SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED) NOVEMBER 21, 1994

ELI LILLY AND COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

INDIANA	1-6351	35-0470950
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(IRS EMPLOYER IDENTIFICATION NO.)

LILLY CORPORATE CENTER, INDIANAPOLIS, INDIANA 46285
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (317) 276-2000

NO CHANGE

(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On November 21, 1994, ECO Acquisition Corporation, a Delaware corporation ("ECO") and a wholly-owned subsidiary of Eli Lilly and Company, an Indiana corporation ("Lilly") pursuant to its Offer to Purchase, dated July 15, 1994 (the "Offer"), purchased 42,640,622 shares of the common stock, par value $2.00 per share (the "Shares"), of McKesson Corporation, a Delaware corporation ("McKesson") for $76.00 net per Share. The Shares so purchased represented approximately 94.9% of the Shares outstanding on such date. Of such Shares, 2,933,458 Shares (approximately 6.5% of the Shares outstanding) were tendered pursuant to notices of guaranteed delivery. The amount and nature of the consideration was the result of arms-length negotiation between Lilly and McKesson.

Pursuant to the Agreement and Plan of Merger, dated July 10, 1994, as amended, by and among ECO, Lilly and McKesson (the "Merger Agreement"), Lilly intends to effect a merger of ECO with and into McKesson (the "Merger") pursuant to Section 253 of the Delaware General Corporation Law as soon as practicable. Upon the consummation of the Merger, each outstanding Share (other than Shares acquired by ECO in the Offer, Shares owned by a subsidiary of McKesson and Shares as to which appraisal rights are perfected) will be converted into the right to receive $76.00 in cash. Prior to the expiration of the Offer, McKesson completed a spin-off to its stockholders of record on November 19 of the common stock of a newly created corporation that held all of McKesson's businesses and subsidiaries other than its pharmaceutical benefits management business (the "PCS Group"). Accordingly, upon consummation of the Offer and the Merger, McKesson, then consisting solely of the PCS Group, will become a wholly-owned subsidiary of Lilly.

Lilly funded the acquisition of Shares pursuant to the Offer and the payment of approximately $630 million to McKesson (as required by the Merger Agreement), and expects to fund the Merger and all transaction-related fees and expenses (all of which are expected to total approximately $4.1 billion), with the proceeds of a $4.0 billion commercial paper program and internally generated funds.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired

PCS GROUP

CONDENSED COMBINED STATEMENTS OF INCOME
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED SEPTEMBER 30, 1994	SIX MONTHS ENDED SEPTEMBER 30, 1993
Revenues	$ 103,136	$ 76,363
Expenses		
Cost of services rendered	56,350	36,236
Selling, general and administrative	26,654	17,908
Interest (income) expense--net	(453)	(13)
Total expenses	82,551	54,131
Income before taxes on income	20,585	22,232
Taxes on income	8,646	9,538
Net income	$ 11,939	$ 12,694

See accompanying notes to condensed combined financial statements.

PCS GROUP

CONDENSED COMBINED BALANCE SHEET
(IN THOUSANDS)
(UNAUDITED)

	SEPTEMBER 30, 1994
ASSETS	
Current Assets	
Cash and short-term investments	$ 2,990
Receivables	
Service fees	45,806
Claim reimbursements and rebate receivables	353,821
Other, including officers and employees	1,460
Allowance for doubtful accounts	(1,684)
Receivables--net	399,403
Prepaids and other	6,816
Deferred income taxes	3,136
Current assets	412,345
Property--net	84,386
Goodwill--net	65,360
Other Assets	23,140
Total Assets	$585,231
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	
Claims and rebates payable	$174,386
Checks outstanding	212,958
Due to McKesson	57,602
Deposits	20,439
Accrued and other liabilities	22,947
Current liabilities	488,332
Non Current Liabilities	
Deferred income taxes	5,970
Postretirement obligations	900
Deferred compensation	2,052
Non current liabilities	8,922
Commitments and Contingencies (Note 4)	
Stockholder's Equity	
Combined common stock and other capital	45,614
Combined retained earnings	42,363
Stockholder's equity	87,977
Total Liabilities and Stockholder's Equity	$585,231

See accompanying notes to condensed combined financial statements.

PCS GROUP

CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED SEPTEMBER 30,	
	1994	1993
Operating Activities		
Net income	$ 11,939	$ 12,694
Adjustments to reconcile to net cash provided (used) by operating activities		
Depreciation and amortization	8,032	6,243
Deferred income taxes	470	2,111
Total	20,441	21,048
Effect of changes in		
Receivables	(107,211)	(43,089)
Claims and rebates payable	(76,004)	44,704
Checks outstanding	164,040	(10,501)
Accrued and other liabilities	(4,036)	(3,789)
Other	(4,130)	(685)
Total	(27,341)	(13,360)
Net cash provided (used) by operating activities	(6,900)	7,688
Investing Activities		
Acquisition of businesses	(553)	(34,704)
Capital expenditures	(6,518)	(12,206)
Property retirements	674	--
Other	(3,284)	(320)
Net cash used by investing activities	(9,681)	(47,230)
Financing Activities		
Short-term borrowings from McKesson	12,602	43,681
Deferred compensation	999	412
Net cash provided by financing activities	13,601	44,093
Net increase (decrease) in cash and short-term investments	(2,980)	4,551
Cash and short-term investments at beginning of period	5,970	8,305
Cash and short-term investments at end of period	$ 2,990	$ 12,856

See accompanying notes to condensed combined financial statements.

PCS GROUP

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying condensed combined financial statements include PCS Health Systems, Inc. and its subsidiaries ("PCS"), Clinical Pharmaceuticals, Inc. and its subsidiary ("CPI") and an equity interest in Integrated Medical Systems ("IMS"), collectively defined as the "PCS Group" or the "Company". McKesson Corporation ("McKesson") at September 30, 1994 owned 100% of the outstanding common stock of PCS and CPI and the equity interest in IMS. On July 10, 1994, McKesson entered into an Agreement and Plan of Merger ("Agreement") to sell the PCS Group, see Note 3. The accompanying condensed combined financial statements have been prepared in connection with this Agreement.

All significant intercompany balances and transactions have been eliminated.

2. Interim Financial Statements

In the opinion of the Company, these unaudited condensed combined financial statements include all adjustments necessary to a fair presentation of the Company's financial position as of September 30, 1994 and the results of its operations and its cash flows for the six months then ended. Such adjustments were of a normal recurring nature.

The results of operations for the six months ended September 30, 1994 and 1993 are not necessarily indicative of the results for the full year.

It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's March 31, 1994 annual financial statements.

3. Proposed Sale of the PCS Group

On July 10, 1994, McKesson entered into an Agreement providing for the acquisition by Eli Lilly and Company ("Lilly") of the PCS Group. On November 21, 1994, a Lilly subsidiary acquired through a tender offer approximately 95% of McKesson after the distribution by McKesson of all its businesses other than the PCS Group.

4. Contingencies

The Company has entered into capitation contracts with certain customers in the ordinary course of business. These contracts provide that the Company assume varying percentages of the risk associated with claims experience differing from fixed fee arrangements under managed care programs. During the six months ended September 30, 1994, the Company recorded loss provisions totalling $6,400,000 related to these contracts.

INDEPENDENT AUDITORS' REPORT

To the Stockholder of PCS Group:

We have audited the accompanying combined balance sheets of PCS Group (defined in Note 1 to the combined financial statements) as of March 31, 1994, 1993 and 1992, and the related combined statements of income, stockholder's equity and cash flows for the years then ended. The companies defined in Note 1 to the combined financial statements are under common ownership and common management. These financial statements are the responsibility of PCS Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of PCS Group at March 31, 1994, 1993 and 1992, and the combined results of their operations and their combined cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the combined financial statements, in 1992 PCS Group changed its method of accounting for postretirement benefits other than pensions to conform with Statement of Financial Accounting Standards No. 106.

DELOITTE & TOUCHE LLP

Phoenix, Arizona
August 19, 1994

PCS GROUP

COMBINED STATEMENTS OF INCOME
(IN THOUSANDS)

	YEAR ENDED MARCH 31,		
	1994	1993	1992
Revenues (Note 1)	$ 173,495	$ 111,457	$ 102,463
Expenses (Note 1)			
Cost of services rendered	84,668	43,423	40,106
Selling, general and administrative	43,901	35,947	31,800
Interest expense	68	73	2,424
Total expenses	128,637	79,443	74,330
Income before taxes on income	44,858	32,014	28,133
Taxes on income (Note 3)	19,252	13,378	11,845
Income before cumulative effect of accounting change	25,606	18,636	16,288
Cumulative effect of accounting change (Note 1)	--	--	(540)
Net income	$ 25,606	$ 18,636	$ 15,748

See accompanying notes to combined financial statements.

PCS GROUP

COMBINED BALANCE SHEETS
(IN THOUSANDS)

	MARCH 31, 1994	MARCH 31, 1993	MARCH 31, 1992
ASSETS			
Current Assets			
Cash and short-term investments (Note 1)	$ 5,970	$ 8,305	$ 280
Receivables			
Service fees	13,056	11,852	8,778
Claim reimbursements and rebate receivables (Note 1)	280,444	119,343	102,212
Other, including officers and employees	705	537	435
Allowance for doubtful accounts	(2,013)	(2,726)	(1,469)
Receivables--net	292,192	129,006	109,956
Prepaids and other	6,686	1,271	1,623
Deferred income taxes (Note 3)	1,619	1,844	729
Current assets	306,467	140,426	112,588
Property--net (Notes 1 and 4)	85,348	69,886	65,088
Goodwill--net (Notes 1 and 2)	70,106	38,352	39,564
Other Assets (Note 2)	15,225	7,327	2,379
Total Assets	$ 477,146	$ 255,991	$ 219,619
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current Liabilities			
Claims and rebates payable (Note 1)	$ 250,390	$ 105,889	$ 87,980
Checks outstanding (Note 1)	48,918	57,682	57,302
Due to McKesson (Note 5)	45,000	4,365	7,464
Deposits	20,980	20,075	19,855
Accrued and other liabilities	26,442	11,675	10,373
Current liabilities	391,730	199,686	182,974
Non Current Liabilities			
Deferred income taxes (Note 3)	7,425	4,735	4,229
Postretirement obligations (Note 1)	900	900	900
Deferred compensation	1,053	666	148
Non current liabilities	9,378	6,301	5,277
Commitments and Contingencies (Notes 7 and 8)			
Stockholder's Equity			
Combined common stock and other capital	45,614	45,614	45,614
Combined retained earnings (deficit)	30,424	4,390	(14,246)
Stockholder's equity	76,038	50,004	31,368
Total Liabilities and Stockholder's Equity	$ 477,146	$ 255,991	$ 219,619

See accompanying notes to combined financial statements.

PCS GROUP

COMBINED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS EXCEPT SHARE AMOUNTS)

	COMMON STOCK NUMBER OF SHARES PCS	COMMON STOCK NUMBER OF SHARES CPI	OTHER CAPITAL PCS	RETAINED EARNINGS (DEFICIT) PCS	RETAINED EARNINGS (DEFICIT) CPI	COMBINED RETAINED EARNINGS (DEFICIT)	TOTAL STOCK-HOLDER'S EQUITY
Balances, March 31, 1991 (Note 1)...............	100		$ 45,614	$ (29,994)	$	$ (29,994)	$ 15,620
Net income..............				15,748		15,748	15,748
Balances, March 31, 1992	100		45,614	(14,246)		(14,246)	31,368
Net income..............				18,636		18,636	18,636
Balances, March 31, 1993...................	100		45,614	4,390		4,390	50,004
Acquisition of CPI (Note 2).....................		100					
Net income..............				24,050	1,556	25,606	25,606
Other...................				428		428	428
Balances, March 31, 1994...................	100	100	$ 45,614	$ 28,868	$ 1,556	$ 30,424	$ 76,038

PCS's capital structure includes $0.01 par value preferred stock; 10,000,000 shares authorized; no shares outstanding and $0.01 par value common stock; 1,000 shares authorized; 100 shares outstanding.

CPI's capital structure includes $0.01 par value common stock; 1,000 shares authorized; 100 shares outstanding.

See accompanying notes to combined financial statements.

PCS GROUP

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31,		
	1994	1993	1992
Operating Activities			
Income before cumulative effect of accounting change	$ 25,606	$ 18,636	$ 16,288
Adjustments to reconcile to net cash provided by operating activities			
Depreciation and amortization	13,394	9,350	11,064
Provision for losses on receivables	(178)	546	1,347
Deferred income taxes	2,915	(609)	(313)
Total	41,737	27,923	28,386
Effect of changes in			
Receivables	(156,707)	(19,596)	2,265
Claims and rebates payable	144,507	17,909	24,133
Checks outstanding	(8,764)	380	(38,214)
Accrued and other liabilities	8,084	1,521	3,623
Other	(5,393)	352	(149)
Total	(18,273)	566	(8,342)
Net cash provided by operating activities	23,464	28,489	20,044
Investing Activities			
Acquisition of businesses (Note 2)	(40,335)	--	--
Capital expenditures	(26,122)	(12,994)	(2,298)
Property retirements	68	58	5
Other	(432)	(4,947)	(1,563)
Net cash used by investing activities	(66,821)	(17,883)	(3,856)
Financing Activities			
Short-term borrowings from McKesson (Note 5)	40,635	(3,099)	7,734
Deferred compensation	387	518	79
Payments for retirement of debt	--	--	(24,150)
Net cash provided (used) by investing activities	41,022	(2,581)	(16,337)
Net increase (decrease) in cash and short-term investments	(2,335)	8,025	(149)
Cash and short-term investments at beginning of year	8,305	280	429
Cash and short-term investments at end of year	$ 5,970	$ 8,305	$ 280

See accompanying notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Basis of Presentation--The accompanying combined financial statements include PCS Health Systems, Inc. and its subsidiaries ("PCS"), Clinical Pharmaceuticals, Inc. and its subsidiary ("CPI") and an equity interest in Integrated Medical Systems ("IMS"), collectively defined as the "PCS Group" or the "Company". CPI and IMS have been included in the accompanying financial statements since their respective dates of acquisition (see Note 2). McKesson Corporation ("McKesson") at March 31, 1994 owned 100% of the outstanding common stock of PCS and CPI and the equity interest in IMS. On July 10, 1994, McKesson entered into an Agreement and Plan of Merger ("Agreement") to sell the PCS Group, see Proposed Sale of the Company below. The accompanying combined financial statements have been prepared in connection with this Agreement.

All significant intercompany balances and transactions have been eliminated.

Business--The Company provides computer-based prescription drug claims processing and pharmacy benefit design, administration and management services to health plan sponsors, including, insurance companies, third party administrators, self-insured employers, and health maintenance and Blue Cross/Blue Shield organizations that underwrite or administer prescription benefit plans. The Company helps these customers manage the cost of prescription plans by providing drug utilization reviews, clinically-based formularies and generic substitution programs. The Company also operates an on-line electronic network to transmit medical, hospital, laboratory, clinical and billing information that links health care providers (physicians, hospitals and clinics) with health plan sponsors. RECAP (TM), the Company's on-line prescription claims management system, is linked with over 95% of retail pharmacies in the U.S.

Transactions with McKesson Corporation--Certain expenses, principally employee benefits, are paid on behalf of, and charged to the Company by McKesson. In addition, the Company uses certain resources and administrative staff of McKesson, including financial, legal, tax, internal audit, accounting advice, and certain personnel and financial systems data processing and employee benefit services. The Company is charged a fee for these and other services and general liability and workers' compensation insurance premiums at an amount based on actual time or costs incurred. The Company paid McKesson $1,294,000, $946,000 and $979,000 in fiscal years 1994, 1993 and 1992, respectively, for the services; and, $400,000, $75,000 and $115,000 in fiscal years 1994, 1993 and 1992, respectively, for the insurance premiums.

The Company participated in McKesson's cash management program as described in Note 5 and also participates in certain McKesson employee benefit plans, as described in Note 6.

The accompanying financial statements reflect a distribution, retroactive to fiscal 1991, of a dividend (reflected as a reduction to the March 31, 1991 PCS retained earnings balance) to McKesson totalling $93,567,000.

Proposed Sale of the Company--On July 10, 1994, McKesson entered into an Agreement providing for the acquisition by a subsidiary of Eli Lilly and Company ("Lilly") of the PCS Group. This transaction is subject to various conditions including provisions of the Hart-Scott-Rodino Act.

Income Taxes--The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes".

Cash and Short-Term Investments include all highly liquid debt instruments purchased with a maturity of three months or less.

Property is stated at cost and depreciated on the straight-line method over estimated useful lives of three to ten years. The buildings are depreciated over their estimated useful life of 35 years (see Note 4).

Goodwill is amortized over 3 to 40 years and is stated net of accumulated amortization of $7,532,000, $5,158,000 and $3,946,000 at March 31, 1994, 1993 and 1992, respectively (see Note 2).

Capitalized Software included in other assets reflects costs related to internally developed or purchased software for projects in excess of $100,000 that are capitalized and amortized on a straight-line basis over periods not exceeding five years.

Claim Reimbursements Receivable and Claims Payable are recorded when the reimbursement request is received from a member pharmacy. Reimbursements for claim payments are not included in revenues, and payments to member pharmacies are not included in expenses. Checks outstanding are classified as liabilities because they are drawn on zero balance accounts.

Revenues include claims processing fees that are accrued when the related claim is processed and approved for payment. Other revenues are generally recognized as the services are performed.

Changes in Accounting Principles--During 1994, the Company adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits". This accounting change did not have a material effect on the Company's consolidated financial statements. In 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The cumulative effect of adopting this new standard resulted in a charge to net income of $540,000 net of a $360,000 tax benefit.

2. Acquisitions

In April 1993, McKesson purchased all the outstanding shares of CPI, an administrator of clinically based managed prescription drug benefit programs. The cost of the shares, which was paid in cash, was approximately $34,079,000 including transaction related costs. The acquisition, which has been accounted for as a purchase, resulted in additional goodwill of $34,820,000 which is being amortized over 25 years. The accompanying combined financial statements include CPI from the date of acquisition.

In January 1994, McKesson purchased an approximate 15% interest in IMS, a developer of community medical information systems. IMS's networks link physicians with other health care providers, managed care organizations and health plan sponsors. McKesson paid an aggregate cash purchase price of $6,256,000 for 50,000 common shares and 1,250,000 convertible preferred shares (convertible 1 to 1 into common) of outstanding IMS stock. Such investment is accounted for under the cost method and is included in other assets. In addition, McKesson placed a $4,000,000 deposit in escrow toward the purchase of an additional 1,000,000 convertible preferred shares. On July 12, 1994, McKesson used the $4,000,000 deposit to acquire the additional convertible preferred shares, increasing the Company's ownership interest in IMS to approximately 24%.

The impact on fiscal 1994 and 1993 revenues and net income, had the acquisitions occurred at the beginning of fiscal 1993, is not material.

3. Taxes on Income

The Company is included in McKesson's consolidated federal income tax return. The Company's tax provision has been computed as if the Company filed separate income tax returns. The provision for income taxes is made up of the following components:

	YEAR ENDED MARCH 31,		
	1994	1993	1992
	(IN THOUSANDS)		
Current			
Federal	$ 12,787	$ 11,099	$ 9,403
State	3,503	2,868	2,406
Foreign	47	20	(11)
Total current	16,337	13,987	11,798
Deferred			
Federal	2,294	(616)	113
State	621	7	(66)
Total deferred	2,915	(609)	47
Total	$ 19,252	$ 13,378	$ 11,845

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company's effective tax rate differs from the statutory federal income tax rate as follows:

	YEAR ENDED MARCH 31,		
	1994	1993	1992
Statutory federal income tax rate	35.0%	34.0%	34.0%
State income taxes	6.0	6.0	5.5
Goodwill amortization and other	1.9	1.8	2.6
Effective tax rate	42.9%	41.8%	42.1%

The deferred tax balances consisted of the following:

	YEAR ENDED MARCH 31,		
	1994	1993	1992
	(IN THOUSANDS)		
Current Assets:			
Nondeductible accrual for:			
Allowances	$ 608	$1,084	$ 618
Accrued vacation pay	560	443	311
Other	451	317	(200)
Total	$ 1,619	$ 1,844	$ 729
Noncurrent Liabilities:			
Nondeductible accrual for:			
Deferred compensation	$ (424)	$ (265)	$ (58)
Postretirement plan	(366)	(358)	(360)
Accelerated depreciation	4,949	4,719	4,086
Capitalized software	2,149	956	387
Deferred costs of new programs	1,174	(358)	--
CPI net operating loss carryforward	(3,442)	--	--
Reserve--CPI net operating loss carryforward	3,442	--	--
Other	(57)	41	174
Total	$ 7,425	$ 4,735	$ 4,229

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As the benefit of CPI's net operating loss is realized in future periods, a corresponding reduction in goodwill will be recorded.

4. Property

Property is summarized as follows:

	YEAR ENDED MARCH 31,		
	1994	1993	1992
	(IN THOUSANDS)		
Land	$ 25,744	$ 25,744	$ 25,744
Buildings and improvements	29,069	27,204	26,791
Equipment	64,934	51,181	42,580
Furniture and fixtures	10,108	8,220	7,262
Total	129,855	112,349	102,377
Accumulated depreciation	(44,507)	(42,463)	(37,289)
Property--net	$ 85,348	$ 69,886	$ 65,088

Depreciation expense was $11,020,000, $8,138,000 and $9,059,000 in fiscal 1994, 1993 and 1992, respectively.

5. Due to McKesson

The Company participated in McKesson's cash management program whereby the Company's cash receipts were transferred daily to a McKesson bank account and the Company's cash disbursements were funded by McKesson. The Company was charged interest expense on funds advanced by McKesson and received interest income on funds provided to McKesson, at McKesson's short-term borrowing rates. At March 31, 1994, McKesson converted the excess of disbursements funded by McKesson over cash receipts to a short-term credit line which is due on demand and bears interest at McKesson's short-term borrowing rates. During the three year period ended March 31, 1994, the amounts by which the Company's disbursements that McKesson funded, net of the Company's cash receipts, averaged $0 on a daily basis.

6. Employee Benefit Plans

The Company's employees are eligible to participate in a profit-sharing plan. The Company's contributions to the plan were $949,000, $625,000 and $548,000 in fiscal 1994, 1993 and 1992, respectively. The Company's employees are also eligible to participate in McKesson's health, retirement and certain other employee benefit plans. The expense of these benefit plans was approximately $5,720,000, $4,663,000 and $3,946,000 ($4,925,000, $3,995,000 and $3,442,000 for the health plan benefit) in fiscal 1994, 1993 and 1992, respectively.

7. Lease Commitments

The Company leases facilities and equipment under operating leases that expire on various dates through September 2000. Rent expense was $4,051,000, $2,127,000 and $1,912,000 in fiscal 1994, 1993 and 1992, respectively. As of March 31, 1994, future minimum lease payments are as follows:

	YEAR ENDING MARCH 31
	(IN THOUSANDS)
1995	$ 1,136
1996	1,135
1997	925
1998	723
1999 and thereafter	1,331
Total	$ 5,250

8. CONTINGENCIES

Subsequent to year end, the Company entered into capitation contracts with certain customers in the ordinary course of business. These contracts provide that the Company assume varying percentages of the risk associated with claims experience differing from fixed fee arrangements under managed care programs. During the three months ended June 30, 1994, the Company recorded loss provisions totalling $3,700,000 related to these contracts.

The Company is subject to various claims, including claims related to certain sales/use tax matters, and possible legal actions brought by plan sponsors for alleged errors or omissions arising out of the ordinary course of business. The Company has in place insurance to cover certain claims subject to a $1,000,000 deductible. Management believes that it has adequate reserves against potential losses and that the outcome of such claims will not have a material adverse effect on the Company's combined financial position or results of operations.

9. SUPPLEMENTAL CASH FLOW DISCLOSURES

Income taxes totalling $16,806,000, $15,140,000 and $14,792,000 were paid, primarily to McKesson in fiscal 1994, 1993 and 1992, respectively. Interest totalling $18,000, $81,000 and $2,433,000 was paid in fiscal 1994, 1993 and 1992, respectively.

10. SIGNIFICANT CUSTOMER

During 1994 one customer accounted for 17% of the Company's revenues.

11. EVENT (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITORS' REPORT

On November 21, 1994, a subsidiary of Lilly acquired through a tender offer approximately 95% of McKesson after the distribution by McKesson of all of its businesses other than the PCS Group.

(b) Pro Forma Financial Information

The Unaudited Pro Forma Combined Condensed Balance Sheet assumes that the Merger was consummated on September 30, 1994, and the Unaudited Pro Forma Combined Condensed Statements of Income assume the Merger was consummated on January 1, 1993. The fiscal year of Eli Lilly and Company ends on December 31, and the fiscal year of McKesson ends on March 31. For purposes of presenting the Unaudited Pro Forma Combined Condensed Statements of Income for the year ended December 31, 1993, the PCS Group results for the period from April 1, 1993 to March 31, 1994 were included. The Pro Forma Combined Condensed Statement of Income for the nine months ended September 30, 1994 includes the period from January 1, 1994 to September 30, 1994 for both Lilly and the PCS Group. Therefore, the PCS Group results for January 1, 1994 through March 31, 1994 were included in both statements.

ELI LILLY AND COMPANY

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1994
(DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA)

	HISTORICAL				
	LILLY	PCS	GUIDANT ADJUSTMENTS	PCS ADJUSTMENTS	PRO FORMA COMBINED
Net Sales...............	$ 5,132.9	$ 153.8		$ (0.2)(3)	$ 5,286.5
Cost of sales...........	1,620.5	81.7			1,702.2
Research and development............	738.4	--			738.4
Acquired research.......	58.4	--			58.4
Marketing and administrative.........	1,257.6	41.3		(0.2)(3)	1,298.7
Special charges.........	66.0	--			66.0
Other income--net.......	(62.0)	(0.3)	$ 14.8 (1)	73.8 (4) 181.5 (5)	207.8
	3,678.9	122.7	14.8	255.1	4,071.5
Income before income taxes and minority interest......	1,454.0	31.1	(14.8)	(255.3)	1,215.0
Income taxes............	458.0	13.2	(5.9)(8)	(72.6)(8)	392.7
Minority interest.......	--	--	10.6 (2)		10.6
Net income..............	$ 996.0	$ 17.9	$ (19.5)	$ (182.7)	$ 811.7
Earning per share of common stock...........	$ 3.44	--	--	--	$ 2.81
Weighted average number of common shares outstanding............	289.2				289.2

ELI LILLY AND COMPANY

UNAUDITED PRO FORMA COMBINED CONDENSED
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1993
(DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA)

	HISTORICAL				
	LILLY	PCS	GUIDANT ADJUSTMENTS	PCS ADJUSTMENTS	PRO FORMA COMBINED
Net Sales...............	$ 6,452.4	$ 173.5			$ 6,625.9
Cost of sales...........	1,959.0	84.7			2,043.7
Research and development............	954.6	--			954.6
Marketing and administrative.........	1,713.5	43.9			1,757.4
Restructuring and special charges........	1,172.7	--			1,172.7
Other income-net........	(49.3)	--	$ 25.6 (1)	$ 98.4 (4) 242.0 (5)	316.7
	5,750.5	128.6	25.6	340.4	6,245.1
Income before income taxes, minority interest and cumulative effect of changes in accounting principles..	701.9	44.9	(25.6)	(340.4)	380.8
Income taxes............	210.8	19.3	(10.2)(8)	(96.8)(8)	123.1
Minority interest.......	--	--	6.5 (2)		6.5
Income before cumulative effect of changes in accounting principles..	$ 491.1	$ 25.6	$ (21.9)	$ (243.6)	$ 251.2
Earnings per share of common stock before cumulative effect of changes in accounting principles.............	$1.67	--	--	--	$0.85
Weighted average number of common shares outstanding............	294.3				294.3

ELI LILLY AND COMPANY

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
SEPTEMBER 30, 1994
(DOLLARS IN MILLIONS)

	HISTORICAL LILLY	HISTORICAL PCS	GUIDANT ADJUSTMENTS	PCS ADJUSTMENTS	PRO FORMA COMBINED
ASSETS					
Current Assets					
Cash and cash equivalents..........	$ 999.6	$ 3.0	$ 382.2(1)		$ 1,384.8
Short-term investments..........	461.9	--			461.9
Accounts receivable--net..................	1,090.1	399.4		$ (3.7)(3)	1,485.8
Inventories...........	1,041.9	--			1,041.9
Deferred income taxes.	243.8	3.1			246.9
Other current assets..	339.4	6.8			346.2
Total current assets.............	4,176.7	412.3	382.2	(3.7)	4,967.5
Other Assets					
Prepaid retirement....	405.9	--			405.9
Investments...........	297.9	--			297.9
Goodwill and other intangibles--net.....	400.5	65.4		3,937.0 (4)	4,402.9
Sundry................	934.1	23.1			957.2
Property and equipment--net.......	4,292.6	84.4			4,377.0
	$ 10,507.7	$ 585.2	$ 382.2	$ 3,933.3	$ 15,408.4
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Short-term borrowings.	$ 738.5	--		$ 3,200.0 (5)	$ 3,938.5
Accounts payable......	207.6	$ 387.3		25.0 (6)	619.9
Employee compensation.	279.3	--			279.3
Other liabilities.....	1,020.7	101.0		(3.7)(6)	1,118.0
Income taxes payable..	476.7	--			476.7
Total current liabilities........	2,722.8	488.3		3,221.3	6,432.4
Long-term Debt..........	1,174.4	--	$ 189.0(1)	800.0 (5)	2,163.4
Deferred income taxes...	164.2	6.0			170.2
Retiree medical benefit obligation.............	198.7	0.9			199.6
Other noncurrent liabilities............	932.9	2.0			934.9
Minority interest.......			41.4 (2)		41.4
Shareholders' equity....	5,314.7	88.0	193.2 (1) (41.4)(2)	(88.0)(7)	5,466.5
	$ 10,507.7	$ 585.2	$ 382.2	$ 3,933.3	$ 15,408.4

ELI LILLY AND COMPANY

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED
BALANCE SHEET AND INCOME STATEMENTS

The Unaudited Pro Forma Combined Condensed Balance Sheet was prepared to reflect the Merger, which was accounted for under the purchase method of accounting, as if the Merger occurred on September 30, 1994.

The Unaudited Pro Forma Combined Condensed Statements of Income have been prepared to reflect the Merger as if the Merger occurred January 1, 1993. The excess of the purchase price over the fair value of the net assets acquired is being amortized on a straight-line basis over a 40-year period.

The Unaudited Pro Forma Combined Condensed Balance Sheet and Statements of Income also include adjustments relating to an initial public offering for up to 20% of the shares of Guidant Corporation ("Guidant"), a newly formed company comprising five of Lilly's medical device and diagnostics (MDD) businesses. This IPO is currently scheduled for the fourth quarter of 1994 and is part of Lilly's previously announced intent to divest itself of its MDD businesses.

Included in Lilly's historical Statement of Income for the year ended December 31, 1993, is a pretax restructuring and special charge of $1,172.7 million. This charge represents provisions by Lilly to reduce its workforce through early retirement programs, as well as initiate actions to consolidate certain manufacturing operations around the world, implement revised product distribution strategies and to streamline its core pharmaceutical operations.

Included in Lilly's historical Statement of Income for the nine months ended September 30, 1994, is a pretax special charge of $66.0 million relating to the March 31, 1994, voluntary recall of three of Lilly's liquid oral antibiotics as well as a nonrecurring pretax charge of $58.4 million for acquired research associated with Lilly's acquisition of Sphinx Pharmaceuticals, Inc. in September, 1994.

The following is a summary of reclassifications and adjustments reflected in the Unaudited Pro Forma Combined Condensed Balance Sheet and Statements of Income:

(1) Represents the pro forma adjustments included in the Guidant S-1 filing, as amended, that affect the consolidated Eli Lilly and Company financial statements. These adjustments reflect the projected outstanding debt of Guidant as well as the increase in interest expense associated with such debt and the projected receipts of the initial public offering of $193.2 million. The assumed interest rate of the long-term debt of 5.05% considers Lilly to be a guarantor of such debt.

(2) As documented in the Guidant S-1, as amended, it is assumed that Lilly will beneficially own 82.3% of Guidant's outstanding common stock upon completion of the IPO. This adjustment recognizes the minority interest of 17.7%. The unaudited pro forma financial statements contained in the Guidant S-1 filing, as amended, have been adjusted for the difference in interest rates between Lilly's rate (see Note 1) and Guidant's stand-alone rate used in the S-1, as well as interest income on intercompany advances.

(3) Represents the elimination of intercompany receivables and payables between PCS and Lilly at September 30, 1994 as well as intercompany revenue and expense between PCS and Lilly.

(4) Represents the preliminary estimate of excess purchase price over the book value of PCS net assets acquired (goodwill). The purchase price has been adjusted to include acquisition-related expenses (see Note 6). The amortization period reflected in the Statements of Income for such goodwill is 40 years.

(5) Represents the issuance of short-term and long-term debt to finance the cash acquisition. The Statements of Income reflect the increase in interest expense based on issuance of short-term debt at an assumed interest rate of 5.5% and long-term debt at an assumed interest rate of 8.25%. It is assumed that there are no significant debt issuance costs, that all debt was issued on January 1, 1993 and was outstanding through September 30, 1994 and that the short-term debt was refinanced in 1994 with the same interest rate assumptions.

(6) Represents the amount of estimated acquisition fees for legal and investment banker advisory services related to the Merger.

(7) Represents the elimination of PCS historical equity.

(8) Represents the tax effect of the Statements of Income adjustments, excluding the goodwill amortization, based upon the statutory rate in effect for the periods shown.

(c) Exhibits

2.1 Agreement and Plan of Merger, dated as of July 10, 1994, as amended, by and among ECO Acquisition Corporation, a wholly-owned subsidiary of Eli Lilly and Company, Eli Lilly and Company and McKesson Corporation.

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 hereunto duly authorized.

Eli Lilly and Company
(REGISTRANT)

/s/ James M. Cornelius
By: ___________________________________
James M. Cornelius
Vice President and Chief Financial Officer

Dated: November 23, 1994

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	PAGE
*2.1	Agreement and Plan of Merger, dated as of July 10, 1994, as amended, by and among ECO Acquisition Corporation, a wholly-owned subsidiary of Eli Lilly and Company, Eli Lilly and Company and McKesson Corporation..	

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* Pursuant to Rule 12b-32 of the Securities Exchange Act of 1934, as amended, Exhibit 2.1 is hereby incorporated by reference to the Schedule 14D-1, as amended, filed by ECO Acquisition Corporation and Eli Lilly and Company with respect to their tender offer for shares of common stock of McKesson Corporation with the Securities and Exchange Commission on July 15, 1994.