SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# Form 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 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 April 30, 2002:

| Class | Number of Shares Outstanding |
|---|---|
| Common | 1,124,219,994 |

PART I. FINANCIAL INFORMATION

*Item 1. Financial Statements*

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)
Eli Lilly and Company and Subsidiaries

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (Dollars in millions except per-share data) | |
| Net sales | $2,561.1 | $2,805.7 |
| Cost of sales | 530.1 | 522.3 |
| Research and development | 502.8 | 515.5 |
| Marketing and administrative | 777.3 | 768.9 |
| Interest expense | 9.6 | 41.4 |
| Other income — net | (65.4) | (76.8) |
| | 1,754.4 | 1,771.3 |
| Income before income taxes | 806.7 | 1,034.4 |
| Income taxes | 177.5 | 227.6 |
| Net income | $ 629.2 | $ 806.8 |
| Earnings per share – basic | $ .58 | $ .75 |
| Earnings per share – diluted | $ .58 | $ .74 |
| Dividends paid per share | $ .31 | $ .28 |

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
Eli Lilly and Company and Subsidiaries

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| | (Dollars in millions) (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,880.9 | $ 2,702.3 |
| Short-term investments | 977.1 | 1,028.7 |
| Accounts receivable, net of allowances of $68.4 (2002) and $88.5 (2001) | 1,499.3 | 1,406.2 |
| Other receivables | 234.3 | 289.0 |
| Inventories | 1,097.2 | 1,060.2 |
| Deferred income taxes | 215.2 | 223.3 |
| Prepaid expenses | 520.1 | 229.2 |
| TOTAL CURRENT ASSETS | 7,424.1 | 6,938.9 |
| OTHER ASSETS | | |
| Prepaid pension | 1,111.4 | 1,102.8 |
| Investments | 2,666.3 | 2,710.9 |
| Sundry | 1,258.1 | 1,149.1 |
| | 5,035.8 | 4,962.8 |
| PROPERTY AND EQUIPMENT | | |
| Land, buildings, equipment, and construction-in-progress | 8,557.4 | 8,415.4 |
| Less allowances for depreciation | (3,958.3) | (3,883.0) |
| | 4,599.1 | 4,532.4 |
| | $17,059.0 | $16,434.1 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term borrowings | $ 472.4 | $ 286.3 |
| Accounts payable | 510.4 | 624.1 |
| Employee compensation | 165.5 | 381.9 |
| Dividends payable | — | 341.0 |
| Income taxes payable | 2,293.6 | 2,319.5 |
| Other liabilities | 1,391.1 | 1,250.2 |
| TOTAL CURRENT LIABILITIES | 4,833.0 | 5,203.0 |
| LONG-TERM DEBT | 3,383.1 | 3,132.1 |
| OTHER NONCURRENT LIABILITIES | 1,142.5 | 995.0 |
| | 4,525.6 | 4,127.1 |
| COMMITMENTS AND CONTINGENCIES | — | — |
| SHAREHOLDERS' EQUITY | | |
| Common stock | 703.2 | 702.7 |
| Additional paid-in capital | 2,610.0 | 2,610.0 |
| Retained earnings | 8,055.0 | 7,411.2 |
| Employee benefit trust | (2,635.0) | (2,635.0) |
| Deferred costs-ESOP | (127.8) | (129.1) |
| Accumulated other comprehensive loss | (794.9) | (748.4) |
| | 7,810.5 | 7,211.4 |
| Less cost of common stock in treasury | 110.1 | 107.4 |
| | 7,700.4 | 7,104.0 |
| | $17,059.0 | $16,434.1 |

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Eli Lilly and Company and Subsidiaries

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (Dollars in millions) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 629.2 | $ 806.8 |
| Adjustments to reconcile net income to cash flows from operating activities: | | |
| Changes in operating assets and liabilities | (572.5) | (412.6) |
| Depreciation and amortization | 131.4 | 120.4 |
| Change in deferred taxes | 65.4 | (22.4) |
| Other, net | (15.3) | 35.4 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 238.2 | 527.6 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net purchases of property and equipment | (192.7) | (154.0) |
| Purchase of investments | (50.9) | (909.0) |
| Proceeds from sale of investments | 125.4 | 15.9 |
| Other, net | (50.7) | (19.5) |
| NET CASH USED IN INVESTING ACTIVITIES | (168.9) | (1,066.6) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (334.0) | (302.0) |
| Purchase of common stock and other capital transactions | (55.6) | (307.0) |
| Issuances under stock plans | 27.6 | 42.7 |
| Net change in short-term borrowings | (12.8) | 249.9 |
| Net issuances of long-term debt | 498.3 | 25.0 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 123.5 | (291.4) |
| Effect of exchange rate changes on cash and cash equivalents | (14.2) | (53.2) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 178.6 | (883.6) |
| Cash and cash equivalents at January 1 | 2,702.3 | 4,114.9 |
| CASH AND CASH EQUIVALENTS AT MARCH 31 | $2,880.9 | $ 3,231.3 |

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

Eli Lilly and Company and Subsidiaries

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (Dollars in millions) | |
| Net income | $629.2 | $806.8 |
| Other comprehensive loss[1] | (46.4) | (97.9) |
| Comprehensive income | $582.8 | $708.9 |

[1] The significant component of other comprehensive loss was a loss of $37.7 million from unrealized losses on securities for the three months ended March 31, 2002, compared with a loss of $91.7 million from foreign currency translation adjustments for the three months ended March 31, 2001.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment – pharmaceutical products. Operations of our animal health business are not material and share many of the same economic characteristics as our 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 for the first quarters of 2002 and 2001 was approximately $52 million and $50 million, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category for the first quarters of 2002 and 2001 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (Dollars in millions) | |
| Net sales – to unaffiliated customers | | |
| Neurosciences | $1,054.3 | $1,321.3 |
| Endocrinology | 758.4 | 706.1 |
| Oncology | 201.5 | 177.8 |
| Anti-infectives | 171.4 | 201.0 |
| Animal health | 167.8 | 164.1 |
| Cardiovascular | 146.1 | 145.4 |
| Other pharmaceutical | 61.6 | 90.0 |
| Net sales | $2,561.1 | $2,805.7 |

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 generally accepted accounting principles. 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. The Zenith and Reddy cases have been consolidated and are in the discovery stage. 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.

We have been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol (DES) and Prozac®. 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 $134.4 million at March 31, 2002. Estimated insurance recoverables of approximately $56.4 million at March 31, 2002, have been reflected as assets in the consolidated balance sheet.

We are nearing completion of an examination by the Internal Revenue Service (IRS) for tax years 1996 and 1997. Discussions with the IRS are currently under way related to one remaining issue.

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 or the resolution of the examination by the IRS, we believe that, except as noted above with respect to the Zyprexa 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.

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

We announced a $3 billion share repurchase program in 2000. We purchased approximately 725,000 shares during the first quarter of 2002 at a net cost of approximately $58.4 million. In connection with the share repurchase program, we have entered into agreements to purchase shares of our stock. As of March 31, 2002, we have agreements to purchase up to approximately 5.3 million shares of our stock from an independent third party at various times through December 2003 at prices ranging from $80 to $100 per share and with a weighted average of approximately $90 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. In addition, as of March 31, 2002, equity forward and other derivative contracts, which provide for purchase of a total of approximately 2.1 million shares, remain outstanding at prices ranging from $83 to $98 per share with expiration dates ranging from May 2002 to November 2002. If the options are exercised, the contracts 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 with the above agreements is 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 asset. We will adopt SFAS 143 on January 1, 2003, and do not expect that this statement will have a material 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 provided 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.

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

OPERATING RESULTS

Net income was $629.2 million, or $.58 per share, for the first quarter of 2002 compared with $806.8 million, or $.74 per share, for the first quarter of 2001. Net income and earnings per share for the first quarter of 2002 decreased 22 percent from the 2001 results, due to decreased sales and gross margin contribution of Prozac resulting from the entrance of generic fluoxetine in the U.S. market in early August 2001 and an increase in selling and marketing expenses. Partially offsetting these negative effects, our net income was favorably affected by increased sales of our growth products Zyprexa, Humalog®, Evista®, Gemzar®, Actos®, and Xigris™ and lower administrative expenses.

Our sales for the first quarter of 2002 decreased 9 percent, to $2.56 billion, compared with the first quarter of 2001, due to the decline in Prozac sales. Sales in the U.S. decreased 16 percent, to $1.51 billion, for the first quarter of 2002, compared with the first quarter of 2001, due to the decline in Prozac sales. Sales outside the U.S. increased 5 percent, to $1.05 billion. Worldwide sales reflected a volume decrease of 6 percent, an unfavorable exchange rate impact of 2 percent, and a global selling price decline of 1 percent. Excluding Prozac, our sales for the first quarter of 2002 increased 9 percent worldwide and 12 percent in the U.S. In addition, global sales volume increased 11 percent, excluding Prozac.

Zyprexa had worldwide sales of $819.4 million in the first quarter of 2002, representing an increase of 29 percent. U.S. sales increased 23 percent, to $555.2 million, and sales outside the U.S. increased 42 percent, to $264.2 million. During the first quarter of 2002, the Committee for Proprietary Medicinal Products recommended approval of Zyprexa in Europe for the treatment of acute mania associated with bipolar disorder. Additionally, in April the Ministry of Health Labor and Welfare in Japan specified a label change for Zyprexa in the Japanese market to include a contraindication in patients with diabetes or a history of diabetes.

Diabetes care products, composed primarily of Humulin®, Humalog, and Actos, had worldwide revenues of $502.9 million, representing an increase of 4 percent. Diabetes care revenues increased 6 percent in the U.S., to $320.4 million, and increased 2 percent outside the U.S., to $182.5 million. Worldwide Humulin sales decreased 14 percent, to $234.5 million, compared with the first quarter of 2001, due primarily to increased competition from other long-acting human insulin products. The decline was partially offset by worldwide Humalog sales of $177.4 million, a 42 percent increase. We received service revenues of $73.8 million in the first quarter of 2002 relating to sales of Actos, a 15 percent increase over the first quarter of 2001. Actos is manufactured and sold in the U.S. by Takeda Chemical Industries, Ltd. (“Takeda”), and we copromote the product with Takeda. For the first quarter of 2002, our Actos revenues were negatively affected by certain terms of our marketing agreement with Takeda. This negative impact, which will not occur again in 2002, was more than offset by the Actos revenue realized due to the strong growth in underlying Actos prescriptions.

Gemzar had worldwide sales of $197.5 million in the first quarter of 2002, representing an increase of 14 percent. Sales in the U.S. increased 8 percent, to $109.1 million, and sales outside the U.S. increased by 22 percent, to $88.4 million. Sales comparisons in the U.S. were negatively affected by an inventory work-off by wholesalers in the first quarter of the current year and wholesaler stocking in the first quarter of the prior year.

Prozac, Prozac Weekly, and Sarafem™ (collectively “fluoxetine products”) had combined worldwide sales of $186.1 million in the first quarter of 2002, representing a decrease of 70 percent as a result of the entrance of generic fluoxetine into the U.S. market in August 2001. Fluoxetine product sales in the U.S. decreased 80 percent, to $110.0 million. Prozac sales outside the U.S. decreased 7 percent, to $76.1 million, primarily due to continued generic competition. We expect continued sequential period-to-period declines for the next several quarters.

Evista had worldwide sales of $177.9 million in the first quarter of 2002, representing an increase of 19 percent over the first quarter of 2001. Sales in the U.S. increased 16 percent, to $139.5 million. Sales outside the U.S. increased 33 percent, to $38.4 million. The U.S. sales growth of Evista benefited in the first quarter, in part, from the addition of more than 500 sales representatives supporting this product through our copromotion agreement with PDI, Inc.

Anti-infectives had worldwide sales of $171.4 million for the first quarter of 2002, a decrease of 15 percent. The decline was primarily the result of continuing competitive pressures in markets outside the U.S. with Vancocin® and cefaclor accounting for the majority of the decline. Sales in the U.S. increased 31 percent, to $26.4 million, while sales outside the U.S. decreased 20 percent, to $145.0 million.

ReoPro® had worldwide sales of $91.7 million for the first quarter of 2002, representing a decrease of 17 percent compared with the first quarter of 2001. Sales outside the U.S. increased by 6 percent. Sales in the U.S. decreased 26 percent due to increased competition.

Xigris had sales of $22 million for the first quarter of 2002. In addition to the U.S., Xigris has now been approved in Israel, Argentina, Mexico and Australia.

For the first quarter of 2002, gross margins declined 2.1 percentage points, to 79.3 percent. The decline was primarily due to the impact from the decline in Prozac sales more than offsetting the strong growth in other higher margin products, such as Zyprexa, Actos, Evista, and Gemzar.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) were flat for the first quarter of 2002 compared with the first quarter of 2001. Investment in research and development decreased 2 percent, to $502.8 million, for the first quarter. The decline was due to lower incentive compensation expense and lower late-stage clinical trial costs, given more products were awaiting regulatory approval during the current quarter. These declines were partially offset by investment

in our early-stage product pipeline. Marketing and administrative expenses increased 1 percent from the first quarter of 2001. Selling and marketing expenses grew 7 percent, despite lower incentive compensation, reflecting increased investments, including global sales force expansions. Administrative expenses declined due primarily to expense controls and lower incentive compensation expense.

Interest expense for the first quarter of 2002 decreased $31.8 million, to $9.6 million. This decrease is primarily due to the lower interest rates paid on our debt.

Net other income for the first quarter of 2002 decreased $11.4 million, to $65.4 million, primarily due to decreased interest income.

For the first quarter of 2002 and 2001, the effective tax rate was 22.0 percent.

FINANCIAL CONDITION

As of March 31, 2002, cash, cash equivalents, and short-term investments totaled $3.86 billion compared with $3.73 billion at December 31, 2001. Cash flow from operations of $238.2 million and net cash from issuance of long-term debt of $498.3 million were offset by dividends paid of $334.0 million and net capital expenditures of $192.7 million. Total debt at March 31, 2002, was $3.86 billion, an increase of $437.1 million from December 31, 2001, primarily due to the issuance of $500 million of 6 percent 10-year notes in March 2002.

We believe that cash generated from operations in 2002, along with available cash and cash equivalents, will be sufficient to fund most of our 2002 operating needs, including debt service, capital expenditures, share repurchases, and dividends. We will issue additional debt in the remainder of 2002 to fund the remaining cash requirements. We believe that, if necessary, amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. 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 generated from operations.

OTHER MATTERS

As a result of preapproval plant inspections for Zyprexa IntraMuscular and Fortéo™ 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 Fortéo, the FDA noted additional observations, primarily relating to computer system validation, manufacturing process reviews, and data handling. We have responded to the FDA relative to these observations, and agency officials are in the process of conducting follow-up inspections. Approval of new products, including Zyprexa IntraMuscular, Fortéo, and others in the near-term pipeline, such as duloxetine for depression, atomoxetine, and Cialis™, will depend on resolution of all manufacturing issues to the agency’s satisfaction. 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 NDA approvals, recalls, seizures, fines, and other penalties.

In the U.S., many pharmaceutical products are subject to increasing pricing pressures, which could be significantly affected by the current national debate over Medicare 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. In addition, managed care organizations, institutions, and other government agencies continue to seek price discounts. International operations are also generally subject to extensive price and market regulations. As a result, we expect that pressures on pharmaceutical pricing will continue.

Based on favorable clinical trial results, we now plan to submit our combination of olanzapine and fluoxetine for the treatment of bipolar depression to the FDA in 2002.

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 manufacturing inspections. Lilly ICOS LLC will discuss with the FDA the exact data requirements requested in the approvable letter. The results of these discussions will allow Lilly ICOS to provide a better estimate of the potential U.S. launch date. Currently, a U.S. launch for Cialis is now projected to be in 2003.

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, beginning in the second quarter of 2002.

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 is expected to significantly affect results of operations for the 12 months following August 2001, its impact on our consolidated financial position or liquidity is not expected to be material due to the continued growth of Zyprexa, Humalog, Gemzar, Evista, Actos, and Xigris.

For the second quarter of 2002, excluding any unusual items, we expect earnings per share to be in the range of $.61 to $.63. For the full-year 2002, we currently expect sales growth to be approximately flat and earnings per share of $2.60 to $2.65, excluding unusual items. Marketing and administrative, and research and development expenses are expected to grow in the low-single digits and nonoperating income should contribute at least $200 million in 2002. In addition, for the full-year 2002, gross margins as a percent of sales are expected to decline approximately 1.0 to 1.5 percentage points. For 2003, we expect earnings-per-share growth in the teens, excluding unusual items. Our 2003 guidance assumes, in part, accelerating growth in Xigris sales, the successful resolution of ongoing FDA manufacturing inspections, and the timely launches of Fortéo (2002), Zyprexa IntraMuscular (2002), duloxetine for depression (2002), atomoxetine (2003), and Cialis (2003). The approval of these products continues to be dependent on resolution of all manufacturing issues to the FDA's satisfaction.

Actual results could differ materially and will depend on, among other things, the timing, number of entrants, and pricing strategies of generic fluoxetine competitors; 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*

ZYPREXA 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. The Zenith and Reddy cases have been consolidated and are in the discovery stage. 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 December 2001, we were named as a defendant along with many other pharmaceutical manufacturers in a lawsuit in federal district court for the district of Massachusetts that purports to be nationwide class action on behalf of consumers of certain prescription drugs. The suit claims in general that as a result of alleged improprieties in the manufacturers' calculation and reporting of average wholesale prices for purposes of Medicare reimbursement, the consumers overpaid their portion of the cost of the drugs.

In May 2002, we were named as a defendant along with many other pharmaceutical manufacturers in a similar consumer class action suit in federal district court for the eastern district of Pennsylvania. We have also been named as a defendant along with many other manufacturers in similar suits brought in state courts in Montana and Nevada by the attorneys general of those two states. The suits seek damages on behalf of both the respective states as health care payers and consumers of certain prescription drugs in those states. The Montana suit was brought in state court in Montana in February 2002 and the Nevada suit was brought in a Nevada state court in March 2002. We believe that all of our practices in this regard have been lawful and proper and that these suits are without merit.

*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. Submission of Matters to a Vote of Security Holders*

We held our annual meeting of shareholders on April 15, 2002. The following is a summary of the matters voted on at the meeting:

(a) The four nominees for director were elected to serve three-year terms ending in 2005, as follows:

| Nominee | For | Withhold Vote |
|---|---|---|
| George M.C. Fisher | 978,047,510 | 9,307,022 |
| Alfred G. Gilman, M.D., Ph.D. | 978,761,762 | 8,592,770 |
| Karen N. Horn, Ph.D. | 978,116,677 | 9,237,855 |
| August M. Watanabe, M.D. | 978,413,212 | 8,941,320 |

The terms of the following directors continued after the meeting: Steven C. Beering, M.D.; Sir Winfried F.W. Bischoff; Martin S. Feldstein, Ph.D.; Charles E. Golden; Franklyn G. Prendergast, M.D., Ph.D.; Kathi P. Seifert; and Sidney Taurel.

(b) The appointment of Ernst & Young LLP as our principal independent auditors was ratified by the following shareholder vote:

| | |
|---|---|
| For: | 959,244,870 |
| Against: | 23,749,420 |
| Abstain: | 4,360,242 |

(c) By the following vote, the shareholders approved the 2002 Lilly Stock Plan:

| | |
|---|---|
| For: | 760,709,007 |
| Against: | 98,165,654 |
| Abstain: | 8,267,858 |
| Broker Nonvote: | 120,212,013 |

*Item 6. Exhibits and Reports on Form 8-K*

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

| | |
|---|---|
| EXHIBIT 10.1 | 1989 Lilly Stock Plan as amended through April 15, 2002 |
| EXHIBIT 10.2 | 1994 Lilly Stock Plan as amended through April 15, 2002 |
| EXHIBIT 10.3 | 2002 Lilly Stock Plan |
| EXHIBIT 11. | Statement re: Computation of Earnings per Share |
| EXHIBIT 12. | Statement re: Computation of Ratio of Earnings From Continuing Operations to Fixed Charges |
| EXHIBIT 99. | Cautionary Statement Under Private Securities Litigation Reform Act of 1995 – "Safe Harbor" for Forward-Looking Disclosures |

(b) Reports on Form 8-K.

We filed a Form 8-K on March 13, 2002, relating to the issuance of $500 million of 6 percent notes due 2012. The financial statements and other information included in this Form 8-K were filed for the purpose of incorporating by reference such financial statements and other information into the prospectus, covering the issuance of those notes.

We filed a Form 8-K on March 18, 2002, in order to file as exhibits the underwriting agreement and form of note in connection with the issuance of $500 million of 6 percent notes due 2012.

SIGNATURES

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

ELI LILLY AND COMPANY
(Registrant)

Date May 13, 2002

/s/ Alecia A. DeCoudreaux

Alecia A. DeCoudreaux
Secretary and Deputy General Counsel

Date May 13, 2002

/s/ Arnold C. Hanish

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

INDEX TO EXHIBITS

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

| Exhibit | |
|---|---|
| 10.1 | 1989 Lilly Stock Plan as amended through April 15, 2002 |
| 10.2 | 1994 Lilly Stock Plan as amended through April 15, 2002 |
| 10.3 | 2002 Lilly Stock Plan* |
| 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 |

* Incorporated by reference from the Appendix to the Company's Proxy Statement dated and filed March 4, 2002.

Exhibit 10.1

# 1989 LILLY STOCK PLAN
(as amended through April 15, 2002)

The 1989 Lilly Stock Plan ("1989 Plan") authorizes the Compensation Committee ("Committee") to provide officers and other key executive and management employees of Eli Lilly and Company and its subsidiaries ("Company") with certain rights to acquire shares of the Company's common stock. The Company believes that this incentive program will cause those persons to contribute materially to the growth of the Company, thereby benefiting its shareholders.

## 1. ADMINISTRATION.

The 1989 Plan shall be administered and interpreted by the Committee consisting of not less than three persons appointed by the Board of Directors of the Company from among its members. A person may serve on the Committee only if he is not eligible and has not been eligible to receive a Grant under the 1989 Plan or the 1984 Plan for at least one year before his appointment. The Committee shall determine the fair market value of the Company's common stock ("Lilly Stock") for purposes of the 1989 Plan. The Committee's decisions shall be final and conclusive with respect to the interpretation and administration of the 1989 Plan and any Grant made under it.

## 2. GRANTS.

Incentives under the 1989 Plan shall consist of incentive stock options, nonqualified stock options, stock appreciation rights, performance awards, and restricted stock grants (collectively, "Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with this 1989 Plan as the Committee deems appropriate. The Committee shall approve the form and provisions of each Grant. Grants under a particular section of the 1989 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

## 3. ELIGIBILITY FOR GRANTS.

Grants may be made to any employee of the Company who is an officer or other key executive, professional, or administrative employee, including a person who is also a member of the Board of Directors ("Eligible Employee"). The Committee shall select the persons to receive Grants ("Grantees") from among the Eligible Employees and determine the number of shares subject to any particular Grant.

4. SHARES AVAILABLE FOR GRANT.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 1989 Plan is 10,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 10,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants. Payment in cash in lieu of shares shall be deemed to be an issuance of the shares.

(b) Recapitalization Adjustment. If any subdivision or combination of shares of Lilly Stock or any stock dividend, capital reorganization, recapitalization, consolidation, or merger with the Company as the surviving corporation occurs after the adoption of the 1989 Plan, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Section 4(a). The Committee shall also adjust the number of shares and Option Price in all outstanding Grants made before the event.

5. STOCK OPTIONS.

The Committee may grant options qualifying as incentive stock options under the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"), and nonqualified options (collectively, "Stock Options"). The following provisions are applicable to Stock Options:

(a) Option Price. The price at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") shall be the fair market value of Lilly Stock on the date of the Grant.

(b) Option Exercise Period. The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed twelve years from the date of the Grant.

(c) Exercise of Option. A Grantee may exercise a Stock Option by delivering a notice of exercise to the Company, either with or without accompanying payment of the Option Price. The notice of exercise, once delivered, shall be irrevocable.

(d) Satisfaction of Option Price. The Grantee shall pay the Option Price in cash, or with the Committee's permission, by delivering shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and

shares. The Grantee shall pay the Option Price not later than thirty (30) days after the date of a statement from the Company following exercise setting forth the Option Price, fair market value of Lilly Stock on the exercise date, the number of shares of Lilly Stock that may be delivered in payment of the Option Price, and the amount of withholding tax due, if any. If the Grantee fails to pay the Option Price within the thirty (30) day period, the Committee shall have the right to take whatever action it deems appropriate, including voiding the option exercise. The Company shall not issue or transfer shares of Lilly Stock upon exercise of a Stock Option until the Option Price is fully paid.

(e) Share Withholding. With respect to any nonqualified option, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit the Grantee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the exercise of the nonqualified option by electing to have the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

(f) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1989 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed $100,000. The aggregate fair market value will be determined at the time of grant. An Incentive Stock Option shall not be granted to any Eligible Employee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company.

6. STOCK APPRECIATION RIGHT.

The Committee may grant a Stock Appreciation Right ("SAR") with respect to any Stock Option granted under the 1989 Plan either at the time of grant of the option or thereafter and may also grant an SAR with respect to any outstanding option granted under a prior plan of the Company ("Prior Stock Option"). The following provisions are applicable to each SAR:

(a) Options to Which Right Relates. Each SAR shall specify the Stock Option or Prior Stock Option to which the right is related, together with the Option Price and number of option shares subject to the SAR at the time of its grant.

(b) Requirement of Employment. An SAR may be exercised only while the Grantee is in the employment of the Company, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(c) Exercise. A Grantee may exercise an SAR in whole or in part by delivering a notice of exercise to the Company. The notice of exercise once given shall be irrevocable. An SAR may be exercised only to the extent that the Stock Option or Prior Stock Option to which it relates is exercisable. If a Grantee exercises an SAR, he agrees to forgo the right to purchase the number of shares under the related Stock Option or Prior Stock Option with respect to which the SAR has been exercised.

(d) Payment and Form of Settlement. If a Grantee exercises an SAR, he shall receive the aggregate of the excess of the fair market value of each share of Lilly Stock with respect to which the SAR is being exercised over the Option Price of each such share. Payment may be made in cash, Lilly Stock at fair market value, or a combination of the two, in the discretion of the Committee. The fair market value shall be determined as of the date of exercise.

(e) Expiration and Termination. Each SAR shall expire on a date determined by the Committee at the time of grant. If a Stock Option or Prior Stock Option is exercised in whole or in part, the SAR related to the shares purchased shall terminate immediately.

7. PERFORMANCE AWARDS.

The Committee may grant Performance Awards under which payment shall be made in shares of Lilly Stock ("Performance Shares"), or in cash, if the financial performance of the Company or any subsidiary or division of the Company ("Business Unit") selected by the Committee during the Award Period meets certain financial goals established by the Committee. The following provisions are applicable to Performance Awards:

(a) Award Period. The Committee shall determine and include in the Grant the period of time (which shall be four (4) or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed.

(b) Performance Goals and Payment. Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met

by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, may include earnings per share, return on shareholders' equity, return on assets, net income, divisional income, or any other financial measurement established by the Committee. The Committee shall also establish the method of calculating the amount of payment to be made under a Performance Award if the Performance Goals are met, including the fixing of a maximum payment.

(c) Computation of Payment. After an Award Period, the financial performance of the Business Unit during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance Award. If the Performance Goals are met or exceeded, the Committee shall determine the number of Performance Shares payable under a Performance Award. The Committee, in its sole discretion, may elect to pay the Performance Award in cash in lieu of issuing or transferring part or all of the Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment. The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash he or she is to receive.

(d) Revisions for Significant Events. At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur during an Award Period which have a substantial effect on the financial performance of the Business Unit and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made.

(e) Requirement of Employment. To be entitled to receive payment under a Performance Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

8. RESTRICTED STOCK GRANTS.

The Committee may issue or transfer shares of Lilly Stock to a Grantee under a Restricted Stock Grant. Upon the issuance or transfer, the Grantee shall be entitled to vote the shares and to receive any dividends paid. The following provisions are applicable to Restricted Stock Grants:

(a) Requirement of Employment. If the Grantee's employment terminates during the period designated in the Grant as the "Restricted Period," the Restricted Stock Grant terminates and the shares of Lilly Stock

must be returned immediately to the Company. However, the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(b) Restrictions on Transfer and Legend on Stock Certificate. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall contain a legend giving appropriate notice of the restrictions in the Grant.

(c) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if all conditions stated in Sections 8(a) and (b) have been met. The Grantee shall then be entitled to have the legend removed from the certificate.

9. AMENDMENT AND TERMINATION OF THE 1989 PLAN.

(a) Amendment. The Company's Board of Directors may amend or terminate the 1989 Plan, subject to shareholder approval to the extent necessary for the continued applicability of Rule 16b-3 under the Securities Exchange Act of 1934, but no amendment shall withdraw from the Committee the right to select Grantees under Section 3.

(b) Termination of 1989 Plan. The 1989 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board or unless extended by the Board.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the 1989 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 10(e). The termination of the 1989 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 1989 Plan has terminated, an outstanding Grant may be terminated or amended under Section 10(e) or may be amended by agreement of the Company and the Grantee consistent with the 1989 Plan.

10. GENERAL PROVISIONS.

(a) Prohibitions Against Transfer. Only a Grantee or his authorized representative may exercise rights under a Grant. Such persons may not transfer those rights. When a Grantee dies, the personal representative or other person entitled under a Prior Stock Option or a Grant under the 1989 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, stock appreciation right, performance award, or restricted stock grant granted by such corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions required by the 1989 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where possible the provisions of the

Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) Subsidiaries. The term "subsidiary" means a corporation of which the Company owns directly or indirectly 50% or more of the voting power.

(d) Fractional Shares. Fractional shares shall not be issued or transferred under a Grant, but the Committee may pay cash in lieu of a fraction or round the fraction.

(e) Compliance with Law. The 1989 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

(f) Ownership of Stock. A Grantee or Successor Grantee shall have no rights as a shareholder of the Company with respect to any shares of Lilly Stock covered by a Grant until the shares are issued or transferred to the Grantee or Successor Grantee on the Company's books.

(g) No Right to Employment. The 1989 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time.

(h) Effective Date of the 1989 Plan. The 1989 Plan shall become effective upon its approval by the Company's shareholders at the annual meeting to be held on April 17, 1989, or any adjournment of the meeting.

Exhibit 10.2

# 1994
# LILLY STOCK PLAN,
# as amended through
# April 15, 2002

The 1994 Lilly Stock Plan ("1994 Plan") authorizes the Compensation and Management Development Committee ("Committee") to provide officers and other key executive, management, professional, and administrative employees of Eli Lilly and Company and its subsidiaries with certain rights to acquire shares of Eli Lilly and Company common stock ("Lilly Stock"). The Company believes that this incentive program will benefit the Company's shareholders by allowing the Company to attract, motivate, and retain key employees and by causing those employees, through stock-based incentives, to contribute materially to the growth and success of the Company. For purposes of the 1994 Plan, the term "Company" shall mean Eli Lilly and Company and its subsidiaries, unless the context requires otherwise.

## 1. ADMINISTRATION.

The 1994 Plan shall be administered and interpreted by the Committee consisting of not less than three persons appointed by the Board of Directors of the Company from among its members. A person may serve on the Committee only if he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Committee shall determine the fair market value of Lilly Stock for purposes of the 1994 Plan. The Committee may, subject to the provisions of the 1994 Plan, from time to time establish such rules and regulations and delegate such authority to administer the 1994 Plan as it deems appropriate for the proper administration of the Plan. The decisions of the Committee or its authorized delegatees shall be final, conclusive, and binding with respect to the interpretation and administration of the 1994 Plan and any Grant made under it.

## 2. GRANTS.

Incentives under the 1994 Plan shall consist of incentive stock options, nonqualified stock options, performance awards, and restricted stock grants (collectively, "Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with the 1994 Plan as the Committee deems appropriate. The Committee shall approve the form and provisions of each Grant. Grants under a particular section of the 1994 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

## 3. ELIGIBILITY FOR GRANTS.

Grants may be made to any employee of the Company who is an officer or other key executive, managerial, professional, or administrative employee, including a person who is also a member of the Board of Directors ("Eligible Employee"). The Committee shall select the

persons to receive Grants ("Grantees") from among the Eligible Employees and determine the number of shares subject to any particular Grant.

4. SHARES AVAILABLE FOR GRANT.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 1994 Plan is 25,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 25,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants. Payment in cash in lieu of shares shall be deemed to be an issuance of the shares for purposes of determining the number of shares available for Grants under the 1994 Plan as a whole or to any individual Grantee.

(b) Adjustment Provisions. If any subdivision or combination of shares of Lilly Stock or any stock dividend, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off or other extraordinary distribution, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Sections 4(a), 5(f), and 6(f). The Committee shall also adjust as it determines appropriate the number of shares and Option Price in outstanding Grants made before the event.

5. STOCK OPTIONS.

The Committee may grant options qualifying as incentive stock options under the Code ("Incentive Stock Options"), and nonqualified stock options (collectively, "Stock Options"). The following provisions are applicable to Stock Options:

(a) Option Price. The Committee shall determine the price at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") which shall be not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Committee's discretion, the Grant Date of a Stock Option may be established as the date on which Committee action approving the Stock Option is taken or any later date specified by the Committee.

(b) Option Exercise Period. The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed twelve years from the Grant Date.

(c) Exercise of Option. A Stock Option will be deemed exercised by a Grantee upon delivery of (i) a notice of exercise to the Company or its representative as designated by the Committee, and (ii) accompanying payment of the Option Price if the Stock Option requires such payment at the time of exercise. The notice of exercise, once delivered, shall be irrevocable.

(d) Satisfaction of Option Price. A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within

which payment must be made ("Payment Period"). The Grantee shall pay or cause to be paid the Option Price in cash, or with the Committee's permission, by delivering (or providing adequate evidence of ownership of) shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and such shares. If the Grantee fails to pay the Option Price within the Payment Period, the Committee shall have the right to take whatever action it deems appropriate, including voiding the option exercise or voiding that part of the Stock Option for which payment was not timely received. The Company shall not deliver shares of Lilly Stock upon exercise of a Stock Option until the Option Price and any required withholding tax are fully paid.

(e) Share Withholding. With respect to any nonqualified option, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the exercise of the nonqualified option by having the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

(f) Limits on Individual Grants. No individual Grantee may be granted Stock Options under the 1994 Plan for more than 1,500,000 shares of Lilly Stock in any three consecutive calendar years.

(g) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1994 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed $100,000. The aggregate fair market value will be determined at the Grant Date. An Incentive Stock Option shall not be granted to any Eligible Employee who, on the Grant Date, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company.

6. PERFORMANCE AWARDS.

The Committee may grant Performance Awards which shall be denominated at the time of grant either in shares of Lilly Stock ("Stock Performance Awards") or in dollar amounts ("Dollar Performance Awards"). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Committee, in shares of Lilly Stock ("Performance Shares"), or in cash or in any combination thereof, if the financial performance of the Company or any subsidiary, division, or other unit of the Company ("Business Unit") selected by the Committee meets certain financial goals established by the Committee for the Award Period. The following provisions are applicable to Performance Awards:

(a) Award Period. The Committee shall determine and include in the Grant the period of time (which shall be four or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. Award Periods for different Grants may overlap. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed.

(b) Performance Goals and Payment. Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, are limited to earnings per share, divisional income, net income, or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Committee). The Committee shall also set forth in the Grant the number of Performance Shares or the amount of payment to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)).

(c) Computation of Payment. After an Award Period, the financial performance of the Business Unit during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance Award. If the Performance Goals are met or exceeded, the Committee shall certify that fact in writing and certify the number of Performance Shares or the amount of payment to be made under a Performance Award in accordance with the grant for each Grantee. The Committee, in its sole discretion, may elect to pay part or all of the Performance Award in cash in lieu of issuing or transferring Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment (subject to Section 6(f)). The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash, if any, he or she is to receive.

(d) Revisions for Significant Events. At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur during an Award Period which have a substantial effect on the Performance Goals and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made; provided, however, that no such revision shall be made with respect to a Performance Award to the extent that the Committee determines the revision would cause payment under the Award to fail to be fully deductible by the Company under Section 162 (m) of the Code.

(e) Requirement of Employment. To be entitled to receive payment under a Performance Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable in its sole discretion.

(f) Maximum Payment. No individual may receive Performance Award payments in respect of Stock Performance Awards in excess of 60,000 shares of Lilly Stock in any calendar year or payments in respect of Dollar Performance Awards in excess of $2,000,000 in any calendar year. No individual may receive both a Stock Performance Award and a Dollar Performance Award for the same Award Period.

7. RESTRICTED STOCK GRANTS.

The Committee may issue or transfer shares of Lilly Stock to a Grantee under a Restricted Stock Grant. Upon the issuance or transfer, the Grantee shall be entitled to vote the shares and to receive any dividends paid. The following provisions are applicable to Restricted Stock Grants:

(a) Requirement of Employment. If the Grantee's employment terminates during the period designated in the Grant as the "Restriction Period," the Restricted Stock Grant terminates. However, the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(b) Restrictions on Transfer. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall be held in escrow by the Company until the expiration of the Restriction Period.

(c) Withholding Tax. Before delivering the certificate for shares of Lilly Stock to the Grantee, Lilly may require the Grantee to pay to the Company any required withholding tax. The Committee may, in its discretion and subject to such rules as the Committee may adopt, permit or require the Grantee to satisfy, in whole or in part, any withholding tax requirement by having the Company withhold shares of Lilly Stock from the Grant having a fair market value equal to the amount of the withholding tax. In the event the Grantee fails to pay the withholding tax within the time period specified in the Grant, the Committee may take whatever action it deems appropriate, including withholding or selling sufficient shares from the Grant to pay the tax and assessing interest or late fees to the Grantee.

(d) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse (i) upon the expiration of the Restriction Period if all conditions stated in Sections 7(a), (b) and (c) have been met or (ii) as provided under Section 9(a)(ii). The Grantee shall then be entitled to delivery of the certificate.

8. AMENDMENT AND TERMINATION OF THE 1994 PLAN.

(a) Amendment. The Company's Board of Directors may amend or terminate the 1994 Plan, but no amendment shall withdraw from the Committee the right to select Grantees under Section 3.

(b) Termination of 1994 Plan. The 1994 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board or unless extended by the Board.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the 1994 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 10(e). The termination of the 1994 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 1994 Plan has terminated, an outstanding Grant may be terminated or amended under Section 10(e) or may be amended (i) by agreement of the Company and the Grantee consistent with the 1994 Plan or (ii) by action of the Committee

provided that the amendment is consistent with the 1994 Plan and is found by the Committee not to impair the rights of the Grantee under the Grant.

9. CHANGE IN CONTROL.

(a) Effect on Grants. Unless the Committee shall otherwise expressly provide in the agreement relating to a Grant, upon the occurrence of a Change in Control (as defined below):

(i) In the case of Stock Options, (y) each outstanding Stock Option that is not then fully exercisable shall automatically become fully exercisable until the termination of the option exercise period of the Stock Option (as modified by subsection (i)(z) that follows), and (z) in the event the Grantee's employment is terminated within two years after a Change in Control, his or her outstanding Stock Options at that date of termination shall be immediately exercisable for a period of three months following such termination, provided, however, that, to the extent the Stock Option by its terms otherwise permits a longer option exercise period after such termination, such longer period shall govern, and provided further that in no event shall a Stock Option be exercisable more than 10 years after the Grant Date;

(ii) The Restriction Period on all outstanding Restricted Stock Grants shall automatically expire and all restrictions imposed under such Restricted Stock Grants shall immediately lapse; and

(iii) Each Grantee of a Performance Award for an Award Period that has not been completed at the time of the Change in Control shall be deemed to have earned a minimum Performance Award equal to the product of (y) such Grantee's maximum award opportunity for such Performance Award, and (z) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of such Award Period to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Award Period.

(b) Change in Control. For purposes of the 1994 Plan, a Change in Control shall mean the happening of any of the following events:

(i) The acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the 1934 Act (other than (w) the Company, (x) any subsidiary of the Company, (y) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (z) Lilly Endowment, Inc.,) of "beneficial ownership," as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15% or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of the Company (or which would have such voting power but for the application of the Indiana Control Share Statute) ("Voting Stock"); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control;

(ii) the first day on which less than two-thirds of the total membership of the Board of Directors of the Company shall be Continuing Directors (as that term is defined in Article 13(f) of the Company's Articles of Incorporation);

(iii) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the Voting Stock of the Company or such surviving entity immediately after such Transaction; or

(iv) a complete liquidation of the Company or a sale or disposition of all or substantially all the assets of the Company, other than a sale or disposition of assets to any subsidiary of the Company.

10. GENERAL PROVISIONS.

(a) Prohibitions Against Transfer. (i) Except as provided in part (ii) of this subparagraph, only a Grantee or his or her authorized legal representative may exercise rights under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether voluntary, involuntary, or by operation of law, and any such attempted disposition shall be void; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the 1994 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion and subject to such limitations and conditions as the Committee deems appropriate, grant non-qualified stock options on terms which permit the Grantee to transfer all or part of the stock option, for estate or tax planning purposes or for donative purposes, and without consideration, to a member of the Grantee's immediate family (as defined by the Committee), a trust for the exclusive benefit of such immediate family members, or a partnership, corporation or limited liability company the equity interests of which are owned exclusively by the Grantee and/or one or more members of his or her immediate family. No such stock option or any other Grant shall be transferable incident to divorce. Subsequent transfers of a stock option transferred under this part (ii) shall be prohibited except for transfers to a Successor Grantee upon the death of the transferee.

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, performance award, or restricted stock grant granted by such other corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions that would otherwise be required by the 1994 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where possible the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) Subsidiaries. The term "subsidiary" means a corporation of which Eli Lilly and Company owns directly or indirectly 50% or more of the voting power.

(d) Fractional Shares. Fractional shares shall not be issued or transferred under a Grant, but the Committee may pay cash in lieu of a fraction or round the fraction.

(e) Compliance with Law. The 1994 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and regulations and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory law or government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

(f) Ownership of Stock. A Grantee or Successor Grantee shall have no rights as a shareholder of the Company with respect to any shares of Lilly Stock covered by a Grant until the shares are issued or transferred to the Grantee or Successor Grantee on the Company's books.

(g) No Right to Employment. The 1994 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time, with or without notice or cause.

(h) Foreign Jurisdictions. The Committee may adopt, amend, and terminate such arrangements and make such Grants, not inconsistent with the intent of the 1994 Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign jurisdictions to Grantees who are subject to such laws. The terms and conditions of such foreign Grants may vary from the terms and conditions that would otherwise be required by the 1994 Plan.

(i) Governing Law. The 1994 Plan and all Grants made under it shall be governed by and interpreted in accordance with the laws of the State of Indiana, regardless of the laws that might otherwise govern under applicable Indiana conflict-of-laws principles.

(j) Effective Date of the 1994 Plan. The 1994 Plan shall become effective upon its approval by the Company's shareholders at the annual meeting to be held on April 18, 1994, or any adjournment of the meeting.

* * *

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| BASIC | | |
| Net income | $ 629.2 | $ 806.8 |
| Average number of common shares outstanding | 1,076.9 | 1,078.1 |
| Contingently issuable shares | .2 | .4 |
| Adjusted average shares | 1,077.1 | 1,078.5 |
| Basic earnings per share | $ .58 | $ .75 |
| DILUTED | | |
| Net income | $ 629.2 | $ 806.8 |
| Average number of common shares outstanding | 1,076.9 | 1,078.1 |
| Incremental shares - stock options and contingently issuable shares | 11.3 | 14.0 |
| Adjusted average shares | 1,088.2 | 1,092.1 |
| Diluted earnings per share | $ .58 | $ .74 |

Dollars and shares in millions except per-share data.

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

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

| | Three Months Ended March 31, 2002 | Years Ended December 31, 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| Consolidated pretax income from continuing operations before extraordinary item | $ 806.7 | $3,552.1 | $3,858.7 | $3,245.4 | $2,665.0 | $2,901.1 |
| Interest from continuing operations and other fixed charges | 26.6 | 208.1 | 225.4 | 213.1 | 198.3 | 253.1 |
| Less interest capitalized during the period from continuing operations | (17.0) | (61.5) | (43.1) | (29.3) | (17.0) | (20.4) |
| Earnings | $ 816.3 | $3,698.7 | $4,041.0 | $3,429.2 | $2,846.3 | $3,133.8 |
| Fixed charges (1) | $ 26.6 | $ 208.1 | $ 225.4 | $ 213.2 | $ 200.5 | $ 256.8 |
| Ratio of earnings to fixed charges | 30.7 | 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, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which our products are sold

- - 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, and delays in the approvals of new products pending resolution of the cGMP issues. In particular, see "Other Matters" for a discussion of certain cGMP issues we are currently facing

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

- - economic factors over which 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.