SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes ☒ No ☐

The number of shares of common stock outstanding as of October 31, 2002:

Class	Number of Shares Outstanding
Common	1,123,373,623

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,	
	2002	2001	2002	2001
	(Dollars in millions except per-share data)			
Net sales	$2,785.6	$2,874.4	$8,121.9	$8,713.6
Cost of sales	553.7	549.0	1,608.7	1,593.5
Research and development	526.7	566.0	1,575.0	1,645.2
Marketing and administrative	810.7	865.9	2,503.2	2,534.7
Acquired in-process research and development	84.0	90.5	84.0	90.5
Asset impairment and other site charges	—	121.4	—	121.4
Interest expense	22.3	41.9	55.8	123.7
Other income-net	(74.6)	(75.6)	(218.5)	(206.2)
	1,922.8	2,159.1	5,608.2	5,902.8
Income before income taxes and extraordinary item	862.8	715.3	2,513.7	2,810.8
Income taxes	178.9	128.6	542.1	589.6
Income before extraordinary item	683.9	586.7	1,971.6	2,221.2
Extraordinary item, net of tax	—	(16.6)	—	(16.6)
Net income	$ 683.9	$ 570.1	$1,971.6	$2,204.6
Earnings per share — basic:				
Income before extraordinary item	$ .64	$ .55	$ 1.83	$ 2.06
Extraordinary item	—	(.02)	—	(.02)
Net income	$ .64	$ .53	$ 1.83	$ 2.04
Earnings per share — diluted:				
Income before extraordinary item	$ .63	$ .54	$ 1.82	$ 2.04
Extraordinary item	—	(.02)	—	(.02)
Net income	$ .63	$ .52	$ 1.82	$ 2.02
Dividends paid per share	$ .31	$ .28	$ .93	$ .84

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS

ELI LILLY AND COMPANY AND SUBSIDIARIES

	September 30, 2002	December 31, 2001
	(Unaudited)	(Dollars in millions)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,786.2	$ 2,702.3
Short-term investments	1,549.3	1,028.7
Accounts receivable, net of allowances of $74.1 (2002) and $88.5 (2001)	1,525.4	1,406.2
Other receivables	305.1	289.0
Inventories	1,378.4	1,060.2
Deferred income taxes	212.8	223.3
Prepaid expenses	556.0	229.2
TOTAL CURRENT ASSETS	8,313.2	6,938.9
OTHER ASSETS		
Prepaid pension	1,212.8	1,102.8
Investments	3,034.2	2,710.9
Sundry	1,371.5	1,149.1
	5,618.5	4,962.8
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	9,117.6	8,415.4
Less allowances for depreciation	(4,129.2)	(3,883.0)
	4,988.4	4,532.4
	$ 18,920.1	$ 16,434.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 884.3	$ 286.3
Accounts payable	499.4	624.1
Employee compensation	193.7	381.9
Dividends payable	—	341.0
Income taxes payable	1,919.8	2,319.5
Other liabilities	1,520.3	1,250.2
TOTAL CURRENT LIABILITIES	5,017.5	5,203.0
LONG-TERM DEBT	4,363.1	3,132.1
OTHER NONCURRENT LIABILITIES	1,278.0	995.0
	5,641.1	4,127.1
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY		
Common stock	702.9	702.7
Additional paid-in capital	2,610.0	2,610.0
Retained earnings	8,614.2	7,411.2
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(125.2)	(129.1)
Accumulated other comprehensive loss	(774.4)	(748.4)
	8,392.5	7,211.4
Less cost of common stock in treasury	131.0	107.4
	8,261.5	7,104.0
	$ 18,920.1	$ 16,434.1

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,	
	2002	2001
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,971.6	$ 2,204.6
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities	(1,397.0)	(390.5)
Depreciation and amortization	393.3	377.3
Change in deferred taxes	343.4	246.4
Acquired in-process research and development, net of tax	54.6	58.8
Asset impairment and other site charges, net of tax	—	78.9
Other, net	9.8	5.5
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,375.7	2,581.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(740.0)	(570.6)
Purchase of investments	(1,286.1)	(2,743.8)
Proceeds from sale of investments	462.0	30.5
Purchase of in-process research and development	(84.0)	(59.6)
Other, net	(163.3)	(136.1)
NET CASH USED FOR INVESTING ACTIVITIES	(1,811.4)	(3,479.6)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,002.0)	(905.4)
Purchase of common stock and other capital transactions	(243.9)	(421.5)
Issuances under stock plans	48.6	83.4
Net change in short-term borrowings	392.9	255.1
Net change in long-term debt	1,203.1	443.9
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	398.7	(544.5)
Effect of exchange rate changes on cash and cash equivalents	120.9	(25.5)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83.9	(1,468.6)
Cash and cash equivalents at January 1	2,702.3	4,114.9
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 2,786.2	$ 2,646.3

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Dollars in millions)			
Net income	$ 683.9	$ 570.1	$ 1,971.6	$ 2,204.6
Other comprehensive income (loss)[1]	(144.6)	71.6	(26.1)	(52.4)
Comprehensive income	$ 539.3	$ 641.7	$ 1,945.5	$ 2,152.2

[1] The significant component of other comprehensive income (loss) was a loss of $118.1 million from the effective portion of our cash flow hedges for the three months ended September 30, 2002. For the nine months ended September 30, 2002, other comprehensive income (loss) consisted of a loss of $198.5 million on the effective portion of our cash flow hedges and the net unrealized losses on securities, offset by a $172.4 million gain from foreign currency translation adjustments. This compares with a gain of $86.8 million and a loss of $38.3 million from foreign currency translation adjustments for the three months and nine months ended September 30, 2001, respectively.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment — pharmaceutical products. Operations of the animal health business are not material and share many of the same economic characteristics as pharmaceutical products. Our business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business was $42 million and $53 million, respectively, for the three months ended September 30, 2002 and 2001, and $145 million and $148 million, respectively, for the nine months ended September 30, 2002 and 2001.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the three months and nine months of 2002 and 2001 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Dollars in millions)			
Net sales — to unaffiliated customers				
Neurosciences	$1,228.8	$1,323.4	$3,447.3	$4,137.4
Endocrinology	871.9	792.8	2,515.6	2,306.7
Oncology	203.8	191.3	628.0	533.8
Animal health	167.6	177.5	497.6	497.7
Cardiovascular	150.2	137.2	455.0	429.6
Anti-infectives	124.7	162.5	438.8	550.7
Other pharmaceuticals	38.6	89.7	139.6	257.7
Net sales	$2,785.6	$2,874.4	$8,121.9	$8,713.6

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

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

CONTINGENCIES

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. (“Zenith”), had submitted an abbreviated new drug application (ANDA) seeking permission to market a generic version of Zyprexa® in various dosage forms several years prior to the expiration of our U.S. patents for the product. Zenith alleges that our patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith’s challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy’s Laboratories, Ltd. (“Reddy”), had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, in January 2002, Reddy filed an ANDA for additional dosage forms and in February 2002, we filed an infringement suit in the same court based on Reddy’s later ANDA. We received notice in August 2002, of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. The cases have been consolidated and are in the discovery stage. We currently expect a trial date to be scheduled for the fourth quarter of 2003. We believe that the generic manufacturers’ patent claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October, 2002, we were notified that Barr Laboratories, Inc. (Barr) had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. We believe the challenges to be without merit and intend to vigorously defend our patents. While we expect to prevail, it is not possible to predict or determine the outcome of the challenge to the patents and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We have been named as a defendant in numerous product liability lawsuits. We have accrued for the estimated exposure with respect to all current product liability claims. In addition, we have accrued for certain claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. We expect the cash amounts related to the accruals to be paid out over the next several years. A portion of the costs associated with defending and disposing of these suits is covered by insurance. We estimate insurance recoverables based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among the insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, we have been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. We also continue remediation of certain of our own sites. We have accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, 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. We have reached a settlement with our primary liability insurance carrier and certain excess carriers providing for coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

The environmental liabilities and litigation accruals have been reflected in our consolidated balance sheet at the gross amount of approximately $196.5 million at September 30, 2002. Estimated insurance recoverables of approximately $120.9 million at September 30, 2002, have been reflected as assets in the consolidated balance sheet.

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

As previously disclosed, we reached agreement with the Internal Revenue Service (IRS) with respect to its examination of the tax years 1996 and 1997. Resolution of the examination did not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

EARNINGS PER SHARE

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

SHAREHOLDERS' EQUITY

As of September 30, 2002, we have purchased $1.66 billion of our announced $3.0 billion share repurchase program. We purchased approximately 2.9 million shares during the first nine months of 2002 at a net cost of approximately $247.0 million. In connection with the share repurchase program, we have entered into agreements to purchase shares of our stock. As of September 30, 2002, we have agreements to purchase up to approximately 3.7 million shares of our stock from an independent third party at various times through December 2003 at prices ranging from $89 to $100 per share and with a weighted average of approximately $92 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. In addition, as of September 30, 2002, equity forward contracts, which provide for purchase of a total of approximately 900,000 shares, remain outstanding at $83 per share, expiring in November 2002. The arrangements for purchase of our stock allow us, at our discretion, to repurchase the shares for cash or deliver to the holder cash or shares for the difference between the contractual exercise price and the market price of our stock. Our objective in entering into the above agreements was to reduce the average price of repurchased shares.

ACCOUNTING CHANGES

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 applies to all business combinations with a closing date after June 30, 2001, and effectively eliminates the pooling-of-interests method of accounting and further clarifies the recognition of intangible assets separately from goodwill.

SFAS 142 applies to all acquired intangible assets. It requires that goodwill and other identifiable intangible assets with an indefinite useful life not be amortized but instead be tested for impairment at least annually. Identifiable intangible assets are amortized when their useful life is determined to no longer be indefinite. The adoption of this statement on January 1, 2002, did not have a material impact on our consolidated financial position or results of operations.

In 2001, the FASB issued SFAS 143, “Accounting for Asset Retirement Obligations.” SFAS 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, which is adjusted to its present value each period. In addition, companies must capitalize a corresponding amount by increasing the carrying amount of the related long-lived asset, which is depreciated over the useful life of the related long-lived asset. We will adopt SFAS 143 on January 1, 2003, and the adoption of this statement will have no impact on our consolidated financial position or results of operations.

In 2001, the FASB issued SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS 144 provides additional restrictive criteria that would have to be met to classify an asset as held-for-sale. This statement also requires expected future operating losses from discontinued operations to be recorded in the period in which the losses are incurred (rather than as of the date management commits to a formal plan to dispose of a segment as previously required). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. We have adopted SFAS 144 effective January 1, 2002, and any future impairments or disposals of long-lived assets will be subject to this statement.

In April 2002, the FASB issued SFAS 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” SFAS 145 eliminates the classification of debt extinguishments as extraordinary items. We are required to adopt this statement effective no later than January 1, 2003, and our prior extraordinary items resulting from debt extinguishments will be reclassified as interest expense. The adoption of this statement will have no impact on our net results of operations.

In July 2002, the FASB issued SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Severance pay under SFAS 146, in many cases, would be recognized over the remaining service period rather than at the time the plan is communicated. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We plan to adopt SFAS 146 effective January 1, 2003, and any future exit costs or disposal activities will be subject to this statement.

UNUSUAL ITEMS

In the third quarter of 2002, we entered into a collaboration arrangement with Amylin Pharmaceuticals, Inc. (Amylin), to jointly develop and commercialize Amylin’s synthetic exendin-4 compound, a potential treatment for type 2 diabetes. In the third quarter of 2001, we entered into collaboration arrangements with two companies. In August 2001, we licensed Isis Pharmaceuticals, Inc.’s (Isis) non-small-cell lung cancer treatment and entered into an agreement regarding an ongoing research collaboration. In September 2001, we entered into a collaboration with Bioprojet, Société Civile de Recherche (Bioprojet) to jointly develop and commercialize a vasopeptidase inhibitor (fasidotril) for hypertension and chronic heart failure.

These compounds are in the development phase (late Phase II and early Phase III clinical trials) and no alternative future uses were identified. As with many late Phase II/early Phase III compounds, launch of the products, if approved, is not expected in the near term. Our charge for acquired in-process research and development expense related to these arrangements totaled $84.0 million in the third quarter of 2002 and $90.5 million in the third quarter of 2001.

We periodically assess our worldwide manufacturing capacity to maximize the efficiency of our worldwide manufacturing operations. As a result of this strategic review, we recognized asset impairments and other site charges totaling $121.4 million in the third quarter of 2001. The charges principally consist of impairments of facilities and equipment that were substantially disposed of or destroyed in 2002, termination of third-party manufacturing arrangements, and a plant closure in Taiwan. The impairment charges were necessary to adjust the carrying value of certain manufacturing assets to fair value. The fair value of the assets was estimated based upon anticipated future cash flows, discounted at a rate commensurate with the risk involved. Approximately $18 million of this charge was for severance-related costs, which were fully expended during 2002.

In the third quarter of 2001, we repurchased certain debt due in 2006-2036 with interest rates higher than the then-current prevailing rates. As a result of this debt repurchase, we recognized an extraordinary charge of $25.6 million ($16.6 million net of income taxes).

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

OPERATING RESULTS

Reported net income was $683.9 million, or $.63 per share, for the third quarter of 2002 compared with $570.1 million, or $.52 per share, for the third quarter of 2001, representing increases in earnings of 20 percent and earnings per share of 21 percent. Reported net income was $1.97 billion, or $1.82 per share, for the first nine months of 2002 compared with $2.20 billion, or $2.02 per share, for the first nine months of 2001. Reported net income and earnings per share for the first nine months of 2002 decreased 11 percent and 10 percent, respectively.

Comparisons between years for both the three- and nine-month periods are made difficult by the impact of several unusual items that are reflected in our operating results in the third quarter of 2002 and the third quarter of 2001. These transactions are summarized as follows (see "Unusual Items" in the Notes to Consolidated Condensed Financial Statements for additional information):

- We incurred a charge for acquired in-process research and development expense related to the collaboration arrangement with Amylin in the third quarter of 2002 totaled $84.0 million, which decreased earnings per share by approximately $.05 in the third quarter of 2002.

- We incurred a charge for acquired in-process research and development expense related to the collaboration arrangements with Isis and Bioprojet in the third quarter of 2001 totaled $90.5 million, which decreased earnings per share by approximately $.05 in the third quarter of 2001.

- We recognized asset impairments and other site charges totaling $121.4 million in the third quarter of 2001 due to actions taken as a result of an assessment of our worldwide manufacturing capacity, which decreased earnings per share by approximately $.07 in the third quarter of 2001.

- We recognized an extraordinary charge of $25.6 million ($16.6 million net of income taxes) from the repurchase of higher interest rate debt, which decreased earnings per share by approximately $.02 in the third quarter of 2001.

Excluding these unusual items, net income for the three- and nine-month period ended September 30, 2002, would have been $738.5 million and $2.03 billion, or $.68 and $1.87 per share, respectively, while net income for the three- and nine-month period of 2001 would have been $723.2 million and $2.36 billion, or $.66 and $2.16 per share, respectively. Adjusted for these unusual items, net income and earnings per share for the third quarter of 2002 increased 2 percent and 3 percent, respectively, and net income and earnings per share for the first nine months of 2002 decreased 14 and 13 percent, respectively.

Adjusted net income and earnings per share for the third quarter of 2002 increased due to lower operating and interest expenses. Adjusted net income and earnings per share for the first nine months of 2002 declined primarily due to the result of lower sales of Prozac. Our net income was favorably affected by increased sales of certain of our growth products, including Zyprexa, Humalog®, Evista®, and Gemzar®. Earnings per share for the three- and nine-month periods of 2002 benefited slightly from a lower number of shares outstanding, resulting from our share repurchase program.

A reconciliation of reported and adjusted earnings per share for the three- and nine-month periods follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Diluted earnings per share (as reported)	$ .63	$ .52	$ 1.82	$ 2.02
Add back one-time charges:				
In-process research and development	.05	.05	.05	.05
Asset impairment and other site charges	—	.07	—	.07
Early retirement of debt	—	.02	—	.02
Diluted earnings per share (as adjusted)	$ .68	$ .66	$ 1.87	$ 2.16

Our sales for the third quarter of 2002 decreased 3 percent, to $2.79 billion, compared with the third quarter of 2001 due primarily to the decline in Prozac sales and, to a lesser extent, continued declines in sales of anti-infectives and Axid. The decrease was partially offset by the continued sales growth of certain key growth products. Sales in the U.S. decreased 12 percent, to $1.64 billion, for the third quarter of 2002 compared with the third quarter of 2001 due primarily to the decline in Prozac sales. Sales outside the U.S. increased 13 percent, to $1.15 billion, for the third quarter of 2002 compared with the third quarter of 2001, led by strong growth in Zyprexa, Gemzar, Evista, and the diabetes care products. Worldwide sales for the third quarter reflected a volume decrease of 3 percent and a 1 percent decrease in global selling prices, partially offset by a favorable exchange rate impact of 1 percent. Excluding Prozac, our sales for the third quarter of 2002 increased 7 percent worldwide. In addition, global sales volume increased 6 percent, excluding Prozac.

Our sales for the first nine months of 2002 decreased 7 percent, to $8.12 billion, compared with the first nine months of 2001 due primarily to the decline in Prozac sales in the U.S. Sales in the U.S. decreased 15 percent, to $4.81 billion, for the first nine months of 2002 compared with the first nine months of 2001 due primarily to the decline in Prozac sales. Sales outside the U.S. increased 9 percent, to $3.31 billion, for the first nine months of 2002 compared with the first nine months of 2001. Worldwide sales reflected a volume decrease of 6 percent, and a 1 percent decrease in global selling prices, while the exchange rate impact was flat. Excluding Prozac, our sales for the first nine months of 2002 increased 9 percent worldwide. In addition, global sales volume increased 9 percent, excluding Prozac.

Zyprexa had worldwide sales of $974.0 million and $2.70 billion for the third quarter and nine-month period of 2002, respectively, representing increases of 20 percent and 24 percent compared with the same periods of 2001. U.S. sales increased 18 percent, to $683.2 million, for the quarter and 21 percent, to $1.87 billion, for the nine-month period. Sales outside the U.S. increased 24 percent, to $290.8 million, for the quarter and 31 percent, to $829.0 million, for the nine-month period. In the second quarter of 2002, the Ministry of Health, Labor, and Welfare in Japan specified a label change for Zyprexa in the Japanese market, where it was launched in the second quarter of 2001, to include a contraindication in patients with diabetes or a history of diabetes. This label change had a negative effect on sales growth rate in Japan. At the end of June 2002, our European sales forces began promoting Zyprexa for use in treating manic episodes associated with bipolar disorder.

Diabetes care products, composed primarily of Humulin®, Humalog®, and Actos®, had worldwide revenues of $571.3 million and $1.69 billion for the quarter and nine-month period of 2002, respectively, representing increases of 7 percent compared with the same periods of 2001. Diabetes care revenues in the U.S. decreased 3 percent, to $341.1 million, for the quarter, primarily due to the decline in Actos revenue, and increased 4 percent, to $1.06 billion, for the nine-month period. Sales outside the U.S. increased 27 percent, to $230.2 million, for the quarter and 13 percent, to $625.7 million, for the nine-month period. Worldwide Humulin sales increased 1 percent, to $257.4 million, for the quarter and decreased 5 percent, to $749.6 million, for the nine-month period. Worldwide Humalog sales of $214.1 million for the quarter

and $596.2 million for the nine-month period of 2002 increased 30 percent and 37 percent compared with the prior periods, respectively. The increase in Humalog is due in part to continued shifting by patients from Humulin to Humalog. We received service revenues related to the sales of Actos of $81.7 million in the third quarter and $296.1 million for the nine-month period of 2002, representing a decrease of 14 percent and an increase of 1 percent compared with the prior periods. Actos is manufactured by Takeda Chemical Industries, Ltd., and sold in the U.S. by Takeda Pharmaceuticals North America ("Takeda"). We copromote Actos in the U.S. with Takeda. Despite strong underlying product sales growth, our Actos revenue declined in the third quarter due to the terms of the agreement with Takeda. Specifically, the decline in our Actos revenue for the third quarter of 2002 was driven by two factors: timing of incentive payments earned and lower detail fee income in the third quarter of 2002. As provided in the agreement with Takeda, we attained the minimum sales representative call threshold and earned an incentive payment during the second quarter of 2002 compared with the prior year when the incentive payment was earned in the third quarter of 2001. In addition, we earned less sales representative detail fee income in the third quarter of 2002 per the terms of the current contract.

Gemzar had worldwide sales of $197.2 million and $613.7 million for the third quarter and nine-month period of 2002, respectively, representing increases of 5 and 18 percent, compared with the same periods of 2001. Sales in the U.S. decreased 15 percent, to $93.2 million, for the quarter and increased 11 percent, to $331.6 million, for the nine-month period. The third-quarter decrease in the U.S. was due primarily to U.S. wholesaler stocking in the second quarter of 2002 in anticipation of a price increase that was effective in June 2002, as well as softer underlying U.S. demand for the product as a result of competitive pricing pressures. We expect strong U.S. Gemzar growth in the fourth quarter of 2002. Sales outside the U.S. increased 34 percent, to $104.0 million, for the quarter and 27 percent, to $282.1 million, for the nine-month period.

Evista had worldwide sales of $217.4 million and $583.5 million for the third quarter and nine-month period of 2002, respectively, representing increases of 19 percent and 17 percent compared with the same periods of 2001. U.S. sales increased 11 percent, to $166.1 million, for the quarter and 11 percent, to $445.0 million, for the nine-month period. Sales outside the U.S. increased 51 percent, to $51.3 million, for the quarter and 43 percent, to $138.5 million, for the nine-month period.

Prozac, Prozac Weekly™, and Sarafem™ (collectively "fluoxetine products") had combined worldwide sales of $189.9 million and $570.9 million for the third quarter and nine-month period of 2002, respectively, representing decreases of 58 percent and 68 percent compared with the same periods of 2001. Fluoxetine product sales in the U.S. decreased 68 percent, to $119.3 million, for the quarter and 77 percent, to $353.9 million, for the nine-month period. The worldwide and U.S. sales decreases are a result of the entrance of generic fluoxetine into the U.S. market in August 2001. Prozac sales outside the U.S. decreased 10 percent, to $69.4 million, for the quarter and 13 percent, to $214.0 million, for the nine-month period, primarily due to continuing generic competition.

Anti-infectives had worldwide sales of $124.7 million and $438.8 million for the third quarter and nine-month period of 2002, respectively, representing decreases of 23 percent and 20 percent compared with the same periods of 2001. Lower sales of anti-infectives for both periods were due primarily to continuing competitive pressures. Sales in the U.S. decreased 83 percent and 44 percent for the quarter and nine-month period, respectively. Sales outside the U.S. decreased 11 percent for the quarter and 16 percent for the nine-month period.

ReoPro® had worldwide sales of $92.4 million and $285.2 million for the third quarter and nine-month period of 2002, respectively, representing decreases of 12 percent compared with the same periods of 2001. These decreases are primarily due to continuing competitive pressures.

Xigris® had worldwide sales of $21.2 million and $65.7 million for the third quarter and nine-month period of 2002, respectively. In August 2002, the European Commission granted marketing authorization for Xigris in all 15 member states of the European Union. In October, we launched Xigris in a number of European countries.

For the third quarter of 2002, gross margins declined to 80.1 percent compared with 80.9 percent for the third quarter of 2001. For the nine-month period of 2002, gross margins declined to 80.2 percent compared

with 81.7 percent for the nine-month period of 2001. During the quarter and nine-month period, the decline was due in part to the decline in Prozac sales, higher inventory losses, and additional costs associated with addressing our manufacturing issues, offset partially by a favorable sales mix of other high-margin products and favorable manufacturing throughput from increased volume of product manufactured.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) decreased 7 percent and 2 percent for the third quarter and nine-month period of 2002, respectively. Investment in research and development decreased 7 percent and 4 percent from 2001 amounts, to $526.7 million for the third quarter and to $1.58 billion for the nine-month period. The decrease in research and development expense in the third quarter of 2002 was due primarily to lower late-stage clinical trial costs. The decrease in research and development expenses in the nine-month period was due primarily to lower incentive compensation expense and lower late-stage clinical trial costs as more products were awaiting regulatory approval. The declines were partially offset by investment in our early-stage product pipeline. Despite the decline, we invested approximately 19 percent of our sales in research and development efforts in the third quarter and nine-month period of 2002. In addition, we recorded $84.0 million in the third quarter of 2002 and $90.5 million in the third quarter of 2001 for acquired in-process research and development expenses in connection with our collaborations with Amylin (2002), Isis (2001), and Bioprojet (2001). Marketing and administrative expenses decreased 6 percent from the third quarter of 2001 and 1 percent from the nine-month period of 2001. Marketing and administrative expenses declined due primarily to lower underlying marketing expenses due in part to less Prozac promotional expenses, as well as prelaunch marketing support payments from Quintiles Transnational Corp. (Quintiles) as part of the Cymbalta™ commercialization agreement, discussed further in “Other Matters.” In addition, lower incentive compensation expense contributed to the decline in the nine-month period of 2002. Underlying administrative expenses in the third quarter increased due in part to costs associated with litigation. We are in the process of evaluating the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. Although our evaluation is not finalized, we anticipate decreasing these rates for 2003 by at least .25 percentage point for the discount rate and at least 1 percentage point for the expected return on plan assets due to the recent market and economic conditions. These changes in our discount rate and expected rate of return on plan assets would decrease income before taxes in 2003 by approximately $24 million and $40 million, respectively. The weighted average assumption as of December 31, 2001 for the discount rate was 7.2 percent and the expected return on plan assets was 10.5 percent. Additionally, we are contemplating increasing our health-care-cost trend rate from 6 percent to approximately 10 percent for 2003. The impact of this change would decrease income before taxes in 2003 by approximately $10 million.

Interest expense decreased $19.6 million, to $22.3 million, for the third quarter and decreased $67.9 million, to $55.8 million, for the nine-month period, respectively. The decreases were primarily due to the lower variable interest rates paid for our debt.

Net other income for the third quarter of 2002 decreased $1.0 million, to $74.6 million. Net other income for the nine-month period of 2002 increased $12.3 million, to $218.5 million. Both periods were affected by a combination of income recognized from upfront and milestone payments from Quintiles as part of the Cymbalta commercialization agreement and income recognized from InterMune, Inc., related to the 2001 oritavancin out-license agreement, offset primarily by lower interest income due to lower interest rates.

For the third quarter of 2002, the effective tax rate was 20.7 percent compared with 18.0 percent for the third quarter of 2001. The effective tax rate for the nine-month period of 2002 was 21.6 percent compared with 21.0 percent for the nine-month period of 2001. Excluding the impact of the unusual items previously discussed, the effective tax rate would have been 22.0 percent for all periods presented.

FINANCIAL CONDITION

As of September 30, 2002, cash, cash equivalents, and short-term investments totaled $4.34 billion compared with $3.73 billion at December 31, 2001. Additionally, long-term investments totaled $3.03 billion at September 30, 2002, compared with $2.71 billion at December 31, 2001. Cash flow from operations of $1.38 billion and net cash from issuance of long-term debt of $1.20 billion were offset by the purchase of investments of $1.29 billion, dividends paid of $1.00 billion, and net capital expenditures of $740.0 million.

Our inventories increased by $318.2 million during the nine-month period of 2002, to $1.38 billion, due primarily to foreign currency translation adjustments. In addition, there was inventory build up in anticipation of launch of products for which we have received approvable letters and increased inventory requirements for our growth products.

Total debt reflected in our balance sheet at September 30, 2002, was $5.25 billion, an increase of $1.83 billion from December 31, 2001. We issued approximately $400 million of short-term commercial paper in September 2002 that was repaid in November 2002. The additional increase in long-term debt on our balance sheet was primarily due to the issuance of $500 million of 6 percent 10-year notes in March 2002, a $543 million private placement note in July 2002, $150 million of floating rate bonds in July 2002 maturing in 2031, and the change in fair value of debt hedged with interest rate swaps designated as fair value hedges. Principal and interest are due semiannually over the five-year term of the $543 million private placement note that was executed with a financial institution. In conjunction with this note, we entered into an interest rate swap agreement with the same financial institution, which converts the fixed rate into a variable rate of interest at essentially LIBOR over the term of the note. With respect to the floating rate bonds, interest accrues at LIBOR and will adjust regularly to reflect our six-month credit spread. The interest accumulates over the life of the bonds and is payable upon maturity. Our current debt ratings from Standard & Poor’s and Moody’s remain at AA and Aa3, respectively.

We believe that cash generated from operations in the fourth quarter of 2002, along with available cash and cash equivalents, will be sufficient to fund our remaining 2002 operating needs, including debt service, capital expenditures, share repurchases, payments required by the resolution of the IRS examination for 1996 and 1997, and dividends. Various risks and uncertainties, including those discussed in the “Other Matters” and “Financial Expectations for 2002 and 2003” sections, may affect our operating results and cash flow from operations.

OTHER MATTERS

As a result of preapproval plant inspections for Zyprexa IntraMuscular and Forteo™ in early 2001, the U.S. Food and Drug Administration (FDA) informed us of a number of observations and issued a warning letter regarding adherence to current Good Manufacturing Practices (cGMP) regulations. In response, we have been implementing comprehensive, companywide improvements in our manufacturing operations. In November 2001, following a reinspection of the manufacturing facilities for Zyprexa IntraMuscular and Forteo, the FDA noted additional observations, primarily relating to computer system validation, manufacturing process reviews, and data handling. In the spring of 2002, the FDA conducted a comprehensive review of eight of our global manufacturing sites and issued inspection reports summarizing the investigators’ findings. Fifty observations were noted in the combined inspection reports for the Indianapolis facilities. The findings primarily related to our need to continue to simplify our quality processes, enhance our technical expertise and oversight, and improve our ability to identify the root cause of manufacturing deviations. The number of observations for the inspections outside Indianapolis ranged from zero to a maximum of 16 at one site. Two subsequent inspections, in Puerto Rico and Indianapolis, resulted in no observations at either site. We have provided the FDA with our responses to the observations and, since that time, we have been engaging in discussions with the agency to understand its assessment of our progress in upgrading our manufacturing and quality operations. The FDA has not yet issued its final conclusions and recommendations. We expect to be prepared for a reinspection by the FDA during the first half of 2003, although this has not yet been scheduled.

Approval of certain new products, including Zyprexa IntraMuscular and Cymbalta, will depend on resolution of manufacturing issues in our Indianapolis facilities to the FDA’s satisfaction. The approval of Cialis™ is

not expected to be affected since the manufacturing of this product is planned for outside Indianapolis. The timeline for resolution of these issues is difficult to predict. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the agency's satisfaction could be subject to interruption of production, delays in new drug application (NDA) approvals, recalls, seizures, fines, and other penalties.

In the U.S., pharmaceutical products are subject to increasing pricing pressures, which could be significantly affected by the current national debate over Medicare and Medicaid reform, as well as by actions by individual states to reduce pharmaceutical costs for Medicaid and other programs. Many proposals now being considered at the federal and state levels and, in some cases, implemented at the state level, may result in government agencies demanding discounts from pharmaceutical companies that may expressly or implicitly create price controls on prescription drugs. Litigation that may clarify many of these issues is pending in various state and federal courts. In addition, federal legislation and regulatory changes have been proposed that have the potential to limit the ability of pharmaceutical companies to enforce patent rights. International operations are also generally subject to extensive price and market regulations. As a result, we expect that pressures on pharmaceutical pricing will continue.

On April 29, 2002, Lilly ICOS LLC, our joint venture with ICOS Corporation, received an approvable letter from the FDA for Cialis. FDA approval is contingent upon successful completion of additional clinical pharmacology studies, labeling discussions, and routine manufacturing inspections. We currently plan for FDA approval in the second half of 2003. See Part II, Item 1, Legal Proceedings, for a discussion of U.S. patent litigation involving Cialis. In July 2002, the European Committee for Proprietary Medicinal Products (CPMP) issued a positive opinion for Cialis. The CPMP has recommended to the European Commission that approval should be granted. Following the CPMP's positive opinion, the application will be reviewed by the European Commission, which has authority to grant marketing authorization for the European Union. Such authorization is anticipated later this year. The commercialization of Cialis after authorization is granted is subject to pricing approvals on a country-by-country basis.

The FDA recently conducted a preapproval inspection of Forteo. There were no observations from the inspection and, therefore, the approval is no longer contingent on manufacturing issues. We are currently working with the FDA to finalize the label with final U.S. approval expected early next year.

We received an approvable letter from the FDA for Strattera™, a treatment for attention-deficit hyperactivity disorder in children, adolescents, and adults. Approval is contingent upon labeling discussions and review of additional analyses from existing studies; however, approval is not contingent on the manufacturing issues described above. We plan for final FDA approval by the spring of 2003.

In September 2002, we received an approvable letter from the FDA for Cymbalta, a dual reuptake inhibitor for the treatment of depression. Approval is contingent upon labeling discussions and resolution of the outstanding manufacturing issues.

We recently made U.S. submissions for olanzapine/fluoxetine combination (OFC) for bipolar depression and duloxetine for stress urinary incontinence.

We sold the U.S. marketing rights of the Darvon® and Darvocet-N® family of pain products to and entered into a supply agreement with NeoSan Pharmaceuticals ("NeoSan"), the commercialization business unit of aaiPharma, Inc., at the end of the first quarter of 2002. The purchase price of $211.4 million is subject to potential reductions based on initial product sales performance. We will amortize the purchase price to revenue over the expected three-year period in which we will manufacture the products for NeoSan.

In July 2002, we entered into an agreement with Quintiles whereby Quintiles will support us in the commercialization efforts for Cymbalta in the U.S. Quintiles will provide, at its expense, more than 500 sales representatives to supplement our sales force in the promotion of Cymbalta for the five years following product launch. Quintiles is responsible for milestone payments and marketing reimbursements due to us in stages, most of which were contingent upon our receipt of an approvable letter from the FDA (which was received in September 2002) and upon the launch of the product. Future payments could total as much as $40 million. We will pay Quintiles 8.25 percent of U.S. Cymbalta sales for depression and other

neuroscience-related indications over the five-year promotion period and a 3 percent royalty over the following three years.

FINANCIAL EXPECTATIONS FOR 2002 AND 2003

As noted previously, in early August 2001, generic fluoxetine was introduced in the U.S. market. As a result, sales of Prozac have experienced a very steep decline. While the Prozac decline significantly affected results of operations for the 12 months following August 2001, its impact on our consolidated financial position and liquidity is not material due to the continued growth of Zyprexa, Humalog, Gemzar, Evista, Actos, and Xigris.

We continue to expect a slight decline in sales for the full-year 2002. However, the sales in the fourth quarter of 2002 are expected to return to growth and be in the mid-single digits, driven primarily by Zyprexa, Evista, Gemzar, Humalog, and Actos.

For full-year 2002, we expect gross margin as a percentage of sales to decline about 1.0 to 1.5 percentage points. Marketing and administrative expenses are expected to increase in the low-single digits. Underlying marketing and selling expenses will increase more strongly as we maintain the marketing momentum for our current growth products and prepare for the launch of new products. Research and development expenses are expected to be slightly lower. Nonoperating income is expected to contribute at least $250 million, assuming anticipated business development transactions occur. The tax rate is expected to remain at 22 percent, excluding unusual items.

For the 2002 calendar year, earnings per share is expected to decline, and we are currently comfortable with a range of $2.55 to $2.57, excluding unusual items, a reduction from our prior guidance of $2.60 to $2.62. For the fourth quarter of 2002, we expect earnings per share of $.68 to $.70, excluding unusual items. This lowering of guidance for the full-year 2002 is driven by the need to continue to make appropriate investments in the business, including supporting Zyprexa and preparing for several new product launches, in order to implement our long-term growth strategy. In addition, sales from ReoPro and our older legacy products, such as anti-infectives and Axid, are trending lower than expected.

For full-year 2003, due to the uncertainties around the timing of our product launches and resolution of our manufacturing issues, we continue to be cautious about our financial assumptions. Assuming no significant financial penalties imposed by the FDA related to our manufacturing issues or other unusual items, our goal is to deliver some earnings growth in 2003. As the outlook for our new-product-launch timelines and resolution of manufacturing issues becomes more certain, we will provide more specific financial guidance as appropriate.

Actual results could differ materially and will depend on, among other things, timely resolution of manufacturing issues; growth in our recently launched product, Xigris; the continuing growth of our other currently marketed products; developments with competitive products; the timing and scope of regulatory approvals, including the necessary FDA approvals of manufacturing operations and clinical data in connection with pending NDAs; the timing and success of new-product launches; foreign exchange rates; and the impact of state, federal, and foreign government pricing and reimbursement measures. We have no obligation to update these forward-looking statements.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

PATENT LITIGATION

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. ("Zenith"), had submitted an abbreviated new drug application (ANDA) seeking permission to market a generic version of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product. Zenith alleges that our patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy's Laboratories, Ltd. ("Reddy"), had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, in January 2002, Reddy filed an ANDA for additional dosage forms, and in February 2002, we filed an infringement suit in the same court based on Reddy's later ANDA. We received notice in August 2002, of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. The cases have been consolidated and are in the discovery stage. We currently expect a trial date to be scheduled for the fourth quarter of 2003. We believe that the generic manufacturers' patent claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October, 2002, we were notified that Barr Laboratories, Inc. (Barr) had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. We believe the challenges to be without merit and intend to vigorously defend our patents. While we expect to prevail, it is not possible to predict or determine the outcome of the challenge to the patents and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, Pfizer Inc. ("Pfizer") filed a lawsuit in the United States District Court in Delaware against us, Lilly ICOS LLC, and ICOS Corporation alleging that the proposed marketing of Cialis would infringe its newly issued "method-of-use" patent. Previously, Pfizer's European "method-of-use" patent was held invalid in the European Patent Office and the U.K. counterpart to this patent was held invalid by the U.K. Court of Appeal. We intend to vigorously defend this lawsuit and expect to prevail. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome would not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

Item 2. Changes in Securities and Use of Proceeds

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

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.*Under applicable Securities and Exchange Commission regulations, the principal executive officer and principal financial officer of a reporting company are required to periodically review the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed

with the Commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

As of November 6, 2002, Sidney Taurel, chairman, president, and chief executive officer, and Charles E. Golden, executive vice president and chief financial officer, evaluated our disclosure controls and procedures and concluded that they are effective.

(b) *Changes in Internal Controls.*There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their evaluation, November 6, 2002.

Item 6. Exhibits and Reports on Form 8-K

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

EXHIBIT 10.	Directors' Deferral Plan, as amended effective November 1, 2002
EXHIBIT 11.	Statement re: Computation of Earnings per Share
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
EXHIBIT 99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 — "Safe Harbor" for Forward-Looking Disclosures
EXHIBIT 99.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

We filed a Form 8-K on August 14, 2002, which included the sworn statements of our chief executive officer and chief financial officer regarding our 2001 Annual Report on Form 10-K, 2002 definitive proxy materials, and all reports on Forms 10-Q and 8-K subsequent to the filing of our 2001 Form 10-K. The sworn statements were made in the prescribed form without exceptions or modifications.

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 12, 2002

/s/ Alecia A. DeCoudreaux

Alecia A. DeCoudreaux
Secretary and Deputy General Counsel

Date November 12, 2002

/s/ Arnold C. Hanish

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

CERTIFICATIONS

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

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) All significant deficiencies in the design or operation of internal controls which could adversely affect registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

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

CERTIFICATIONS

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

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) All significant deficiencies in the design or operation of internal controls which could adversely affect registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

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

INDEX TO EXHIBITS

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

Exhibit	
10.	Directors' Deferral Plan, as amended effective November 1, 2002
11.	Statement re: Computation of Earnings per Share
12.	Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 — "Safe Harbor" for Forward-Looking Disclosures
99.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 10. THE LILLY DIRECTORS' DEFERRAL PLAN

(As amended and restated through November 1, 2002)

Section 1. Establishment of the Plan.

This Plan was established effective January 1, 1996, to permit Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. This amended and restated Plan is effective November 1, 2002.

Section 2. Definitions.

When used in the Plan, the following terms shall have the definitions set forth in this Section 2:

2.1. Annual Allocation Date. The last Business Day in November of each calendar year, or such other annual date, not earlier than the third Monday in February, established by the Committee as the date as of which Shares are allocated to each Share Account in accordance with Section 6.

2.2. Beneficiary. The beneficiary or beneficiaries (including any contingent beneficiary or beneficiaries) designated pursuant to subsection 8.3 hereof.

2.3 Business Day. A day on which the Company's corporate headquarters are open for regular business.

2.4. Board of Directors. The Board of Directors of the Company.

2.5. Committee. The Directors and Corporate Governance Committee of the Board of Directors, or any successor committee of the Board of Directors that is charged with matters relating to the compensation of non-employee directors.

2.6. Company. Eli Lilly and Company.

2.7. Company Credit. An amount computed, and credited annually to a Participant's Deferred Compensation Account at a rate that is two percent (2%) above the rate that the Treasurer of the Company determines was the prime rate of interest charged by Chemical Bank, New York, New York or its successor bank (the "Bank"), on loans made on the immediately preceding December 15 or, if the Bank was closed on December 15, the last day preceding December 15 on which the Bank was open for business.

2.8. Deferred Amount. The amount of a Monthly Deferral Participant's Monthly Compensation that the Participant elects to defer in accordance with Section 4 hereof.

2.9. Deferred Stock Participant. A Director who is not a current or former full-time salaried employee of the Company and who becomes a Participant in the Plan in accordance with Section 3 hereof.

2.10. Director. A member of the Board of Directors.

2.11. Dividend Payment Date. The date as of which the Company pays a cash dividend on Shares.

2.12. Dividend Record Date. With respect to any Dividend Payment Date, the date established by the Board of Directors as the record date for determining shareholders entitled to receive payment of the dividend.

2.13. Individual Accounts or Accounts. The separate accounts (the Deferred Compensation Account and the Share Account), described in Section 7 hereof, one or both of which is established under the Plan for each Participant. When used in the singular, the term shall refer to one of these two accounts, as the context requires.

2.14. Monthly Compensation. For any month, the monthly retainer and the aggregate of all meeting fees, committee fees and committee chairperson fees to which a Director is entitled for services rendered to the Company as a Director during the month, as such retainer and fees are established from time to time by resolution of the Board of Directors. For avoidance of doubt, Monthly Compensation does not include stock options or the Shares allocated pursuant to Section 6 of this Plan.

2.15. Monthly Deferral Participant. A Director who is not a salaried employee of the Company and who has elected to defer all or part of his or her Compensation pursuant to the Plan in accordance with Section 4 hereof.

2.16. Participant. A Director who is a Deferred Stock Participant, a Monthly Deferral Participant, or both, as the case may be.

2.17. Plan. The Lilly Directors' Deferral Plan, as set forth herein and as it may be amended from time to time.

2.18. Share. A share of common stock of the Company.

2.19. Valuation Date. For any month, the third Monday of the month, or if Shares are not traded on the New York Stock Exchange on such third Monday, the next day on which Shares are traded on the New York Stock Exchange.

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Each person who is thereafter elected or appointed as a Director, and who is not and has never been a full-time salaried employee of the Company, shall become a Deferred Stock Participant beginning with the month in which such Director takes office. A Deferred Stock Participant shall cease to participate in the Plan when he or she ceases to be a Director.

Section 4. Monthly Deferral Participants.

Each Director who participated in The Lilly Directors' Deferred Compensation Plan immediately before the effective date of the Plan shall continue as a Monthly Deferral Participant on such effective date, and all elections in effect under The Lilly Directors' Deferred Compensation Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Prior to the beginning of each calendar year, any Director who is not a salaried employee of the Company may defer the receipt of Monthly Compensation to be earned by the Director during such year by filing with the Company a written election that:

(i) defers payment of a designated amount (of one Thousand Dollars ($1,000) or more) or percentage of his or her Monthly Compensation for services attributable to the following calendar year or portion thereof (the "Deferred Amount");

(ii) specifies the payment option selected by the Participant pursuant to subsection 8.2 hereof for such Deferred Amount; and

(iii) specifies the option selected by the Participant pursuant to Section 5 hereof for such Deferred Amount.

The amount deferred may not exceed the Director's aggregate Monthly Compensation for the calendar year. Notwithstanding the foregoing, any individual who is newly elected or appointed to serve as a Director may, not later than thirty (30) days after his election or appointment becomes effective, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Monthly Compensation earned during the portion of the current calendar year that follows the filing of the election with the Company. Except as provided in subsections 8.2 and 8.4 hereof, any elections made pursuant to this Section 4 with respect to a calendar year shall be irrevocable when made. If a Participant fails to make an election under section 5 with respect to his or her Deferred Amount for a future calendar year, the Participant's previous election shall remain in effect, provided that the Participant may amend his or her election with regard to a future calendar year at any time.

Section 5. Form of Deferred Compensation Credits.

5.1. Deferred Compensation Account. Except with respect to Deferred Amounts which a Monthly Deferral Participant elects to have credited in Shares in accordance with subsection 5.2 hereof, the Deferred Amount shall be denominated in U.S. dollars and credited to the Participant's Deferred Compensation Account pursuant to subsection 7.1 hereof.

5.2. Shares. Prior to the beginning of each calendar year, a Monthly Deferral Participant may elect to have all or a percentage of the Deferred Amount for the following calendar year credited in Shares and allocated to the Participant's Share Account pursuant to subsection 7.2 hereof.

Section 6. Annual Allocations to Share Accounts.

6.1. Annual Allocation of Shares. As of the Annual Allocation Date of each calendar year, there shall be allocated to the Share Account (as described in Section 7.2 below) of each Deferred Stock Participant who is a Director on that date, as part of his or

her compensation for service on the Board of Directors, seven hundred (700) Shares (or such other number of Shares as may be specified from time to time by resolution of the Board of Directors).

Section 7. Individual Accounts.

The Company shall maintain Individual Accounts for Participants as follows:

7.1. Deferred Compensation Account. The Company shall maintain a Deferred Compensation Account in the name of each Monthly Deferral Participant who elects to defer the receipt of Monthly Compensation pursuant to Section 4 hereof for a calendar year and does not elect to have the Deferred Amount for such calendar year credited in Shares pursuant to subsection 5.2 hereof. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. For each month, Deferred Amounts allocated to a Deferred Compensation Account pursuant to subsection 5.1 hereof shall be credited to the Deferred Compensation Account as of the last Business Day of the month.

7.2. Share Account. The Company shall maintain a Share Account for each Deferred Stock Participant and for each Monthly Deferral Participant who elects to have a Deferred Amount credited in Shares pursuant to subsection 5.2 hereof. The Share Account shall be denominated in Shares and maintained in fractions rounded to three (3) decimal places. Shares allocated to each Share Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 8 hereof.

For each month, Deferred Amounts allocated to a Share Account pursuant to subsection 5.2 hereof shall be credited to the Share Account as of the last Business Day of the month. Shares and, if necessary, fractional Shares, shall be credited based upon the average of the high and low price of Shares on the New York Stock Exchange on the Valuation Date for that month.

7.3. Accrual of Company Credit. The Treasurer of the Company shall determine the annual rate of Company Credit on or before December 31 of each calendar year. This rate shall be effective for the following calendar year. The Company Credit shall accrue monthly, at one-twelfth of the applicable annual rate, on all amounts credited to a Participant's Deferred Compensation Account, including the Company Credits for prior years. The Company Credit shall not accrue on any amount distributed to a Participant (or to the Participant's Beneficiary) during the month for which the accrual is determined, except where an amount is distributed to a Beneficiary in the month of the Participant's death. The Company Credit for each year shall be credited to each Deferred Compensation Account as of December 31 of that year and shall be compounded monthly.

7.4. Cash Dividends. Cash dividends paid on Shares shall be deemed to have been paid on the Shares allocated to each Participant's Share Account as if the allocated Shares were actual Shares issued and outstanding on the Dividend Record Date. An amount equal to the amount of such dividends shall be credited in Shares to each Share Account as of the last Business Day of each month in which a Dividend Payment Date occurs, based upon the average of the high and low prices for Shares on the New York Stock Exchange on the Valuation Date for that month.

7.5. Capital Adjustments. The number of Shares referred to in Section 6 hereof and the number of Shares allocated to each Share Account shall be adjusted by the Committee, as it deems appropriate in its discretion, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

7.6. Account Statements. Within a reasonable time following the end of each calendar year, the Company shall render an annual statement to each Participant. The annual statement shall report the number of Shares credited to the Participant's Share Account as of December 31 of that year and the dollar amount, if any, credited to the Participant's Deferred Compensation Account as of December 31 of that year.

Section 8. Payment Provisions.

8.l. Method of Payment. All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Deferred Compensation Account shall be paid in cash. Except as provided in Section 8.5, all payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Share Account shall be paid in Shares, at which time the Shares shall be issued or transferred on the books of the Company. All Shares to be issued or transferred hereunder may be newly issued or treasury shares. Fractional Shares shall not be issued or transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fraction remaining in the Participant's Share Account shall be rounded up to the next whole Share and that number of whole Shares shall be issued or transferred. If Shares are not traded on the New York Stock Exchange on any day on which a payment of Shares is to be made under the Plan, then that payment shall be made on the next day on which Shares are traded on the New York Stock Exchange.

8.2. Payment Options. Prior to each calendar year, or within 30 days after becoming a Participant, the Participant shall select a payment election with respect to the payment of one or both of the Participant's Individual Accounts from the following payment elections:

(i) a lump sum in January of the calendar year immediately following the calendar year in which the Participant ceases to be a Director; or

(ii) a lump sum in January of the second calendar year following the calendar year in which the Participant ceases to be a Director;

(iii) annual (or, in the case of the Deferred Compensation Account only, monthly) installments over a period of two to ten years commencing in January of the calendar year following the calendar year during which the Participant ceases to be a Director; or

(iv) annual (or in the case of the Deferred Compensation Account only, monthly) installments over a period of two to ten years commencing in January of the second calendar year following the calendar year in which the Participant ceases to be a director.

If a payment option described in paragraphs (i) or (ii), above, has been elected, the amount of the lump sum with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the December 31 immediately preceding the date of the payment, and the amount of the lump sum with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Share Account as of the December 31 immediately preceding the date of payment. If a payment option described in paragraphs (iii) or (iv), above, has been elected, the amount of each installment with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the last day of the month immediately preceding the date of a monthly installment payment, or the December 31 immediately preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. The amount of each installment with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Participant's Share Account as of the December 31 immediately preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made.

A Participant may elect that his or her final payment election may control over all prior payment elections. If the Participant fails to elect a payment option, the amount credited to the Participant's Individual Account shall be distributed in a lump sum in accordance with the payment option described in paragraph (i) above. At the time of any scheduled payment, if the amount credited to a Participant's Deferred Compensation Account or the value of Shares credited to a Participant's Share Account is less than $25,000, the Committee, in its sole discretion, may pay out the amount credited to the Participant's Individual Account in a lump sum.

8.3. Payment Upon Death. Within a reasonable period of time following the death of a Participant, the amount credited to a Participant's Deferred Compensation Account and all of the Shares credited to the Participant's Share Account shall be paid by the Company in a lump sum to the Participant's Beneficiary. For purposes of this subsection 8.3, the amount credited to the Participant's Deferred Compensation Account and the number of Shares credited to the Participant's Share Account shall be determined as of the later of the date of death or the last Business Day of the month prior to the month in which the payment occurs.

A Participant may designate the Beneficiary, in writing, in a form acceptable to the Committee before the Participant's death. A Participant may revoke a prior designation of Beneficiary and may also designate a new Beneficiary without the consent of the previously designated Beneficiary, provided that such revocation and new designation (if any) are in writing, in a form acceptable to the Committee, and filed with the Committee before the Participant's death. If the Participant does not designate a Beneficiary, or if no designated Beneficiary survives the Participant, any amount not distributed to the Participant during the Participant's life shall be paid to the Participant's estate in a lump sum in accordance with this subsection 8.3.

8.4. Payment on Unforeseeable Emergency. The Committee may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Individual Account balance, notwithstanding an election under subsection 8.2 above, at any time that it determines that such Participant has an unforeseeable emergency, and then only to the extent reasonably necessary to meet the emergency. For purposes of this section, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is, or may be, relieved —

(i) through reimbursement or compensation by insurance or otherwise,

(ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or

(iii) by cessation of deferrals under the Plan.

Examples of what are not considered to be unforeseeable emergencies include the need to send a Participant's child to college or the desire to purchase a home.

8.5. Payment of Cash in Lieu of Shares. If at any time the Committee shall determine that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Committee may, in its discretion, pay all or a portion of the Participant's Share Account in cash. In this case, the amount of cash shall be determined with reference to the average of the high and low trading price for Shares on the December 31 next preceding the date of payment, or if Shares are not traded on that day, the next preceding trading day.

Section 9. Ownership of Shares.

A Participant shall have no rights as a shareholder of the Company with respect to any Shares until the Shares are issued or transferred to the Participant on the books of the Company.

Section 10. Prohibition Against Transfer.

The right of a Participant to receive payments of Shares and cash under the Plan may not be transferred except by will or applicable laws of descent and distribution. A Participant may not assign, sell, pledge, or otherwise transfer Shares or cash to which he is entitled hereunder prior to transfer or payment thereof to the Participant, and any attempted such assignment, sale, pledge or transfer shall be void.

Section 11. General Provisions.

11.1. Director's Rights Unsecured. The Plan is unfunded. The right of any Participant to receive payments of cash or Shares under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

11.2. Administration. Except as otherwise provided in the Plan, the Plan shall be administered by the Committee, which shall have the final authority to adopt rules and regulations for carrying out the Plan, and to interpret, construe, and implement the provisions of the Plan.

11.3. Legal Opinions. The Committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligations and duties under the Plan, or with respect to any action, proceeding, or any questions of law, and shall not be liable with respect to any action taken, or omitted, by it in good faith pursuant to the advice of such counsel.

11.4. Liability. Any decision made or action taken by the Board of Directors, the Committee, or any employee of the Company or any of its subsidiaries, arising out of or in connection with the construction, administration, interpretation, or effect of the Plan, shall be absolutely discretionary, and shall be conclusive and binding on all parties. Neither the Committee nor a member of the Board of Directors and no employee of the Company or any of its subsidiaries shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving bad faith, for anything done or omitted to be done.

11.5. Withholding. The Company shall have the right to deduct from all payments hereunder any taxes required by law to be withheld from such payments. The recipients of such payments shall bear all taxes on amounts paid under the Plan to the extent that no taxes are withheld thereon, irrespective of whether withholding is required.

11.6. Incapacity. If the Committee determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to such person's spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person.

11.7. Inability to Locate. If the Committee is unable to locate a person to whom a payment is due under the plan for a period of twelve (12) months, commencing with the first day of the month as of which the payment becomes payable, the total amount payable to such person shall be forfeited.

11.8. Legal Holidays. If any day on (or on or before) which action under the Plan must be taken falls on a Saturday, Sunday, or legal holiday, such action may be taken on (or on or before) the next succeeding day that is not a Saturday, Sunday, or legal holiday; provided, that this subsection 11.8 shall not permit any action that must be taken in one calendar year to be taken in any subsequent calendar year.

Section 12. Amendment, Suspension, and Termination.

The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, provided that no amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account, and provided further that the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year.

Section 13. Applicable Law.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Indiana, except to the extent that such laws are preempted by Federal law.

Section 14. Effective Date.

The effective date of this Plan is January 1, 1996. Nothing herein shall invalidate or adversely affect any previous election, designation, deferral, or accrual in accordance with the terms of The Lilly Directors' Deferred Compensation Plan or The Lilly Non-Employee Directors' Deferred Stock Plan that were in effect prior to the effective date of this Plan.

EXHIBIT 11. STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Dollars and shares in millions except per-share data)			
BASIC				
Net income	$ 683.9	$ 570.1	$ 1,971.6	$ 2,204.6
Average number of common shares outstanding	1,076.8	1,077.1	1,077.0	1,077.4
Contingently issuable shares	—	—	.1	.1
Adjusted average shares	1,076.8	1,077.1	1,077.1	1,077.5
Basic earnings per share	$ .64	$ .53	$ 1.83	$ 2.04
DILUTED				
Net income	$ 683.9	$ 570.1	$ 1,971.6	$ 2,204.6
Average number of common shares outstanding	1,076.8	1,077.1	1,077.0	1,077.4
Incremental shares — stock options and contingently issuable shares	8.9	12.8	9.0	13.8
Adjusted average shares	1,085.7	1,089.9	1,086.0	1,091.2
Diluted earnings per share	$ .63	$ .52	$ 1.82	$ 2.02

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, 2002	Years Ended December 31, 2001	2000	1999	1998	1997
Consolidated pretax income from continuing operations before extraordinary item	$ 2,513.7	$ 3,552.1	$ 3,858.7	$ 3,245.4	$ 2,665.0	$ 2,901.1
Interest from continuing operations and other fixed charges	102.3	208.1	225.4	213.1	198.3	253.1
Less interest capitalized during the period from continuing operations	(46.5)	(61.5)	(43.1)	(29.3)	(17.0)	(20.4)
Earnings	$ 2,569.5	$ 3,698.7	$ 4,041.0	$ 3,429.2	$ 2,846.3	$ 3,133.8
Fixed charges[1]	$ 102.3	$ 208.1	$ 225.4	$ 213.2	$ 200.5	$ 256.8
Ratio of earnings to fixed charges	25.1	17.8	17.9	16.1	14.2	12.2

[1] Fixed charges include interest from continuing operations for all years presented and preferred stock dividends for 1997 through 1999.

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

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

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

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

- governmental factors, including federal, state, and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, laws relating to generic pharmaceuticals, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which our products are sold or weaken the intellectual property protection that we rely upon for growth in our business

- the difficulties and uncertainties inherent in new product development and introduction of new products. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. In addition, it can be very difficult to predict sales growth rates of new products.

- delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in delays in product launches and lost market opportunity

- regulatory issues concerning compliance with current Good Manufacturing Practice (cGMP) regulations for pharmaceutical products that can lead to product recalls and seizures, interruption of production, delays in the approvals of new products pending resolution of the cGMP issues, fines and penalties, and other sanctions. In particular, see “Other Matters” for a discussion of certain cGMP issues we are currently facing.

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

- economic factors over which we have no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas, such as Latin America

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

- legal factors, including unanticipated litigation of product liability or other liability claims, antitrust and pricing litigation, environmental matters, and patent disputes with competitors that could preclude commercialization of products or negatively affect the profitability of existing products

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

- changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Emerging Issues Task Force, which are adverse for us

- internal factors, such as changes in business strategies and the impact of restructurings, asset impairments, technology acquisition and disposition transactions, and business combinations.

We undertake no duty to update forward-looking statements.

EXHIBIT 99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (the "Form 10-Q"), of the company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the company.

Date November 12, 2002

/s/ Sidney Taurel

Sidney Taurel
Chairman of the Board, President, and
Chief Executive Officer

Date November 12, 2002

/s/ Charles E. Golden

Charles E. Golden
Executive Vice President and
Chief Financial Officer