

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 1997

COMMISSION FILE NUMBER 1-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes No
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The number of shares of common stock outstanding as of October 31,
1997:

Class	Number of Shares Outstanding
-----	-----
Common	1,109,314,830

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
----- (Dollars in millions except per-share data)				
Net Sales.....	\$2,160.1	\$1,803.9	\$6,101.8	\$5,285.5
Cost of sales.....	587.8	502.9	1,677.9	1,526.0
Research & development.....	345.4	290.7	973.3	840.1
Marketing & administrative.....	587.2	473.1	1,631.6	1,412.1
Asset impairment.....	-	-	2,443.0	-
Interest expense.....	57.3	74.1	180.4	219.5
Other (income) - net.....	(16.3)	(96.3)	(72.8)	(260.7)
Gain on sale of DowElanco.....	(13.6)	-	(631.8)	-
	-----	-----	-----	-----
	1,547.8	1,244.5	6,201.6	3,737.0
	-----	-----	-----	-----
Income (loss) before income taxes.....	612.3	559.4	(99.8)	1,548.5
Income taxes.....	155.4	143.8	742.8	398.0
	-----	-----	-----	-----
Net income (loss).....	\$ 456.9	\$ 415.6	\$(842.6)	\$1,150.5
	=====	=====	=====	=====
Earnings (loss) per share.....	\$.41	\$.38	\$ (.77)	\$ 1.05
Dividends paid per share.....	\$.18	\$.1713	\$.54	\$.5138

See Notes to Consolidated Condensed Financial Statements.

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

	September 30, 1997	December 31, 1996

(Millions)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$1,504.1	\$813.7
Short-term investments.....	36.8	141.4
Accounts receivable, net of allowances for doubtful amounts of \$61.4 (1997) and \$82.4 (1996).....	1,579.7	1,474.6
Other receivables.....	156.0	262.5
Inventories.....	914.7	881.4
Deferred income taxes.....	225.3	145.2
Prepaid expenses.....	192.5	172.5
	-----	-----
TOTAL CURRENT ASSETS.....	4,609.1	3,891.3
OTHER ASSETS		
Prepaid retirement.....	570.8	512.9
Investments.....	416.9	443.5
Goodwill and other intangibles, net of allowances for amortization of \$106.6 (1997) and \$311.0 (1996).....	1,544.1	4,028.2
Sundry.....	583.1	1,124.3
	-----	-----
	3,114.9	6,108.9
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress.....	7,023.3	7,096.4
Less allowances for depreciation.....	2,928.1	2,789.4
	-----	-----
	4,095.2	4,307.0
	-----	-----
	\$11,819.2	\$14,307.2
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings.....	\$423.4	\$1,212.9
Accounts payable.....	729.5	829.3
Employee compensation.....	385.1	388.4
Dividends payable.....	221.1	198.8
Income taxes payable.....	926.5	691.8
Other liabilities.....	961.4	901.0
	-----	-----
TOTAL CURRENT LIABILITIES.....	3,647.0	4,222.2
LONG-TERM DEBT.....	2,343.8	2,516.5
DEFERRED INCOME TAXES.....	387.6	376.0
RETIREE MEDICAL BENEFIT OBLIGATION.....	118.2	136.4
OTHER NONCURRENT LIABILITIES.....	931.7	956.0
	-----	-----
	3,781.3	3,984.9
COMMITMENTS AND CONTINGENCIES.....	-	-
SHAREHOLDERS' EQUITY		
Common stock.....	702.0	355.6
Additional paid-in capital.....	-	67.4
Retained earnings.....	5,302.4	7,207.3
Deferred costs-ESOP.....	(164.5)	(176.9)
Currency translation adjustments.....	(233.7)	(57.4)
	-----	-----
	5,606.2	7,396.0
Less cost of common stock in treasury.....	1,215.3	1,295.9
	-----	-----
	4,390.9	6,100.1
	-----	-----

\$11,819.2
=====

\$14,307.2
=====

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Nine Months Ended September 30,	
	1997	1996
	-----	-----
	(Millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss).....	\$(842.6)	\$1,150.5
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Changes in operating assets and liabilities.....	(154.5)	(259.6)
Change in deferred taxes.....	(44.5)	147.9
Depreciation and amortization.....	399.8	404.8
Gain from sale of DowElanco, net of tax.....	(303.5)	-
Asset impairment, net of tax.....	2,429.6	-
Other items, net.....	(42.9)	(155.6)
	-----	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES.....	1,441.4	1,288.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to property and equipment.....	(213.7)	(360.9)
Additions to sundry assets and intangibles.....	(24.4)	(32.1)
Reduction of investments.....	356.1	330.1
Additions to investments.....	(251.6)	(192.2)
Proceeds from sale of DowElanco.....	1,211.1	-
Acquisitions.....	(0.8)	(93.3)
	-----	-----
NET CASH FROM (USED FOR) INVESTING ACTIVITIES.....	1,076.7	(348.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid.....	(594.8)	(562.3)
Purchases of common stock and other capital transactions.....	(179.5)	(171.8)
Net reductions to short-term borrowings.....	(948.5)	(439.4)
Net additions to long-term debt.....	5.6	8.9
	-----	-----
NET CASH USED FOR FINANCING ACTIVITIES.....	(1,717.2)	(1,164.6)
Effect of exchange rate changes on cash.....	(110.5)	(36.4)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	690.4	(261.4)
Cash and cash equivalents at January 1.....	813.7	999.5
	-----	-----
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30.....	\$1,504.1	\$738.1
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

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

As presented herein, sales include sales of the Company's life-sciences products and service revenues from PCS Health Systems, Inc. (PCS) and Integrated Medical Systems, Inc.

STOCK SPLIT

On September 15, 1997, the Company's Board of Directors declared a two-for-one stock split to be effected in the form of a 100 percent stock dividend payable to shareholders of record at the close of business September 24, 1997. The outstanding and weighted-average number of shares of common stock and per share data in these financial statements and exhibits have been adjusted to reflect the impact of the stock split. Treasury shares held by the Company were not split.

CONTINGENCIES

The Company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac'r'. The Company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the Company has accrued for certain future anticipated product liability claims to the extent the Company can formulate a reasonable estimate of their costs. The Company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The Company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The Company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

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

The Company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The Company and several other manufacturers agreed to settle the federal class action case and the anticipated settlement was accrued in the fourth quarter of 1995. The settlement is now final. Separately, in June 1997 the Company reached a settlement with a large number of the remaining plaintiffs in the federal cases. Related suits, brought in federal and several state courts by a large number of retail pharmacies involving claims of price discrimination or claims under other pricing laws, remain pending. Additional cases have been brought on behalf of consumers in several states.

The environmental liabilities and litigation accruals have been reflected in the Company's consolidated balance sheet at the gross amount of approximately \$390 million at September 30, 1997. Estimated insurance recoverables have been reflected as assets in the consolidated balance sheet of approximately \$240 million at September 30, 1997.

Barr Laboratories, Inc. (Barr) and Geneva Pharmaceuticals, Inc. (Geneva) have each submitted Abbreviated New Drug Applications (ANDAs) seeking FDA approval to market generic forms of Prozac before the expiration of the Company's patents. The ANDAs assert that Lilly's U.S. patents covering Prozac are invalid and unenforceable. In April 1996, the Company filed suit against Barr in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In June 1997, the Company filed a similar suit against Geneva in the same court. While the Company believes that the claims of Barr and Geneva are without merit, there can be no assurance that the Company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

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

ASSET IMPAIRMENT

Pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company evaluated the recoverability of the long-lived assets, including intangibles, of its PCS health-care-management businesses. While revenues and profits are growing and new capabilities are being developed at PCS, the rapidly changing, competitive and highly regulated environment in which PCS operates has prevented the Company from significantly increasing PCS' operating profits from levels which existed prior to the acquisition. In addition, since the acquisition, the health-care industry trend toward highly managed care has been slower than originally expected and the possibility of selling a portion of PCS' equity to a strategic partner has not been realized. In the second quarter of 1997, concurrent with PCS' annual planning process, the Company determined that PCS' estimated future undiscounted cash flows were below the carrying value of PCS' long-lived assets. Accordingly, during the second quarter, the Company adjusted the carrying value of PCS' long-lived assets, primarily goodwill, to their estimated fair value of approximately \$1.5 billion resulting in a noncash impairment loss of approximately \$2.4 billion (\$2.21 per share). The estimated fair value was based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

GAIN ON SALE OF DOWELANCO JOINT VENTURE

On June 30, 1997, The Dow Chemical Company acquired the Company's 40% interest in DowElanco. The cash purchase price was \$1.2 billion resulting in a gain of \$631.8 million (\$303.5 million after-tax, or \$.28 per share).

EARNINGS PER SHARE

Earnings per share are calculated based on the weighted-average number of outstanding common shares.

ACCOUNTING POLICIES FOR DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, operations of the Company are exposed to fluctuations in currency values and interest rates. These fluctuations can vary the costs of financing, investing and operating. The Company addresses these risks through a controlled program of risk management that includes the use of derivative financial instruments. The Company's derivative activities, all of which are for purposes other than trading, are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities and transactions being hedged. As derivative contracts are initiated, the Company designates derivative financial instruments individually to underlying financial instruments or anticipatory transactions (i.e., underlying exposures). Management reviews the correlation and effectiveness of its derivatives on a periodic basis. Derivative contracts which do not qualify for deferral hedge accounting are marked to market.

For terminations of derivatives receiving deferral accounting, gains and losses are deferred when the related underlying exposures remain outstanding and are included in the measurement of the related transaction or balance. In addition, upon termination of the underlying exposures, the derivative is marked to market and the resulting gain or loss is included with the gain or loss on the terminated transaction. The Company may re-designate the remaining derivative instruments to other underlying exposures.

Foreign Exchange Risk Management: The Company enters into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally European currencies and the Japanese yen). Generally, foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts and purchased options are principally used to manage exposures arising from affiliate foreign currency balances. These contracts are marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposures. The Company also enters into option contracts to hedge anticipated foreign currency transactions, primarily intercompany inventory purchases expected to occur within the next year, and foreign currency forward contracts and currency swaps to hedge firm commitments. Gains and losses on these contracts that qualify as hedges are deferred and recognized as an adjustment of the subsequent transaction when it occurs. Forward and option contracts generally have maturities not exceeding 12 months.

Interest Rate Risk Management: The Company enters into interest rate swaps to lower funding costs and to manage interest rate exposures. The Company designates the interest rate swaps as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements.

ACCOUNTING CHANGES

Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement requires that each party to a transfer analyze the components of financial asset transfers and recognize only assets it controls and liabilities it has incurred, derecognize assets only when control has been surrendered and derecognize liabilities only when they have been extinguished. Adoption of this statement did not have a material impact on the Company's consolidated results of operations or financial position.

In February 1997, SFAS No. 128, "Earnings per Share", was issued. The statement must be adopted by the Company on December 31, 1997 for the fourth quarter and the year then ended. Under provisions of this statement, the Company will be required to change the method currently used to compute earnings per share as presented on the income statement and Exhibit 11 to the Form 10-Q and present both "basic" and "diluted" earnings per share on the income statement. As a consequence of this change, earnings per share for previously reported periods will be restated. Basic earnings per share, for the Company, is expected to be the same as reported earnings per share. Diluted earnings per share is expected to be substantially the same as fully-diluted earnings per share reported in Exhibit 11 of the Company's 10-K and 10-Q filings.

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," was issued. The statement must be adopted by the Company in the first quarter of 1998. Under provisions of this statement, the Company will be required to change the financial statement presentation of comprehensive income and its components to conform to these new requirements. As a consequence of this change, certain reclassifications will be necessary to previously reported amounts to achieve the required presentation of comprehensive income. Implementation of this disclosure standard will not affect financial position or results of operations.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued. The statement must be adopted by the Company on December 31, 1998 for the year then ended. Under provisions of this statement, the Company will be required to modify or expand the financial statement disclosures for operating segments, products and services, and geographic areas. Implementation of this disclosure standard will not affect financial position or results of operations.

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

OPERATING RESULTS OF CONTINUING OPERATIONS:

The Company's sales for the third quarter of 1997 increased 20 percent from the third quarter of 1996. Sales inside the United States increased 30 percent while sales outside the United States increased 5 percent. Compared with the third quarter of 1996, worldwide sales reflected volume growth of 22 percent and a 2 percent increase in global selling prices which were offset, in part, by the unfavorable effect of exchange rates of 4 percent.

The Company's sales for the first nine months of 1997 increased 15 percent when compared with the same period in 1996. Sales in the United States increased 27 percent, while sales outside the United States were unchanged. Worldwide sales volume growth of 18 percent and a 1 percent increase in global selling prices was partially offset by an unfavorable exchange rate comparison of 4 percent.

Worldwide pharmaceutical sales increased 20 percent and 16 percent for the third quarter and nine months, respectively, compared with the same periods of 1996. Sales growth for both periods was led by three of the Company's newer products, Gemzar[®], ReoPro[™], and Zyprexa[®]. In addition, the quarter and first nine months of the year benefited from increased Prozac sales and additional health-care-management revenues. Revenue growth for both periods was partially offset by lower sales of anti-infective products. Total U.S. pharmaceutical sales and services increased 30 percent (\$313.4 million) during the quarter and 27 percent (\$787.0 million) for the nine month period, primarily as a result of increased volume. International pharmaceutical sales increased 5 percent compared with the third quarter of 1996 and were unchanged for the first nine months compared with 1996. For the quarter, sales volume growth outside the U.S. of 18 percent was mitigated largely by unfavorable exchange rate comparisons (11 percent) and decreased selling prices (2 percent). For the nine month period, international pharmaceutical sales volume growth of 11 percent was offset by exchange rate comparisons (9 percent) and decreased prices (2 percent).

Worldwide sales of Prozac in the third quarter of 1997 were \$705.1 million, an increase of 11 percent from the third quarter of 1996. For the nine month period, worldwide Prozac sales were \$1,866.1 million, an increase of 6 percent over the same period in 1996. Prozac sales in the U.S. increased 17 percent to \$577.8 million in the third quarter and 14 percent to \$1,472.6 million in the nine month period. International sales of Prozac experienced declines of 11 percent and 15 percent for the quarter and nine months, respectively, due largely to the effects of unfavorable exchange rates, continuing generic competition in Canada, and competitive pressures in France. The Company expects moderate growth in Prozac sales for the full year of 1997.

Launched in the fourth quarter of 1996, Zyprexa posted worldwide sales of \$201.8 million and \$463.2 million for the quarter and nine months, respectively. Zyprexa contributed \$162.7 million and \$379.8 million to U.S. pharmaceutical sales for the quarter and first nine months of 1997.

Worldwide ReoPro sales of \$63.3 million in the third quarter and \$174.9 million in the nine month period reflected increases of \$24.8 million (64 percent) and \$76.3 million, (77 percent) respectively, as compared with the same periods in 1996. Of the third quarter and year-to-date U.S. pharmaceutical sales increases, ReoPro contributed \$20.9 million and \$61.9 million, respectively.

Worldwide Gemzar sales grew to \$47.3 million in the third quarter and \$121.4 million in the nine month period, representing increases over the same periods in 1996 of \$27.3 million and \$85.7 million, respectively. Gemzar sales in the U.S. increased \$15.1 million in the third quarter and \$50.5 million in the nine month period.

Among other major products, worldwide Humulin'r' sales of \$226.4 million were essentially unchanged for the third quarter and increased 2 percent to \$655.2 million for the first nine months of 1997. U.S. Humulin sales increased 1 percent for the quarter and declined 2 percent for the nine month period. The year-to-date decline is largely due to the combined effect of competition from oral anti-diabetic agents and increased sales of the Company's insulin analogue, Humalog'r'. International Humulin sales decreased 2 percent in the third quarter and increased 9 percent for the nine month period. Axid'r' sales increased 4 percent to \$132.2 million and 5 percent to \$415.2 million for the respective periods.

Worldwide anti-infective sales decreased \$33.7 million (12 percent) in the third quarter and \$122.9 million (12 percent) in the nine month period. This decline was due in part to continued generic competition in certain markets and the impact of unfavorable exchange rates. Ceclor'r' accounted for the majority of the decline in anti-infective sales. Sales of Ceclor decreased 17 percent in the third quarter and 15 percent in the nine month period. The Company anticipates that 1997 worldwide sales of anti-infectives will be below 1996 levels largely due to continued pricing pressures as a result of generic competition. U.S. anti-infective sales declined 21 percent in the quarter and 11 percent for the first nine months. International anti-infective sales decreased 8 percent and 13 percent in both the third quarter and year-to-date period, respectively.

Worldwide sales of animal health products increased 11 percent over the third quarter of 1996 and 7 percent for the nine month period, driven by volume growth rates of 14 percent and 10 percent in each of those periods, respectively.

Health-care-management revenues increased 42 percent for the third quarter and 44 percent for the nine month period of 1997, largely due to increased mail order pharmacy sales.

Gross margin improved to 72.8 percent of sales for the third quarter and 72.5 percent of sales for the first nine months, as compared to 72.1 percent and 71.1 percent for the third quarter and first nine months of 1996, respectively. The increases for both periods were primarily the result of continued productivity improvements, enhanced plant utilization, and favorable changes in product mix. These improvements were offset in part by increased health-care-management service revenues, which have lower margins than pharmaceutical products. For the year, the Company anticipates that gross margin will be higher than 1996 levels.

Operating expenses for 1997 increased 22 percent for the third quarter and 16 percent for the nine month period. The increases reflect 19 percent and 16 percent growth rates in research and development expenses for the third quarter and first nine months, respectively, due largely to clinical trial expenditures and increased activity under external research collaborations. The Company expects spending in research and development to increase approximately 14 to 16 percent for the entire year of 1997. Marketing and administrative expenses increased 24 percent from the third quarter of 1996 and 16 percent from the first nine months of 1996. These increases are driven by increased expenditures to support continued new product launches around the world, enhancements of the Company's global information technology capabilities, and accruals for the Company's performance-based compensation programs. The year-to-date increase in marketing and administrative expense also reflects the settlement of a significant portion of the Company's remaining retail pharmacy pricing litigation. Excluding that charge, marketing and administrative expenses would have increased at a rate below that of sales. To continue supporting the global sales of its newer products, including future product launches, the Company expects the rate of growth of marketing and administrative expenses for 1997 to approximate the rate of sales growth.

The asset impairment represents a noncash charge of approximately \$2.4 billion (\$2.21 per share), recorded in the second quarter of 1997, to adjust the carrying value of PCS health-care-management businesses' long-lived assets, primarily goodwill, to their fair value of approximately \$1.5 billion. While

revenues and profits are growing and new capabilities are being developed at PCS, the rapidly changing, competitive and highly regulated environment in which PCS operates has prevented the Company from significantly increasing PCS' operating profits from levels which existed prior to the acquisition. In addition, since the acquisition, the health-care industry trend toward highly managed care has been slower than originally expected and the possibility of selling a portion of PCS' equity to a strategic partner has not been realized. Consequently, in the second quarter, concurrent with PCS' annual planning process, the Company determined that PCS' estimated future undiscounted cash flows were below the carrying value of PCS' long-lived assets. As a consequence, the carrying value was adjusted to estimated fair value based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

On June 30, 1997, The Dow Chemical Company acquired the Company's 40% interest in DowElanco. The cash purchase price was \$1.2 billion resulting in a gain of \$631.8 million (\$303.5 million after-tax, or \$.28 per share).

Compared with the third quarter and nine month periods of 1996, interest expense decreased \$16.8 million (23 percent) and \$39.1 million (18 percent), respectively. These decreases are due to a decline in the Company's borrowings.

Net other income of \$16.3 million for the quarter and \$72.8 million for the nine month period was \$80.0 million lower and \$187.9 million lower than the same periods of 1996. Other income was lower in both periods primarily due to the third quarter 1996 sale of U.S. marketing rights of Ceclor'r' CD and Keftab'r' to Dura Pharmaceuticals, Inc. In addition, for the nine month period, other income was lower due to a higher level of 1996 sales of equity securities held by the Company, income realized during 1996 from the sale of certain marketing rights, and the impact of a \$24 million charge in the first quarter of 1997 related to the discontinuance of a research collaboration with Somatogen, Inc.

The Company's reported tax rates for the quarter and first nine months of 1997 reflect the effects of the significant transactions which occurred during the year. The tax expense from the \$631.8 million DowElanco gain was \$328.3 million while the tax benefit from the \$2.4 billion PCS asset impairment was \$13.4 million. The Company's estimated tax rate, excluding the impacts of those items, was 25.0 percent for both the third quarter and the first nine months of 1997 compared to a tax rate of 25.7 percent for the same periods in 1996. This estimated effective tax rate essentially equals the annual 1996 rate of 25.0 percent. The decline from the third quarter and first nine months of 1996 is primarily the result of changes in the mix of earnings between jurisdictions having different tax rates and the effectiveness of various tax planning strategies. The Company expects current tax strategies will allow its 1997 effective tax rate, excluding the impacts of the DowElanco gain and PCS asset impairment, to remain approximately the same as the 1996 annual rate.

Third quarter net income was \$456.9 million and \$.41 per share, representing increases of 10 percent and 8 percent, respectively, as compared with the same periods of 1996. For the quarter, net income was favorably impacted by increased sales and improved gross margin, offset somewhat by higher operating expenses as a percent of sales and decreased other income. Excluding the one-time gain resulting from the third quarter 1996 sale of marketing rights to Dura Pharmaceuticals, Inc., net income and earnings per share increased 32 percent and 28 percent, respectively. The first nine months of 1997 reflected a net loss of \$842.6 million (\$.77 per share) driven by the PCS impairment and the litigation settlement, which were offset in part by the DowElanco gain. Without these significant events, year-to-date net income and earnings per share would be \$1,298.8 million and \$1.18, increases of 13 percent and 12 percent, respectively. These increases are attributed to increased sales, improved gross margin, and lower operating expenses as a percent of sales, partially offset by decreased other income.

FINANCIAL CONDITION:

As of September 30, 1997, cash, cash equivalents and short-term investments totaled \$1,540.9 million as compared with \$955.1 million at December 31, 1996, a net increase of \$585.8 million. Total debt at September 30, 1997, was \$2,767.2 million, a decrease of \$962.2 million from December 31, 1996. These changes in cash, cash equivalents, short-term investments and debt are primarily due to positive operating cash flows and proceeds from the sale of DowElanco.

The Company believes that cash generated from operations in 1997, along with available cash and cash equivalents, will be sufficient to fund essentially all of the 1997 operating needs, including debt service, capital expenditures, and dividends. The Company anticipates that amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. The outstanding commercial paper is supported by committed bank credit facilities.

Following the Company's announcement on June 23, 1997 of the noncash charge for the PCS asset impairment, the credit rating agencies affirmed the Company's current commercial paper and long-term debt ratings.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions investors that any forward-looking statements or projections made by the Company are subject to risks and uncertainties which may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors which may affect the Company's operations are discussed in Exhibit 99 to this Form 10-Q filing.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the discussion of In re Brand Name Prescription Drugs Antitrust Litigation (MDL No. 997) and related cases contained in the "Legal Proceedings" sections of the Company's 1996 Form 10-K and Form 10-Qs for the first and second quarters of 1997. The settlement of the Federal Class Action, which was originally provided for by the Company in the fourth quarter of 1995, is now final and is in the process of being implemented.

There have also been developments in some of the related state court cases. A new suit has been brought in state court in Mississippi on behalf of retailers in that state. The trial judge in that case has denied an attempt to certify a class of retailer plaintiffs. Among the consumer cases, the courts in Maine and Michigan have denied the plaintiffs' class certification motions. In the Alabama consumer case, pending in federal court in Chicago, the Seventh Circuit has ruled that remand to the state court is appropriate.

Item 6. Exhibits and Reports on Form 8-K

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

3. By-laws (amended through October 20, 1997)
11. Statement re: Computation of Earnings Per Share on Primary and Fully Diluted Bases
12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
27. Financial Data Schedule
99. Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the third quarter of

1997.

SIGNATURES

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

ELI LILLY AND COMPANY
(Registrant)

Date November 11, 1997

/s/ Daniel P. Carmichael

Daniel P. Carmichael
Secretary and Deputy General Counsel

Date November 11, 1997

/s/ Arnold C. Hanish

Arnold C. Hanish
Director, Corporate Accounting and
Chief Accounting

STATEMENT OF DIFFERENCES

The registered trademark symbol shall be expressed as 'r'
The trademark symbol shall be expressed as 'tm'

INDEX TO EXHIBITS

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

Exhibit

3. By-laws (amended through October 20, 1997)
11. Statement re:
Computation of Earnings Per Share
on Primary and Fully Diluted Bases
12. Statement re:
Computation of Ratio of Earnings from
Continuing Operations to Fixed Charges
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Litigation Reform Act of 1995 - "Safe Harbor"
for Forward-Looking Disclosures

ELI LILLY AND COMPANY

BY-LAWS

As Amended through
October 20, 1997

ELI LILLY AND COMPANY

BY-LAWS

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BY- LAWS
of
ELI LILLY AND COMPANY
(An Indiana Corporation)

ARTICLE I

The Shareholders

SECTION 1.0. Annual Meetings. The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as properly may come before the meeting shall be held on the third Monday in April in each year, if not a legal holiday, or, if a legal holiday, then on the next succeeding day not a legal holiday. Failure to hold an annual meeting of the shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

SECTION 1.1. Special Meetings. Special meetings of the shareholders may be called at any time by the Board of Directors, the Chairman of the Board of Directors, or the President.

SECTION 1.2. Time and Place of Meetings, Each meeting of the shareholders shall be held at such time of day and place, either within or without the State of Indiana, as shall be determined by the Board of Directors. Each adjourned meeting of the shareholders shall be held at such time and place as may be provided in the motion for adjournment.

SECTION 1.3 Notice of Meetings. The Secretary shall cause a written or printed notice of the place, day and hour and the purpose or purposes of each meeting of the shareholders to be delivered or mailed at least ten (10) but not more than sixty (60) days prior to the meeting, to each shareholder of record entitled to vote at the meeting, at the shareholder's post office address as the same appears on the records maintained by the Corporation. Notice of any such shareholders meeting may be waived by any shareholder by delivering a written waiver to the Secretary before or after such meeting. Attendance at any meeting in person or by proxy when the instrument of proxy sets forth in reasonable detail the purpose or purposes for which the meeting is called, shall constitute a waiver of notice thereof. Notice of any adjourned meeting of the shareholders of the Corporation shall not be required to be given unless otherwise required by statute.

SECTION 1.4. Quorum. At any meeting of the Shareholders a majority of the outstanding shares entitled to vote on a matter

at such meeting, represented in person or by proxy, shall constitute a quorum for action on that matter. In the absence of a quorum, the holders of a majority of the shares entitled to vote present in person or by proxy, or, if no shareholder entitled to vote is present in person or by proxy, any officer entitled to preside at or act as Secretary of such meeting, may adjourn such meeting from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 1.5. Voting. Except as otherwise provided by statute or by the Articles of Incorporation, at each meeting of the shareholders each holder of shares entitled to vote shall have the right to one vote for each share standing in the shareholder's name on the books of the Corporation on the record date fixed for the meeting under Section 1.7. Each shareholder entitled to vote shall be entitled to vote in person or by proxy executed in writing (which shall include telegraphing, cabling, facsimile, or electronic transmission) by the shareholder or a duly authorized attorney in fact. The vote of shareholders approving any matter to which the provisions of Article 9(c) or 9(d) or Article 13 of the Articles of Incorporation or of a statute are applicable shall require the percentage of affirmative vote therein specified. All other matters, except the election of directors, shall require that the votes cast in favor of the matter exceed the votes cast opposing the matter at a meeting at which a quorum is present. In the event that more than one group of shares is entitled to vote as a separate voting group, the vote of each group shall be considered and decided separately.

SECTION 1.6. Voting Lists. The Secretary shall make or cause to be made, after a record date for a meeting of shareholders has been fixed under Section 1.7 and at least five (5) days before such meeting, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of each such shareholder and the number of shares so entitled to vote held by each which list shall be on file at the principal office of the Corporation and Subject to inspection by any shareholder entitled to vote at the meeting. Such list shall be produced and kept open at the time and place of the meeting and subject to the inspection of any such shareholder during the holding of such meeting or any adjournment. Except as otherwise required by law, such list shall be the only evidence as to who are the shareholders entitled to vote at any meeting of the shareholders. In the event that more than one group of shares is entitled to vote as a separate voting group at the meeting, there shall be a separate listing of the shareholders of each group.

SECTION 1.7. Fixing or Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, not more than seventy (70) days prior to the date on which the particular action requiring this determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, the determination shall, to the extent permitted by law, apply to any adjournment thereof.

SECTION 1.8. Notice of Shareholder Business. At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have the legal right and authority to make the proposal for consideration at the meeting and the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than ninety (90) days prior to the meeting; provided, however, that in the event that less than one hundred (100) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business described to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the shareholder(s) proposing such business, (c) the class and number of the Corporation's shares which are beneficially owned by such shareholder(s), and (d) any material interest of such shareholder(s) in such business. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1.8. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1.8, and if the Chairman should so determine, he or she shall so declare to the

meeting any such business not properly brought before the meeting shall not be transacted. At any special meeting of the shareholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

SECTION 1.9. Notice of Shareholder Nominees. Only persons who are nominated in accordance with the procedures set forth in this Section 1.9 shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors may be made at or prior to a meeting of shareholders by or at the direction of the Board of Directors or by any nominating committee or person appointed by or at the direction of the Board of Directors, and at a meeting of shareholders by any shareholder entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 1.9. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the meeting; provided, however, that in the event that less than one hundred (100) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholders to be timely must be so received not later than the close of business on the tenth (10th) day following the date on which such notice of the date of the meeting was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person; (iii) the class and number of the Corporation's shares which are beneficially owned by such person; and (iv) to the extent reasonably available to the shareholder, any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of the Corporation's shares which are beneficially owned by such shareholder. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 1.9. The Chairman or the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not so declared in accordance with the procedures prescribed by these By-laws, and if the Chairman should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE II

BOARD OF DIRECTORS

SECTION 2.0. General Powers. The property, affairs and business of the Corporation shall be managed under the direction of the Board of Directors.

SECTION 2.1. Number and Qualifications. The number of directors which shall constitute the whole Board of Directors shall be sixteen (16), which number may be either increased or diminished by resolution adopted by not less than a majority of the directors then in office; provided that the number may not be diminished below nine (9) and no reduction in number shall have the effect of shortening the term of any incumbent director. In the event that the holders of shares of preferred stock become entitled to elect two directors, the number of directors and the minimum number of directors shall be increased by two. Neither ownership of stock of the Corporation nor residence in the State of Indiana shall be required as a qualification for a director.

SECTION 2.2. Classes of Directors and Terms. The directors shall be divided into three classes as nearly equal in number as possible. Except as provided in Article 9 of the Articles of Incorporation fixing one, two, and three year terms for the initial classified board, each class of directors shall be elected for a term of three (3) years. In the event of vacancy, either by death, resignation, or removal of a director, or by reason of an increase in the number of directors, each replacement or new director shall serve for the balance of the term of the class of the director he or she succeeds or, in the event of an increase in the number of directors, of the class to which he or she is assigned. All directors elected for a term shall continue in office until the election and qualification of their respective successors, their death, their resignation in accordance with Section 2.6, their removal in accordance with Section 2.7, or if there has been a reduction in the number of directors and no successor is to be elected, until the end of the term.

SECTION 2.3. Election of Directors. At each annual meeting of shareholders, the class of directors to be elected at the meeting shall be chosen by a plurality of the votes cast by the holders of shares entitled to vote in the election at the meeting, provided a quorum is present. The election of directors by the shareholders shall be by written ballot if directed by the chairman of the meeting or if the number of nominees exceeds the number of directors to be elected.

Any vacancy on the Board of Directors shall be filled by the affirmative vote of a majority of the remaining directors.

If the holders of preferred stock are entitled to elect any directors voting separately as a class, those directors shall be elected by a plurality of the votes cast by the holders of shares of preferred stock entitled to vote in the election at the meeting, provided a quorum of the holders of shares of preferred stock is present.

SECTION 2.4 Meetings of Directors.

a. Annual Meeting. Unless otherwise provided by resolution of the Board of Directors, the annual meeting of the Board of Directors shall be held at the place of and immediately following the annual meeting of shareholders, for the purpose of organization, the election of officers and the transaction of such other business as properly may come before the meeting. No notice of the meeting need be given, except in the case an amendment to the By-laws is to be considered.

b. Regular Meetings. The Board of Directors by resolution may provide for the holding of regular meetings and may fix the times and places (within or outside the State of Indiana) at which those meetings shall be held. Notice of regular meetings need not be given except when an amendment to the By-laws is to be considered. Whenever the time or place of regular meetings shall be fixed or changed, notice of this action shall be mailed promptly to each director not present when the action was taken, addressed to the director at his or her residence or usual place of business.

c. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President and shall be called by the Secretary at the request of any three (3) directors. Except as otherwise required by statute, notice of each special meeting shall be mailed to each director at his or her residence or usual place of business at least three (3) days before the day on which the meeting is to be held, or shall be sent to the director at such place by telegram, facsimile transmission, or cable, or telephoned or personally delivered, not later than the day before the day on which the meeting is to be held. The notice shall state the time and place (which may be within or outside the State of Indiana) of the meeting but, unless otherwise required by statute, the Articles of Incorporation or the By-laws, need not state the purposes thereof.

Notice of any meeting need not be given to any director, however, who shall attend the meeting, or who shall waive notice thereof, before, at the time of, or after the meeting, in a writing signed by the director and delivered to the Corporation. No notice need be given of any meeting at which every member of the Board of Directors shall be present.

SECTION 2.5. Quorum and Manner of Acting. A majority of the actual number of directors established pursuant to Section 2.1, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies on the Board of Directors under Section 2.3 or voting on a conflict of interest transaction under Section 2.12. The act of a majority of the directors present at a meeting at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by statute, by the Articles of Incorporation, or by the By-laws. Under the provisions of Article 13 of the Articles of Incorporation, certain actions by the Board of Directors therein specified require not only approval by the Board of Directors, but also approval by a majority of the Continuing Directors, as therein defined. Any or all directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications equipment by which all persons participating in the meeting may simultaneously hear each other, and participation in this manner shall constitute presence in person at the meeting. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. No notice of any adjourned meeting need be given.

SECTION 2.6. Resignations. Any director may resign at any time by giving written notice of resignation to the Board of Directors, the Chairman of the Board, the President, or the Secretary. Unless otherwise specified in the written notice, the resignation shall take effect upon receipt thereof.

SECTION 2.7. Removal of Directors. Any director, other than a director elected by holders of preferred stock voting as a class, may be removed from office at any time but only for cause and only upon the affirmative vote of at least 80% of the votes entitled to be cast by holders of all of the outstanding shares of Voting Stock (as defined in Article 13 of the Articles of Incorporation), voting together as a single class.

SECTION 2.8. Action without a Meeting. Any action required or permitted to be taken at any meeting or the Board of Directors or of any committee thereof may be taken without a meeting, if taken by all members of the Board of Directors or such committee, as the case may be, evidenced by a written consent signed by all such members and effective on the date, either prior or subsequent to the date of the consent, specified in the written consent, or if no effective date is specified in the written consent, the date on which the consent is filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 2.9. Attendance and Failure to Object. A director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be presumed to have assented to the action taken, unless (a) the director's dissent shall be entered in the minutes of the meeting, (b) the director shall file a written dissent to such action with the Secretary of the meeting before adjournment thereof. or (c) the director shall forward such dissent by registered mail to the Secretary immediately after adjournment of the meeting. The right of dissent provided for by the preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a director who voted in favor of such action.

SECTION 2.10. Special Standing Committees. The Board of Directors, by resolution adopted by a majority of the actual number of directors elected and qualified, may designate from among its members one or more committees. Such committees shall have those powers of the Board of Directors which may by law be delegated to such committees and are specified by resolution of the Board of Directors.

SECTION 2.11. Appointment of Auditors. The Board of Directors, prior to each annual meeting of shareholders, shall appoint a firm of independent public accountants as auditors of the Corporation. Such appointment shall be submitted to the shareholders for ratification at the annual meeting next following such appointment. Should the holders of a majority of the outstanding shares entitled to vote fail to ratify the appointment of any firm as auditors of the Corporation, or should the Board of Directors for any reason determine that any such appointment be terminated, the Board of Directors shall appoint another firm of independent public accountants to act as auditors of the Corporation and such appointment shall be submitted to the shareholders for ratification at the annual or special shareholders meeting next following such appointment.

SECTION 2.12. Transactions with Corporation. No transactions with the Corporation in which one or more of its directors has a direct or indirect interest shall be either void or voidable solely because of such interest if any one of the following is true:

(a) the material facts of the transaction and the director's interest are disclosed or known to the Board of Directors or committee which authorizes, approves, or ratifies the transaction by the affirmative vote or consent of a majority of the directors (or committee members) who have no direct or indirect interest in the transaction and, in any event, of at least two directors (or committee members);

(b) the material facts of the transaction and the director's interest are disclosed or known to the shareholders entitled to vote and they authorize, approve or ratify such transaction by vote; or

(c) the transaction is fair to the Corporation.

If a majority of the directors or committee members who have no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present for purposes of taking action under subsection (a) of this section. The presence of, or a vote cast by, a director with a direct or indirect interest in the transaction does not affect the validity of any actions taken under subsection (a) of this section.

SECTION 2.13. Compensation of Directors. The Board of Directors is empowered and authorized to fix and determine the compensation of directors and additional compensation for such additional services any of such directors may perform for the Corporation.

ARTICLE III

OFFICERS

SECTION 3.0. Officers, General Authority and Duties. The officers of the Corporation shall be a Chairman of the Board, a President, two (2) or more Vice Presidents, a Secretary, a Chief Financial Officer, a Treasurer, a Chief Accounting Officer, and such other officers as may be elected or appointed in accordance with the provisions or Section 3.2. One or more of the Vice Presidents may be designated by the Board to serve as Executive Vice Presidents or Group Vice Presidents. Any two (2) or more offices may be held by the same person. All officers and agents of the Corporation, as between themselves and the Corporation, shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as may be determined by resolution of the Board of Directors not inconsistent with the By-laws.

SECTION 3.1. Election, Term of Office, Qualifications. Each officer (except such officers as may be appointed in accordance with the provisions of Section 3.2 of this Article III) shall be elected by the Board of Directors at each annual meeting. Each such officer (whether elected at an annual meeting of the Board of Directors or to fill a vacancy or otherwise) shall hold office until the officer's successor is chosen and qualified. or until death, or until the officer shall resign in the manner provided in Section 3.3. or be removed in the manner provided in Section 3.4. The Chairman of the Board and the President shall be chosen

from among the directors. Any other officer may but need not be a director of the Corporation. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 3.2. Other Officers, Election or Appointment. The Board of Directors from time to time may elect such other officers or agents (including one or more Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, a Controller, and one or more Assistant Controllers) as it may deem necessary or advisable. The Board of Directors may delegate to any officer the power to appoint any such officers or agents and to prescribe their respective terms of office, powers and duties.

SECTION 3.3. Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof and unless otherwise specified in it, the acceptance of the resignation shall not be necessary to make it effective.

SECTION 3.4. Removal. The officers specifically designated in Section 3.0. may be removed, either for or without cause, at any meeting of the Board of Directors called for the purpose, by the vote of a majority of the actual number of directors elected and qualified. The officers and agents elected or appointed in accordance with the provisions of Section 3.2. may be removed, either for or without cause, at any meeting of the Board of Directors at which a quorum be present, by the vote of a majority of the directors present at such meeting, by any superior officer upon whom such power of removal shall have been conferred by the Board of Directors, or by any officer to whom the power to appoint such officer has been delegated by the Board of Directors pursuant to Section 3.2. Any removal shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 3.5. Vacancies. A vacancy in any office by reason of death, resignation, removal, disqualification or any other cause, may be filled by the Board of Directors or by an officer authorized under Section 3.2. to appoint to such office.

SECTION 3.6. Honorary Chairman of the Board of Directors. The Board of Directors may elect or appoint an Honorary Chairman of the Board of Directors, who shall be vested with and shall perform all such powers and duties as may be prescribed by the Board.

SECTION 3.7. Chairman of the Board of Directors. The Chairman of the Board shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general supervision over the management and direction of the business of the Corporation. He or she shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chairman of the Board shall preside at all meetings of the shareholders and of the Board of Directors if present and shall have such powers and perform such duties as are assigned to him or her by the By-laws and by the Board of Directors. The Chairman shall, in the absence or incapacity of the President, perform all the duties and the functions and exercise the powers of the President. The Chairman shall be chosen by the Board of Directors at each annual meeting from among the directors and shall serve until a successor is chosen and qualified, or until resignation or death.

SECTION 3.8. President. The President shall have such powers and perform such duties as are assigned to him or her by the By-laws, the Chairman of the Board, or the Board of Directors. The President shall, in the absence or incapacity of the Chairman of the Board, perform all the duties and functions and exercise the powers of the Chairman of the Board.

SECTION 3.9. Executive Vice Presidents. Each Executive Vice President shall have such powers and perform such duties as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors. In the case of the death or incapacity of the Chairman of the Board and the President, the Executive Vice Presidents, if one or more be designated, shall, in the order of their seniority in office as Executive Vice Presidents, perform the duties and exercise the powers of the President.

SECTION 3.10. Group Vice Presidents. Each Group Vice President shall perform such duties and have such powers as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors. In the case of the death or incapacity of the Chairman of the Board, the President and the Executive Vice Presidents, the Group Vice Presidents shall, in the order of their seniority in office as Group Vice Presidents, perform the duties and exercise the powers of the President unless otherwise ordered by the Board of Directors.

SECTION 3.11. Vice Presidents. Each Vice President shall perform such duties and have such powers as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.12. Secretary. The Secretary shall:

- (a) record all the proceedings of the meetings of the shareholders and Board of Directors in books to be kept for such purposes;
- (b) cause all notices to be duly given in accordance with the provisions of these By-laws and as required by statute;
- (c) be custodian of the Seal of the Corporation, and cause such Seal to be affixed to all certificates representing shares of the Corporation prior to the issuance thereof (subject, however, to the provisions of Section 5.0) and to all instruments the execution of which on behalf of the Corporation under its Seal shall have been duly authorized in accordance with these Bylaws;
- (d) subject to the provisions of Section 5.0, sign certificates representing shares of the Corporation the issuance of which shall have been authorized by the Board of Directors; and
- (e) in general, perform all duties incident to the office of Secretary and such other duties as are given to the Secretary by these By-laws or as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.13. Assistant Secretaries. Each Assistant Secretary shall assist the Secretary in his or her duties, and shall perform such other duties as the Board of Directors may from time to time prescribe or the Chairman of the Board, the President or the Secretary may from time to time delegate. At the request of the Secretary, any Assistant Secretary may temporarily act in the Secretary's place in the performing of part or all of the duties of the Secretary. In the case of the death of the Secretary, or in the case of the Secretary's absence or inability to act without having designated an Assistant Secretary to act temporarily in his or her place, the Assistant Secretary who is to perform the duties of the Secretary shall be designated by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.14. Chief Financial Officer. The Chief Financial Officer shall:

- (a) have supervision over and be responsible for the funds, securities, receipts, and disbursements of the Corporation;
- (b) cause to be kept at the principal business office of the Corporation and preserved for review as required by law or regulation records of financial transactions and correct books of account using appropriate accounting principles;

(c) be responsible for the establishment of adequate internal control over the transactions and books of account of the Corporation;

(d) be responsible for rendering to the proper officers and the Board of Directors upon request, and to the shareholders and other parties as required by law or regulation, financial statements of the Corporation; and

(e) in general perform all duties incident to the office and such other duties as are given by the By-laws or as may be assigned by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.15. Treasurer. The Treasurer shall:

(a) have charge of the funds, securities, receipts and disbursements of the Corporation;

(b) cause the moneys and other valuable effects of the Corporation to be deposited or invested in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories or investments as shall be selected in accordance with resolutions adopted by the Board of Directors;

(c) cause the funds of the Corporation to be disbursed from the authorized depositories of the Corporation, and cause to be taken and preserved proper records of all moneys disbursed; and

(d) in general, perform all duties incident to the office of Treasurer and such other duties as are given to the Treasurer by the By-laws or as may be assigned to him or her by the Chairman of the Board, the President, the Chief Financial Officer, or the Board of Directors.

SECTION 3.16. Assistant Treasurers. Each Assistant Treasurer shall assist the Treasurer in his or her duties, and shall perform such other duties as the Board of Directors may from time to time prescribe or the Chairman of the Board, the President or the Chief Financial Officer may from time to time delegate. At the request of the Treasurer, any Assistant Treasurer may temporarily act in the Treasurer's place in performing part or all of the duties of the Treasurer. In the case of the death of the Treasurer, or in the case of the Treasurer's absence or inability to act without having designated an Assistant Treasurer to act in his or her place, the Assistant Treasurer who is to perform the duties of the Treasurer shall be designated by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.17. Chief Accounting Officer. The Chief Accounting Officer shall:

(a) keep full and accurate accounts of all assets, liabilities, commitments, revenues, costs and expenses, and other financial transactions of the Corporation in books belonging to the Corporation, and conform them to sound accounting principles with adequate internal control;

(b) cause regular audits of these books and records to be made;

(c) see that all expenditures are made in accordance with procedures duly established, from time to time, by the Corporation;

(d) render financial statements upon the request of the Board of Directors, and a full financial report prior to the annual meeting of shareholders, as well as such other financial statements as are required by law or regulation; and

(e) in general, perform all the duties ordinarily connected with the office of Chief Accounting Officer and such other duties as may be assigned to him or her by the Chairman of the Board, the President, the Chief Financial Officer, or the Board of Directors.

SECTION 3.18. General Counsel. The Board of Directors may appoint a general counsel who shall have general control of all matters of legal import concerning the Corporation.

SECTION 3.19. Other Officers or Agents. Any other officers or agents elected or appointed pursuant to Section 3.2 shall have such duties and responsibilities as may be fixed from time to time by the By-laws or as may be assigned to them by the Chairman of the Board, the President or the Board of Directors.

SECTION 3.20. Compensation. The compensation of executive officers of the Corporation shall be fixed from time to time by the Compensation and Management Development Committee (or successor committee) established pursuant to Section 2.10. Unless the Board of Directors by resolution shall direct otherwise, the compensation of employees who are not executive officers of the Corporation shall be fixed by the management of the Company. No employee shall be prevented from receiving such compensation by reason of being a director of the Corporation.

SECTION 3.21. Surety Bonds. In case the Board of Directors shall so require, any officer or agent of the Corporation shall execute to the Corporation a bond in such sum and with such

surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his or her duties to the Corporation, including responsibility for negligence and for the accounting of all property, funds or securities of the Corporation which the officer or agent may handle.

ARTICLE IV

EXECUTION OF INSTRUMENTS AND DEPOSIT OF CORPORATE FUNDS

SECTION 4.0. Execution of Instruments Generally. All deeds, contracts, and other instruments requiring execution by the Corporation may be signed by the Chairman of the Board, the President or any Vice President. Authority to sign any deed, contract, or other instrument requiring execution by the Corporation may be conferred by the Board of Directors upon any person or persons whether or not such person or persons be officers of the Corporation. Such person or persons may delegate, from time to time, by instrument in writing, all or any part of such authority to any other person or persons if authorized so to do by the Board of Directors.

SECTION 4.1. Notes, Checks, Other Instruments. All notes, drafts, acceptances, checks, endorsements, and all evidences of indebtedness of the Corporation whatsoever, shall be signed by such officer or officers or such agent or agents of the Corporation and in such manner as the Board of Directors from time to time may determine. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may determine.

SECTION 4.2. Proxies. Proxies to vote with respect to shares of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the Chairman of the Board, the President any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or by any other person or persons thereunto authorized by the Board of Directors.

ARTICLE V

SHARES

SECTION 5.0. Certificates for Shares. Shares in the corporation may be issued in book-entry form or evidenced by certificates. However, every holder of shares in the Corporation shall be entitled upon request to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the

President or a Vice President and the Secretary or an Assistant Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of the Chairman of the Board, the President, Vice President, Secretary, and Assistant Secretary, the signature of the transfer agent and registrar, and the Seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof. Every certificate shall state on its face (or in the case of book-entry shares, the statements evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom it is issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon written request and without charge, a summary of the designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series). Every certificate (or book-entry statement) shall state whether such shares have been fully paid and are non-assessable. If any such shares are not fully paid, the certificate (or book-entry statement) shall be legibly stamped to indicate the percentum which has been paid up, and as further payments are made thereon, the certificate shall be stamped (or book-entry statement updated) accordingly. Subject to the foregoing provisions, certificates representing shares in the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificates representing such share (if any), the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

SECTION 5.1. Transfer of Shares. Transfer of shares of the Corporation shall be made on the books of the Corporation by the holder of record thereof, or by the shareholder's attorney thereunto duly authorized in writing and filed with the Secretary of the Corporation or any of its transfer agents, and on surrender of the certificate or certificates (if any) representing such shares. The Corporation and its transfer agents and registrars, shall be entitled to treat the holder of

record of any share or shares the absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such share or shares on the part of any other person whether or not it or they shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Indiana. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

SECTION 5.2. Regulations. Subject to the provisions of this Article V the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer and regulation of certificates for shares or book-entry shares of the Corporation.

SECTION 5.3. Transfer Agents and Registrars. The Board of Directors may appoint one or more transfer agents, one or more registrars, and one or more agents to act in the dual capacity of transfer agent and registrar with respect to the certificates representing shares and the book-entry shares of the Corporation.

SECTION 5.4. Lost or Destroyed Certificates. The holders of any shares of the Corporation shall immediately notify the Corporation or one of its transfer agents and registrars of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it alleged to have been lost or destroyed upon such terms and under such regulations as may be adopted by the Board of Directors or the Secretary, and the Board of Directors or Secretary may require the owner of the lost or destroyed certificate or the owner's legal representatives to give the Corporation a bond in such form and for such amount as the Board of Directors or Secretary may direct, and with such surety or sureties as may be satisfactory to the Board of Directors or the Secretary to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against it or any such transfer agent or registrar on account of the alleged lose or destruction of any such certificate or the issuance of such new certificate. A new certificate may he issued without requiring any bond when, in the judgment of the Board of Directors or the Secretary, it is proper so to do.

SECTION 5.5 Redemption of Shares Acquired in Control Share Acquisitions. Any or all control shares acquired in a control share acquisition shall be subject to redemption by the Corporation, if either:

(a) No acquiring person statement has been filed with the Corporation with respect to the control share acquisition; or

(b) The control shares are not accorded full voting rights by the Corporation's shareholders as provided in IC 23-1-42-9.

A redemption pursuant to Section 5.5(a) may be made at any time during the period ending sixty (60) days after the date of the last acquisition of control shares by the acquiring person. A redemption pursuant to Section 5.5(b) may be made at any time during the period ending two (2) years after the date of the shareholder vote with respect to the voting rights of the control shares in question. Any redemption pursuant to this Section 5.5 shall be made at the fair value of the control shares and pursuant to such procedures for the redemption as may be set forth in these By-laws or adopted by resolution of the Board of Directors.

As used in this Section 5.5, the terms "control shares," "control share acquisition," "acquiring person statement" and "acquiring person" shall have the meanings ascribed to them in IC 23-1-42.

ARTICLE VI

INDEMNIFICATION

SECTION 6.0. Right to Indemnification. The Corporation shall, to the fullest extent permitted by applicable law now or hereafter in effect, indemnify any person who is or was a director, officer or employee of the Corporation ("Eligible Person") and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending, or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such Eligible Person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, member, manager, trustee, employee, fiduciary or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines or penalties against (including excise taxes assessed with respect to an employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such Eligible Person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Proceeding commenced by a current or former director, officer or employee of the Corporation except for such a Proceeding commenced following a Change in Control (as hereafter defined) with respect to actions or failure to act prior to such Change in Control. Any right of an Eligible Person to indemnification shall be a

contract right and shall include the right to receive, prior to the conclusion of any Proceeding, advancement of any expenses incurred by the Eligible Person in connection with such Proceeding in accordance with Section 6.3.

SECTION 6.1. Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any Eligible Person against any expense, judgments, fines and amounts paid in settlement as specified in Section 6.0 of this Article or incurred by any Eligible Person in connection with any Proceeding referred to in such section, to the fullest extent permitted by applicable law now or hereafter in effect. The Corporation may enter into agreements with any director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity supplemental to or in furtherance of the provisions of this Article and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification and advancement of expenses as provided in this Article.

SECTION 6.2. Non-Exclusive Rights; Applicability to Certain Proceedings. The rights provided in this Article shall not be exclusive of any other rights to which any Eligible Person may otherwise be entitled, and the provisions of this Article shall inure to the benefit of the heirs and legal representatives of any Eligible Person and shall be applicable to Proceedings commenced or continuing after the adoption of this Article, whether arising from acts or omissions occurring before or after such adoption.

SECTION 6.3. Advancement of Expenses. All reasonable expenses incurred by or on behalf of an Eligible Person in connection with any Proceeding shall be advanced to the Eligible Person by the Corporation within sixty (60) days after the receipt by the Corporation of a statement or statements from the Eligible Person requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding unless a determination has been made pursuant to Section 6.4 that such Eligible Person is not entitled to indemnification. Any such statement or statements shall reasonably evidence the expenses incurred by the Eligible Person and shall include any written affirmation or undertaking to repay advances if it is ultimately determined that the Eligible Person is not entitled to indemnification under this Article.

SECTION 6.4. Procedures; Presumptions and Effect of Certain Proceedings; Remedies. In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions

and remedies shall apply with respect to and the right to indemnification and advancement of expenses under this Article.

(a) To obtain indemnification under this Article, an Eligible Person shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Eligible Person and reasonably necessary to determine whether and to what extent the Eligible Person is entitled to indemnification (the "Supporting Documentation"). The determination of the Eligible Person's entitlement to indemnification shall be made not later than sixty (60) days after receipt by the Corporation of the written request together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such request, advise the Board in writing of the Eligible Person's request.

(b) An Eligible Person's entitlement to indemnification under this Article shall be determined in one of the following methods, such method to be selected by the Board of Directors, regardless of whether there are any Disinterested Directors (as hereinafter defined): (i) by a majority vote of the Disinterested Directors, if they constitute a quorum of the Board; (ii) by a written opinion of Special Counsel (as hereinafter defined) if (A) a Change in Control shall have occurred and the Eligible Person so requests or (B) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (iii) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to the shareholders for their determination); or (iv) as provided in subsection (d).

(c) In the event of the determination of entitlement is to be made by Special Counsel, a majority of the Disinterested Directors shall select the Special Counsel, but only Special Counsel to which the Eligible Person does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Eligible Person shall select such Special Counsel, but only Special Counsel to which a majority of the Disinterested Directors does not reasonably object.

(d) Except as otherwise expressly provided in this Article, if a Change in Control shall have occurred, the Eligible Person shall be presumed to be entitled to indemnification (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with the Supporting Documentation in accordance with subsection (a), and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under subsection (c) to determine entitlement shall not have been appointed or shall not have made a determination within sixty (60) days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Eligible

Person shall be deemed to be, and shall be, entitled to indemnification and advancement of expenses unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of an Eligible Person to indemnification or create a presumption that the Eligible Person did not act in good faith and in a manner which the Eligible Person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal proceeding, that the Eligible Person had reasonable cause to believe that his or her conduct was unlawful.

(e) In the event that a determination is made that the Eligible Person is not entitled to indemnification (i) the Eligible Person shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Eligible Person's sole option, in (A) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (B) an arbitration to be conducted in Indianapolis, Indiana, by a single arbitrator pursuant to the rules of the American Arbitration Association; (ii) in any such judicial proceeding or arbitration the Eligible Person shall not be prejudiced by reason of the prior determination pursuant to this Section 6.4; and (iii) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Eligible Person is not entitled to indemnification but only with respect to actions or failures to act occurring prior to such Change in Control.

(f) If a determination shall have been made or deemed to have been made that the Eligible Person is entitled to indemnification, the Corporation shall be obligated to pay the amounts incurred by the Eligible Person within ten (10) days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (i) the Eligible Person misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (ii) such indemnification is prohibited by law. In the event that (A) any advancement of expenses is not timely made pursuant to section 6.3 or (B) payment of indemnification is not made within ten (10) days after a determination of entitlement to indemnification has been made, the Eligible Person shall be entitled to seek judicial enforcement of the Corporation's obligation, to pay to the Eligible Person such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the State of Indiana or any other court of competent jurisdiction, contesting the right of the Eligible Person to receive indemnification hereunder due to the occurrence of an event described in clause (i) or (ii) of

this subsection (f) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(g) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 6.4 that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by the provisions of this Article.

(h) In the event that the Eligible Person seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of this Article, the Eligible Person shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation, against, any expenses actually and reasonably incurred by the Eligible Person if the Eligible Person prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Eligible Person is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Eligible Person in connection with such judicial adjudication or arbitration shall be prorated accordingly.

SECTION 6.5. Certain Definitions. For purposes of this Article:

(a) "Change in Control" means any of the following events: (i) the acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), other than (A) the Corporation, (B) any subsidiary of the Corporation, (C) any employee benefit plan or employee stock plan of the Corporation or a subsidiary of the Corporation or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (D) Lilly Endowment, Inc., of "beneficial ownership" as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 20% or more of the shares of the Corporation's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board (or which would have such voting power but for the application of IC 23-1-42-1 through IC 23-1-42-11) ("Voting Stock"); (ii) the first day on which less than two-thirds of the total membership of the Board shall be Continuing Directors (as such term is defined in Article 13.(f) of the Articles of Incorporation); (iii) the approval by the shareholders of the Corporation of a merger, share exchange, or consolidation of the Corporation (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the Voting Stock of the Corporation or such surviving entity

immediately after such Transaction; or (iv) approval by the shareholders of the Corporation of a complete liquidation of the Corporation or a sale of disposition of all or substantially all the assets of the Corporation.

(b) "Disinterested Director" means a Director who is not or was not a party to the Proceeding in respect of which indemnification is sought by the Eligible Person.

(c) "Special Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent any other party to the Proceeding giving rise to a claim for indemnification under this Article. In addition, any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Eligible Person in an action to determine the Eligible Person's rights under this Article may not act as Special Counsel.

SECTION 6.6. Indemnification of Agents. Notwithstanding any other provisions of this Article, the Corporation may, consistent with the provisions of applicable law, indemnify any person other than a director, officer or employee of the Corporation who is or was an agent of the Corporation and who is or was involved in any manner (including, without limitation, as party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an agent of the Corporation or, at the request of the Corporation, a director, officer, partner, member, manager, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such person in connection with any such Proceeding, consistent with the provisions of applicable law.

SECTION 6.7. Effect of Amendment or Repeal. Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article shall adversely affect the rights of any Eligible Person under this Article (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Eligible Person.

SECTION 6.8. Severability. If any of this Article shall be held to be invalid, illegal or unenforceable for any reason

whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article (including, without limitation, all portions of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article (including, without limitation, all portions of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VII

MISCELLANEOUS

SECTION 7.0. Corporate Seal. The Seal of the Corporation shall consist of a circular disk around the circumference of which shall appear the words:

"ELI LILLY AND COMPANY, INDIANAPOLIS, INDIANA"

and across the center thereof the words:

"Established 1876 Incorporated 1901".

SECTION 7.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of the following December.

SECTION 7.2. Amendment of By-laws. These By-law may be amended or repealed and new By-laws may be adopted by the affirmative vote of at least a majority of the actual number of directors elected and qualified at any regular or special meeting of the Board of Directors, provided that: (a) the notice or waiver of notice of such meeting states in effect that consideration is to be given at such meeting to the amendment or repeal of the By-laws or the adoption of new By-laws; (b) no provision of these By-laws incorporating a provision of Articles 9, 13 or 14 of the Article of Incorporation may be amended except in a manner consistent with those Articles as they may be amended in compliance with the requirements stated therein; and (c) any amendment to Articles I and VI of these By-laws shall require the affirmative vote of a majority of (i) the actual number of directors elected and qualified, and (ii) the Continuing Directors, as defined in Article 13.(f) of the Articles of Incorporation.

* * *

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

Eli Lilly and Company and Subsidiaries

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
	(In millions except per-share data)			
PRIMARY:				
Net income (loss).....	\$456.9	\$415.6	\$(842.6)	\$1,150.5
Preferred stock dividends.....	(0.7)	(0.9)	(2.0)	(2.6)
	-----	-----	-----	-----
Adjusted net income (loss).....	\$456.2	\$414.7	\$(844.6)	\$1,147.9
	=====	=====	=====	=====
Average number of common shares outstanding.....	1,101.8	1,092.9	1,101.1	1,093.4
Add incremental shares:				
Stock plans and contingent payments.....	31,614	22,280	-	25,162
	-----	-----	-----	-----
Adjusted average shares.....	1,133.4	1,115.2	1,101.1	1,118.5
	=====	=====	=====	=====
Primary earnings (loss) per share.....	\$0.40	\$0.37	\$(0.77)	\$1.03
	=====	=====	=====	=====
FULLY DILUTED:				
Net income (loss).....	\$456.9	\$415.6	\$(842.6)	\$1,150.5
Preferred stock dividends.....	(0.7)	(0.9)	(2.0)	(2.6)
	-----	-----	-----	-----
Adjusted net income (loss).....	\$456.2	\$414.7	\$(844.6)	\$1,147.9
	=====	=====	=====	=====
Average number of common shares outstanding.....	1,101.8	1,092.9	1,101.1	1,093.4
Add incremental shares:				
Stock plans and contingent payments.....	34,007	25,608	-	30,054
	-----	-----	-----	-----
Adjusted average shares.....	1,135.8	1,118.5	1,101.1	1,123.4
	=====	=====	=====	=====
Fully diluted earnings (loss) per share.....	\$0.40	\$0.37	\$(0.77)	\$1.02
	=====	=====	=====	=====

For the nine months ended September 30, 1997, since the inclusion of stock options and contingent payments would be anti-dilutive, primary and fully diluted earnings per share have been calculated assuming no incremental shares.

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

Eli Lilly and Company and Subsidiaries
(Dollars in Millions)

	Nine Months Ended September 30, 1997 ----	Years Ended December 31,				
		1996 ----	1995 ----	1994 ----	1993 ----	1992 ----
Consolidated Pretax Income (loss) from Continuing Operations before Accounting Changes.....	\$ (99.8)	\$2,031.3	\$1,765.6	\$1,698.6	\$ 662.8	\$1,193.5
Interest from Continuing Operations.....	199.0	324.9	324.6	129.2	96.1	108.4
Less Interest Capitalized during the Period from Continuing Operations.....	(18.6)	(36.1)	(38.3)	(25.4)	(25.5)	(35.2)
Earnings.....	\$ 80.6 =====	\$2,320.1 =====	\$2,051.9 =====	\$1,802.4 =====	\$733.4 =====	\$1,266.7 =====
Fixed Charges(1).....	\$ 201.7 =====	\$ 329.6 =====	\$ 324.6 =====	\$ 129.2 =====	\$ 96.1 =====	\$ 108.4 =====
Ratio of Earnings to Fixed Charges.....	0.4(2) =====	7.0 =====	6.3 =====	14.0 =====	7.6 =====	11.7 =====

- (1) Fixed charges include interest from continuing operations for all years presented and beginning in 1996, preferred stock dividends.
- (2) Included in the 1997 earnings is a non-cash charge of \$2,443 million due to an asset impairment. See notes to consolidated condensed financial statements. If the asset impairment charge had not occurred, the ratio of earnings to fixed charges would have been 12.5.

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1,000

9-MOS
DEC-31-1997
SEP-30-1997
1,504,144
36,775
1,641,117
61,444
914,719
4,609,102
7,023,242
2,928,055
11,819,157
3,647,031
2,343,798
702,020
0
0
3,688,873
11,819,157
5,783,936
6,101,770
1,442,998
1,677,886
5,047,876
0
180,432
(99,841)
742,722
(842,563)
0
0
0
(842,563)
(.77)
(.77)

Amounts include research and development, selling and general and administrative expenses.

The information called for is not given as the balances are not individually significant.

EXHIBIT 99 CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES
LITIGATION REFORM ACT OF 1995 - "SAFE HARBOR" FOR
FORWARD-LOOKING DISCLOSURES

Certain forward-looking statements are included in this Form 10-Q and may be made by Company spokespersons based on current expectations of management. All forward-looking statements made by the Company are subject to risks and uncertainties. Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

- - Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates.

- - Competitive factors including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and technological advances and patents obtained by competitors.

- - Governmental factors including laws, regulations, and judicial decisions at the state and federal level related to Medicare, Medicaid and healthcare reform; and laws and regulations affecting international pricing and pharmaceutical reimbursement.

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

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

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

- - Legal factors including unanticipated litigation of product liability claims; antitrust litigation; environmental matters; and patent disputes with competitors (including the pending Prozac patent litigation with Barr and Geneva, discussed in the Company's 10-K and 10-Q filings) which could preclude commercialization of products or negatively affect the profitability of existing products.

- - Future difficulties obtaining or the inability to obtain existing levels of product liability insurance.

- - Changes in tax laws, including the amendment to the Section 936 income tax credit, and future changes in tax laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates.

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

- - Internal factors such as changes in business strategies and the impact of restructurings, impairments in asset carrying values and business combinations.