above, we also anticipate the effective tax rate to be approximately 21 percent. In terms of cash flow, we expect capital expenditures to be flat at about $1.4 billion in 2006.

We caution investors that any forward-looking statements or projections made by us, including those above, are based on management's belief at the time they are made. However, they are subject to risks and uncertainties. Actual results could differ materially and will depend on, among other things, the continuing growth of our currently marketed products; developments with competitive products; the timing and scope of regulatory approvals and the success of our new product launches; asset impairments, restructurings, and acquisitions of compounds under development resulting in acquired in-process research and development charges; foreign exchange rates; wholesaler inventory changes; the outcome of the Zyprexa patent appeal; other regulatory developments, government investigations, patent disputes and litigation; and the impact of governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals. Other factors that may affect our operations and prospects are discussed in Item 1A of our 2005 Form 10-K, "Risk Factors." We undertake no duty to update these forward-looking statements.

AVAILABLE INFORMATION ON OUR WEBSITE

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

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

Item 4. Controls and Procedures

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

Our management, with the participation of Sidney Taurel, chairman and chief executive officer, and Derica W. Rice, senior vice president and chief financial officer, evaluated our disclosure controls and procedures as of June 30, 2006, and concluded that they are effective.

(b) *Changes in Internal Controls.* During the second quarter of 2006, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

- The U.S. patent litigation involving Zyprexa, Evista, and Gemzar
- The civil investigation by the U.S. Attorney for the Eastern District of Pennsylvania relating to our U.S. sales, marketing, and promotional practices
- The Zyprexa product liability and related litigation, including claims brought on behalf of healthcare payors
- The legal proceedings we have filed against several of our product liability insurance carriers with respect to our coverage for the Zyprexa product liability claims

That information is incorporated into this Item by reference.

Other Product Liability Litigation

We refer to Part I, Item 3, of our Form 10-K annual report for 2005 for the discussion of product liability litigation involving diethylstilbestrol (DES) and vaccines containing the preservative thimerosal. In the DES litigation, we have been named as a defendant in approximately 80 suits involving approximately 170 claimants. In the thimerosal litigation, we have been named as a defendant in approximately 360 suits with approximately 975 claimants.

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

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

The following table summarizes the activity related to repurchases of our equity securities during the three-month period ended June 30, 2006:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (d)
	(in thousands)		(in thousands)	(Dollars in millions)
April 2006	3	$53.49	—	$419.2
May 2006	15	52.52	—	419.2
June 2006	10	54.02	—	419.2
Total	28		—	

The amounts presented in columns (a) and (b) above include purchases of common stock related to employee stock option exercises. The amounts presented in columns (c) and (d) in the above table represent activity related only to our $3.0 billion share repurchase program announced in March 2000. As of June 30, 2006, we have purchased $2.58 billion related to this program. During the second quarter of 2006, no shares were repurchased pursuant to this program and we do not expect to purchase any shares under this program during the remainder of 2006.

Item 6. Exhibits

The following documents are filed as exhibits to this Report:

EXHIBIT 10.	Master Settlement Agreement regarding Zyprexa product liability claims, filed here in its entirety to include its Exhibit A, which was inadvertently omitted from our Form 10-Q for the quarter ended September 30, 2005
EXHIBIT 11.	Statement re: Computation of Earnings (Loss) per Share
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Derica W. Rice, Senior Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification

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 1, 2006

/s/ James B. Lootens
James B. Lootens
Secretary and Deputy General Counsel

Date August 1, 2006

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

INDEX TO EXHIBITS

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Exhibit 10

CONFIDENTIAL MASTER SETTLEMENT AGREEMENT

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CONFIDENTIAL MASTER SETTLEMENT AGREEMENT

I. INTRODUCTION

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

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

II. RECITALS

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

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

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

III. DEFINITIONS

A. PARTICIPATING CLAIMANTS

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

B. PARTICIPATING LAW FIRMS

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

C. LILLY

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

D. SPECIAL SETTLEMENT MASTERS

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

IV. AGREEMENT

A. AUTHORITY OF COUNSEL

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

B. BASIC AGREEMENT

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

C. SETTLEMENT EFFORTS/WAIVER OF STATUTE OF LIMITATIONS

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

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

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

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

D. PARTICIPATING CLAIMANTS AND LAW FIRMS

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

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

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

E. SETTLEMENT FUND

1. Funding Terms and Schedule

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

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

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

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

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

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

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

2. Establishment and Administration of Qualified Settlement Fund

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

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

F. RELEASE OF FUNDS FROM THE SETTLEMENT FUND

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

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

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

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

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

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

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

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

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

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

G. CLAIMS ADMINISTRATION

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

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

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

H. CLAIM VERIFICATION

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

I. RELEASES, WAIVERS AND DISMISSALS

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

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

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

[*]

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

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

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

J. DISMISSALS OF THIRD PARTIES AND SETTLEMENTS WITH THIRD PARTIES

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

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

K. CLASS ACTION CLAIMANTS

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

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

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

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

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

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

M. INDEMNITY

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

N. NO ADMISSION OF LIABILITY

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

O. RETURN OF CONFIDENTIAL DOCUMENTS

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

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

P. CONFIDENTIALITY

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

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

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

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

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

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

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

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

Q. SUCCESSORS AND ASSIGNS.

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

R. GOVERNING LAW

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

S. CHALLENGES TO OR DISPUTES INVOLVING THIS AGREEMENT

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

T. ATTORNEYS' FEES

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

U. MERGER AND INTEGRATION

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

V. NOTICE

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

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

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

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

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

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

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

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

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

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

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

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

Executed on ___, 2005.

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

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

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

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

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

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

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

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

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

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

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

SO AGREED ON BEHALF OF ELI LILLY AND COMPANY:

Nina M. Gussack
Pepper Hamilton LLP
3000 Two Logan Square
Philadelphia, PA 19103

Colleen T. Davies
Reed Smith LLP
1999 Harrison Street
Suite 2400
Oakland, CA 94612

George Lehner
Pepper Hamilton
600 14th Street N.W.
Washington, D.C. 20005

Steven M. Kohn
Reed Smith LLP
1999 Harrison Street, Suite 2400
Oakland, CA 94612

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Claimant

Name:

SSN:

Address:

Claimant No.

CONFIDENTIALITY RELEASE OF ALL CLAIMS

_____ v. ELI LILLY AND COMPANY

This Confidential Individual Settlement Agreement and Release of All Claims (hereinafter the "Confidential Release") is entered into between _____ individually and on behalf of all derivative claimants under applicable law, (hereinafter defined directly below as "Claimant") and Eli Lilly and Company (hereinafter "Lilly" as further defined below). This Confidential Release is deemed effective as of _____ (the "Effective Date").

DEFINITIONS

"Claimant" as used and referred to in this Confidential Release shall include _____ and all other derivative claimants under applicable law, including but not limited to the Claimant's heirs, surviving spouse (including a putative or common law spouse), surviving domestic partner, next of kin, successors, assigns, agents, representatives, guardians, duly-appointed trustees, executors, estate administrators or personal representatives (or the equivalent thereto).

"Claimant's Counsel" as used and referred to in this Confidential Release shall include the following attorney(s) and law firm(s): _____ and all attorneys and members of the firm, as well as associate and co-counsel and all other attorneys who have rendered legal services on behalf of the Claimant in pursuit of the Claimant's claim.

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

"Master Settlement Agreement" as used and referred to in this Confidential Release refers to the Master Settlement Agreement dated September 16, 2005 entered into between Lilly and certain plaintiffs' counsel representing Zyprexa claimants, including all plaintiffs' counsel who are members of the Plaintiffs' Steering Committee ("PSC") appointed in *In re Zyprexa® Products Liability Litigation*, MDL No. 1596, in the United States District Court for the Eastern District of

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New York and other plaintiffs' counsel, defined in the Master Settlement Agreement as the Participating Law Firms.

"Special Settlement Masters" as used and referred to in this Confidential Release refers to the Special Settlement Masters who were appointed by Case Management Order 12 to assist in the claims administration process described in the Master Settlement Agreement.

RECITALS

A. Claimant has either filed an action alleging injury and damages associated with the use of Zyprexa or has provided Lilly with notice of a claim, alleging damages associated with the use of Zyprexa by way of a tolled claim subject to a Tolling Agreement between the Claimant and Lilly and/or by way of a claim asserted informally by way of his/her participation in the settlement process as outlined below.

Lilly disputes any and all allegations by the Claimant and denies that it has any liability with respect to these claims.

B. On September 16, 2005, a Master Settlement Agreement was entered into as described above.

C. In connection with that Master Settlement Agreement, Claimant was identified and included as a "Participating Claimant." In addition, a claims administration process has been established pursuant to the Master Settlement Agreement.

D. Each of the following conditions must be satisfied under the Master Settlement Agreement before a monetary payment can be made under this Confidential Release:

1. The Special Settlement Masters have audited, reported and confirmed to Lilly that the conditions in Paragraph IV(I) of the Master Settlement Agreement have been met, specifically, that there are at least [ ] claimants who have released their claims and that of those released claimants at least [ ] claimants have a diabetes-related injury pursuant to the criteria and protocols established by the Special Settlement Masters.

2. The Special Settlement Masters have provided to Lilly information as required by Paragraph IV(H) of the Master Settlement Agreement concerning the manner in which they performed the audit and confirmation process to satisfy that the conditions in Paragraph IV(I).

3. The Special Settlement Masters have confirmed that Claimant used Zyprexa, that the Claimant is a U.S. resident and that the Claimant has a compensable injury under the claims administration process.

4. Finally, satisfaction of liens, assignment rights or other third party claims identified under Paragraph 6 of this Confidential Release has been or will be satisfied by the Claimant or an appropriate hold-back order will be issued pursuant to protocols established by the Special Settlement Masters.

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E. As such, Claimant and Lilly have reached a settlement and resolution of all actual or potential disputes that have arisen between them relating to Claimant's use of Zyprexa in accordance with this Confidential Release.

AGREEMENT

1. Basic Agreement

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

2. Settlement Amount

In consideration of Claimant's promises, releases and other agreements as set forth in this Confidential Release, Claimant and Claimant's Counsel shall be paid a minimum of _____, based on the proof submitted by the Claimant to the Special Settlement Masters. The Ultimate Settlement Amount will be determined by the Special Settlement Masters through the claims administration process based on the materials submitted by the Claimant and their counsel and as ultimately evaluated and determined by the Special Settlement Masters, provided that such amount will not be less than the amount specified above. The Special Settlement Masters are hereby authorized to hold back sums from the Settlement Amount, pursuant to written protocols developed by the Special Settlement Masters and the Participating Law Firms, for the satisfaction of any liens, assignments or third party claims as set forth in Paragraph 6 below of this Confidential Release.

Through the procedures, protocols and Claims Form established by the Special Settlement Masters, Claimant has elected and agreed to a) submit his/her claim to the claims administration process; b) to fully and finally accept the Settlement Agreement Amount to be determined by the Special Settlement Masters; and c) to waive any right to challenge or dispute the Special Settlement Masters' final award, except as provided in Paragraph 15 below. Copies of the Claimant's Claim Form reflecting such election and agreement, as well as the final award determination made by the Special Settlement Master, are incorporated herein as though set forth in full.

Payment of the Settlement Amount shall be made to the Claimant and Claimant's Counsel from the Settlement Fund established by the Master Settlement Agreement. Payment shall be made only after Lilly receives from Claimant a fully executed original of this Confidential Release and after the Special Masters certify that liens, assignments or other third party claims, if any, set forth in Paragraph 6 of the Confidential Agreement have been or will be satisfied by the Claimant or an appropriate hold-back order issued pursuant to protocols established by the Special Settlement Masters. Claimant agrees that payment of the Settlement Amount constitutes full compensation and settlement for any and all claims identified and released under the terms of Paragraph 3 below. Claimant

agrees not to seek anything further from Lilly or any other person or entity, including any other payment, in regard to such claims.

Lilly accepts no responsibility or liability for an allocation or division of the Settlement Amount.

Further, neither Lilly, their counsel nor Claimant's counsel accepts responsibility for any tax liability or adverse effect on third party benefits received by the Claimant, if any, arising out of the receipt of these settlement proceeds, and the Claimant acknowledges that neither Lilly, their counsel or Claimant's counsel has made representations regarding the taxability or non-taxability or the effect on Claimant's receipt of third party benefits as a result of Claimant's receipt of these settlement proceeds.

3. Release

In consideration of the payment of the Settlement Amount, Claimant releases, acquits, forever discharges and covenants not to sue as to all claims which Claimant ever had, or now has, or hereafter can, shall or may have in the future against Lilly arising out of, relating to, resulting from, or in any way connected with Zyprexa, including those claims and damages of which the Claimant is not aware and/or that Claimant has not yet anticipated.

This Confidential Release includes, but is not limited to, any and all past, present and future claims, whether known or unknown, arising out of, relating to, resulting from, or in any way connected with the use of Zyprexa and any alleged defect or failure of Zyprexa, including without limitation, any claims for damages, wrongful death, personal injury, emotional distress, pain and suffering, loss of society and companionship, loss of income, loss of consortium, medical expenses, future cost of insured services, past cost of insured services, punitive damages, or any other form of damages whatsoever.

In addition to Lilly, this release extends to all named defendants in pending litigation and all other third parties in any way connected with Claimant's use of Zyprexa, including without limitation, physicians, health care providers, hospitals, pharmacies and other medical facilities, their past, present and future parents, subsidiaries, affiliates, controlling persons, suppliers, distributors, contractors, agents, assigns, servants, counsel and insurers, and all of their past, present and future officers, directors, employees, shareholders, predecessors, successors, assigns, heirs, executors, estate administrators or personal representatives (or the equivalent thereto).

Acknowledgement Concerning Release of Unknown and Future Claims.[1] Claimant expressly waives the provisions of any applicable law protecting against the release of

1 This Confidential Release will be modified to include any applicable state law provisions. This will include but not be limited to provisions with regard to the acknowledgement of Claimant's agreement to waive unknown and future claims. For example, in California the Confidential Release shall include the following language: The provisions of Section 1542 of the Civil Code of the State of California are hereby expressly waived and Claimant understands that said section provides: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing

(continued...)

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unknown or unanticipated claims. Claimant understands and acknowledges the significance and consequences of releasing all of the Zyprexa-related causes of action and/or claims (including presenting existing, but unknown, unasserted, unsuspected, or undiscovered Zyprexa-related causes of action and/or claims), including but not limited to diabetes-related causes of action and/or claims, and hereby assumes full risk and responsibility for any and all injuries, losses, damages, assessments, penalties, charges, expenses, costs, and/or liabilities that Claimant may hereinafter incur or discover that in any way arise out of or relate to such causes of action and/or claims. To the extent that any law, statute, ordinance, rule, regulation, case or other such legal provision or authority may purport to preserve the Claimant's right hereafter to assert presently existing but unknown, unasserted, unsuspected, or undiscovered Zyprexa-related and diabetes-related causes of action and/or claims, which would otherwise be barred by the terms of this Release, Claimant hereby specifically and expressly waives Claimant's rights under such law, statute, ordinance, rule, regulation, case or other such legal provision or authority.

Claimant understands and acknowledges the significance and consequence of releasing all such claims, including all future claims, whether known or unknown. In this regard, Claimant has been fully advised of Claimant's legal rights by counsel, and hereby assumes full risk and responsibility for any and all injuries, losses, damages, assessments, penalties, charges, expenses, costs, and/or liabilities that Claimant may hereafter incur or discover which in any way arise out of or relate to such claims. Claimant further acknowledges having obtained or having been advised of his/her right to seek independent legal advice related to the waiver of these claims.

4. Dismissal of Action And Promise Not to Sue or Bring Future Claims

In consideration of payment of the Settlement Amount by Lilly, Claimant shall dismiss all filed claims, if any, arising out of the use of Zyprexa currently pending in any court or other tribunal, with prejudice, and without costs or fees to any party. Claimant authorizes and instructs his/her counsel to immediately deliver to Lilly's counsel a Notice of Dismissal with prejudice as against all defendants in accordance with the provisions of this Confidential Release. This dismissal shall extend to and include a dismissal with prejudice of the entire action or claim as to all named defendants, including but not limited to physicians, health care providers, hospitals and other medical facilities, as well as any present or former Lilly employees.

Claimant further promises and agrees that in consideration of payment of the Settlement Amount by Lilly, that Claimant never will file, maintain or prosecute any suit or action at law or in equity against Lilly in any court, state or federal, of the United States of

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(continued...)

the release, which if known by him or her must have materially affected his or her settlement with the debtor."

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America or elsewhere in the world, arising out of or by reason of or in any manner associated with Claimant's use of Zyprexa.

5. Settlements

Claimant agrees not to seek any settlement with a third party arising out of the use of Zyprexa. Furthermore, if any such settlement has occurred, Claimant warrants and represents that he or she has disclosed to Lilly and to the Special Settlement Masters the fact and amount of any such settlement, so that the amount of any such settlement is considered by the Special Settlement Masters in making any award to Claimant.

6. Liens, Assignment Rights and Other Third Party Payor Claims

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

Claimant understands that upon request to the Special Settlement Masters, Lilly shall be entitled to proof of Claimant's lien or claim satisfaction and/or payment of liens arising from or in connection with Claimant's use of Zyprexa.

Claimant hereinafter agrees that Claimant is releasing Lilly from all future medical expenses, including but not limited to drug costs, hospital, medical, physician or health care provider expenses relating to any past, present or future medical care or treatment arising from or in connection with Claimant's use of Zyprexa.

7. Indemnification

Claimant agrees to indemnify and defend Lilly against and hold Lilly harmless from any and all damages or losses Lilly may incur, including attorneys' fees and costs, in connection with: (i) claims or actions seeking damages for or attributable to the personal injuries and/or death, specific to Claimant and allegedly related in any way to Zyprexa,

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including without limitation, any such claim or action by any potential claimant under applicable law, including the Claimant's heirs, surviving spouse, (including a putative or common law spouse), surviving domestic partner, next of kin, successors, assigns, agents, representatives, guardians, duly-appointed trustees, executors, estate administrators or personal representatives (or equivalent thereto), and (ii) liens, assignments, subrogated interests, encumbrances, causes of action, suits of judgment asserted by lien holders as defined in Paragraph 6 of this Confidential Release, specific to Claimant's claims for drug costs, hospital, medical, physician or health care provider expenses spent for medical care or treatment to Claimant arising from or in connection with Claimant's use of Zyprexa.

8. No Admission of Liability

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

9. Warranty of Authority and Capacity

Claimant represents and warrants that Claimant has full authority and capacity to enter into this Confidential Release.

10. Entire Agreement

This Confidential Release contains the entire understanding of the parties regarding the subject matter hereof. Such Agreement shall not be amended, supplemented or abrogated other than by a written instrument signed by the authorized representatives of each party to this Individual Settlement Agreement and Release.

11. Confidentiality

1. Confidentiality Agreement The Settlement Amount and the terms of this Confidential Release are confidential, except as may be required by law and then only to the extent necessary. Any and all evaluation processes and procedures utilized in conjunction with the claims administration or award distribution process shall also be kept strictly confidential by the Claimant and his/her attorneys.

Agreement to, and maintenance of, confidentiality are material terms of this Confidential Release. This Confidential Release shall be null and void if the following confidentiality conditions of this Confidential Release are not met:

Claimant and his/her attorneys shall keep strictly confidential and agree not to publicize, disclose or characterize to any third party, person or entity, at any time, the following information, except as it may otherwise appear in the public domain: Memorandum of Understanding dated June 8, 2005, the Confidential Master Settlement Agreement and this Confidential Release and any of the terms and conditions of this settlement, the amount of this settlement, the history, background and/or substance of the negotiations, directly or indirectly, leading up

to the Master Settlement Agreement and this Confidential Release, or any other information which would assist a third party in receiving or otherwise learning about the Confidential Master Settlement Agreement and Confidential Release, and such terms, conditions, amounts, history, background and/or the substance of any such negotiations (all which shall be and is "Confidential Information"), except as required by any law. Claimant and his/her attorneys may, however, make disclosure of the money received by Claimant and his/her accountants and/or financial advisors who shall, however, upon such disclosure, be instructed to maintain and honor the confidentiality of such information. If inquiry is made by any third person concerning the status of Claimant's lawsuit, other than as identified above and as necessary to resolve the liens identified above, Claimant and his/her attorneys shall respond only that the suit has been resolved, and make no further comments.

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

2. Inadmissibility of Settlement and Related Documents. Claimants and his/her attorneys shall not offer in evidence or in any civil, criminal, administrative or other action or proceeding, this Confidential Release, its terms, the Memorandum of Understanding dated June 8, 2005 and any addendum thereto, the Master Settlement Agreement, its terms of any Confidential Discovery Materials as defined in Case Management Order No. 3 (Protective Order), filed on August 9, 2004 in MDL No. 1596, or in any other protective order issued in any pending case, other than as may be necessary to consummate or enforce this Confidential Release. If the subject of this Confidential Release, its terms, the Memorandum of Understanding dated June 8, 2005 and any addendum thereto, the Master Settlement Agreement, its terms or any Confidential Discovery Materials shall arise in any such legal proceedings, Claimant and his/her attorneys shall, to the extent possible, 1) oppose disclosure, 2) give Lilly notice and an opportunity to intervene and oppose disclosure, 3) file under seal any documents disclosing this Confidential Release, its terms, the Master Settlement Agreement, its terms or any Confidential Discovery Materials, and 4) take reasonable measures to ensure that this Confidential Release, its terms, the Master Settlement Agreement, its terms and any Confidential Discovery Material are kept confidential and that any disclosure thereof takes place in camera. In the event that there is a proceeding to consummate or enforce this Confidential Release, the Master Settlement Agreement, including but not limited to any proceeding involving a minor's compromise, death compromise, divorce or any other judicial proceeding, Claimant will file under seal any documents which disclose or refer to this Confidential Release, its terms the Master Settlement Agreement, its terms or any Confidential Discovery Materials, will conduct all related proceedings under seal, and will take reasonable measures to ensure that this Confidential Release, its terms the

Master Settlement Agreement, its terms and any Confidential Discovery Materials are kept confidential and that any disclosure thereof takes place in camera.

12. Successors and Assigns

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

13. Governing Law

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

14. No Assignment/Authority

Claimant represents that he/she has not assigned any interest in any of the causes of action and/or claims released herein or if so, has identified such an assignment to the Special Settlement Masters as required by Section 6 above. Claimant represents that he/she collectively has the right and exclusive authority to pursue and settle the released causes of action and/or claims. Claimant further represents that to the extent required under the applicable law, he/she has given adequate notice to all relevant parties, and/or sought and/or obtained judicial approval of this Confidential Release.

15. Challenges To Or Disputes Involving This Agreement

Any challenge or dispute arising out of or relating to an alleged violation of this Confidential Release shall be referred for binding determination to Judicial Arbitration Mediation Services (“JAMS”) for resolution. The parties shall work together to agree on a biding neutral arbitrator to resolve any and all disputes and if an agreed upon arbitrator can not be selected, JAMS complex resolution procedures shall control the selection of a neutral arbitrator.

In the event that a lawsuit is filed alleging a violation of this Confidential Release, including but not limited to any allegation of a breach of the Confidentiality provisions, the recoverable damages shall include, but not be limited to, the reasonable attorneys’ fees and costs of the prevailing party.

By executing this Confidential Release, Claimant understands and agrees that he/she is submitting to the exclusive and binding jurisdiction of the Special Settlement Masters, including whether Claimant is entitled to compensation under this settlement program and in what amount.

Further, Claimant and Claimant’s Counsel agree that any dispute between or among Claimants, a Claimant and Claimant’s Counsel, Claimant’s Counsel or the Special Settlement Masters and Claimant and/or Claimant’s Counsel shall also be within the exclusive and binding jurisdiction of the Special Settlement Masters.

16. Medical Documentation Authorization

DRAFT — EXEMPLAR EXHIBIT A

Claimant has authorized his/her counsel to obtain and supply to the Special Settlement Masters and Lilly the medical or other documentation required for approval of an award by the Special Settlement Masters under the Claims Administration process.

17. Counterparts

This Confidential Release may be executed in one or more counterparts by each party to this Confidential Release, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same Confidential Release.

18. Advice of Counsel

Claimant hereby acknowledges that he/she has read this Confidential Release and has had an opportunity to obtain advice of counsel regarding it. Claimant hereby also acknowledges that he/she understands the terms of this Confidential Release, and that he/she freely and voluntarily signs and enters into it. Claimant further acknowledges that, in entering into Confidential Release, he/she has not relied upon any statement or representation by or on behalf of Lilly except as stated herein.

19. Attorney Fee Disputes

Nothing in this Confidential Release shall affect the obligation of the Claimant to pay attorneys fees and costs pursuant to any agreement Claimant may have with Claimant's counsel. Lilly shall have no responsibility whatsoever for payment of Claimant's attorneys fees. Any division of the Settlement Amount is to be determined by Claimant and Claimant's Counsel and shall in no way affect the validity of this Confidential Release.

DRAFT — EXEMPLAR EXHIBIT A

20. Enforceability

In case any provision (or any party of any provision) contained in this Confidential Release shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision (or remaining part of the affected provision) of this Confidential Release, but this Confidential Release shall be construed as if such invalid, illegal or unenforceable provision (or any part thereof), had never been contained herein, but only to the extent it is invalid, illegal or unenforceable.

_____ _____

_____, individually, and on behalf of all derivative claimants under applicable law **DATED**

I, _____, hereby also represent and declare that Claimant, has at all relevant times, been represented by Claimants' Counsel. Claimants' Counsel have provided Claimant a copy of the Confidential Release, and Claimants' Counsel have made themselves available to answer any and all questions with respect to the substance of the Confidential Release. Having had a full opportunity to read, understand, and inquire of their counsel about the terms and conditions of the Confidential Release, neither Claimant nor Claimants' Counsel has an objection to the terms of this Confidential Release.

_____ _____

By Counsel for Claimant, _____ **DATED**

_____

By Counsel for Claimant, _____

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars and shares in millions except per-share data)			
BASIC				
Net income (loss)	$ 822.0	$ (252.0)	$1,656.8	$ 484.6
Average number of common shares outstanding	1,084.7	1,087.6	1,084.9	1,087.1
Contingently issuable shares	—	—	.5	.1
Adjusted average shares	1,084.7	1,087.6	1,085.4	1,087.2
Basic earnings (loss) per share	$ .76	$ (.23)	$ 1.53	$ .45
DILUTED				
Net income (loss)	$ 822.0	$ (252.0)	$1,656.8	$ 484.6
Average number of common shares outstanding	1,084.7	1,087.6	1,084.9	1,087.1
Incremental shares – stock options and contingently issuable shares	.6	—	1.3	2.6
Adjusted average shares	1,085.3	1,087.6	1,086.2	1,089.7
Diluted earnings (loss) per share	$ .76	$ (.23)	1.53	$ .44

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

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Six Months Ended June 30, 2006	Years Ended December 31, 2005	2004	2003	2002	2001
Consolidated pretax income before cumulative effect of a change in accounting principle	$2,097.2	$2,717.5	$2,941.9	$3,261.7	$3,457.7	$3,506.9
Interest	184.5	245.7	162.9	121.9	140.0	253.3
Less interest capitalized during the period	(53.7)	(140.5)	(111.3)	(60.9)	(60.3)	(61.5)
Earnings	$2,228.0	$2,822.7	$2,993.5	$3,322.7	$3,537.4	$3,698.7
Fixed charges	$ 184.5	$ 245.7	$ 162.9	$ 121.9	$ 140.0	$ 253.3
Ratio of earnings to fixed charges	12.1	11.5	18.4	27.3	25.3	14.6

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

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2006

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

EXHIBIT 31.2 Rule 13a-14(a) Certification of Derica W. Rice, Senior Vice President and Chief Financial Officer

CERTIFICATIONS

I, Derica W. Rice, senior vice president and chief financial officer, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2006

By: /s/ Derica W. Rice
Derica W. Rice
Senior Vice President and Chief Financial Officer

EXHIBIT 32. Section 1350 Certification

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date August 1, 2006

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

Date August 1, 2006

/s/ Derica W. Rice
Derica W. Rice
Senior Vice President and Chief Financial Officer