

Marketing and administrative	407.2	280.0
Special charges	-	56.0
Interest expense	66.2	16.7
Other income - net	(33.2)	(35.8)
	-----	-----
	1,189.4	876.3
	-----	-----
Income from continuing operations before income taxes	527.9	432.8
Income taxes	153.1	132.1
	-----	-----
Income from continuing operations	374.8	300.7
Income from discontinued operations, net of tax	18.4	30.0
	-----	-----
Net income	\$ 393.2	\$ 330.7
	=====	=====
Earnings per share:		
Income from continuing operations	\$1.30	\$1.04
Income from discontinued operations	.06	.10
	----	----
Net income	\$1.36	\$1.14
	=====	=====
Dividends paid per share	\$.645	\$.625

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

Eli Lilly and Company and Subsidiaries

March 31, December 31,
1995 1994

(Millions)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 978.8	\$ 536.9
Short-term investments	151.3	209.8
Accounts receivable, net of allowances of \$54.7 (1995) and \$46.6 (1994)	1,638.0	1,550.2
Other receivables	286.8	284.4
Inventories	901.1	968.9
Deferred income taxes	199.6	245.0
Prepaid expenses	278.0	167.1
	-----	-----

TOTAL CURRENT ASSETS	4,433.6	3,962.3
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OTHER ASSETS

Prepaid retirement	413.6	411.9
Investments	465.0	464.1
Goodwill and other intangibles, net of allowances for amortization of \$359.0 (1995) and \$326.2 (1994)	4,379.1	4,411.5
Sundry	852.3	846.1
	-----	-----
	6,110.0	6,133.6

PROPERTY AND EQUIPMENT

Land, buildings, equipment, and construction-in-progress	7,101.9	7,026.4
Less allowances for depreciation	2,684.8	2,614.9
	-----	-----
	4,417.1	4,411.5
	-----	-----
	\$14,960.7	\$14,507.4
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Short-term borrowings	\$3,620.0	\$2,724.4
Accounts payable	783.7	878.2
Employee compensation	220.9	304.6
Dividends payable	-	188.8
Other liabilities	960.8	1,065.1
Income taxes payable	543.6	508.4
	-----	-----

TOTAL CURRENT LIABILITIES	6,129.0	5,669.5
---------------------------	---------	---------

LONG-TERM DEBT

DEFERRED INCOME TAXES	1,638.7	2,125.8
RETIREE MEDICAL BENEFIT OBLIGATION	218.7	188.9
OTHER NONCURRENT LIABILITIES	173.7	170.5
	965.4	997.1

SHAREHOLDERS' EQUITY

Common stock	183.0	183.0
Additional paid-in capital	417.6	421.7
Retained earnings	5,467.0	5,062.1
Deferred costs-ESOP	(214.4)	(218.2)
Currency translation adjustments	10.1	(38.0)
	-----	-----

Less cost of common stock in treasury	5,863.3	5,410.6
	28.1	55.0
	-----	-----

	5,835.2	5,355.6
	-----	-----

	\$14,960.7	\$14,507.4
	=====	=====

See Notes to Consolidated Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Three Months Ended March 31,	
	----- 1995	1994 -----
	(Millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$393.2	\$330.7
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Changes in operating assets and liabilities	(288.5)	(356.8)
Change in deferred taxes	60.9	60.4
Special charges	-	56.0
Depreciation and amortization	140.1	103.6
Other items, net	(21.9)	(25.8)
	----	----
NET CASH FLOWS FROM OPERATING ACTIVITIES	283.8	168.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to property and equipment	(96.9)	(111.9)
Additions to sundry assets and intangibles	(3.4)	(34.0)
Reduction of investments	129.9	388.9
Additions to investments	(57.0)	(439.5)
Acquisitions	(28.4)	-
	----	-----
NET CASH USED FOR INVESTING ACTIVITIES	(55.8)	(196.5)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(186.6)	(181.0)
Purchase of common stock and other capital transactions	(22.4)	(13.9)
Net additions to short-term borrowings	412.2	254.5
Net (reductions) additions to long-term debt	(15.2)	21.6
	----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	188.0	81.2
Effect of Exchange Rate Changes on Cash	25.9	12.5
	----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	441.9	65.3
Cash and cash equivalents at January 1	536.9	539.6
	----	-----
CASH AND CASH EQUIVALENTS AT MARCH 31	\$978.8	\$604.9
	=====	=====

See Notes to Consolidated Financial Statements.

BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring accruals) that are necessary to a fair statement of the results for the periods shown. Certain 1994 amounts have been reclassified to conform to the 1995 presentation of discontinued operations.

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

CONTINGENCIES

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

The Company is a party to various patent litigation matters involving Humatrope(R), Humulin(R), bovine somatotropin, and various products within the former Medical Devices and Diagnostics Division. Based upon historical and industry data, the Company has accrued for the anticipated cost of resolution of the claims.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the Company has been designated as one of several potentially responsible parties with respect to certain sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The Company also continues remediation of certain of its own sites. The Company has accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to those costs. The Company has asserted its right to coverage for defense costs in certain environmental proceedings and has reserved its right to pursue claims for insurance with respect to certain environmental liabilities. However, because of uncertainties with respect to the timing and ultimate realization of those claims, the Company has not recorded any environmental insurance recoverables.

The product, patent, and environmental liabilities have been reflected in the Company's consolidated balance sheets at their gross amounts (approximately \$415 million at March 31, 1995). Estimated insurance recoverables appear as assets in the consolidated balance sheets (approximately \$150 million at March 31, 1995).

The Company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of nearly all U.S. retail pharmacies alleging an industrywide agreement to deny favorable prices to retail pharmacies. Other related suits, brought by several thousand pharmacies, involve claims of price discrimination or claims under other pricing laws. These suits are presently in discovery.

While it is not possible to predict or determine the outcome of the patent, product liability, antitrust or other legal actions brought against the Company, or the ultimate cost of environmental matters, the Company continues to believe the costs associated with all such matters will not have a material adverse effect on its consolidated financial position.

SPECIAL CHARGES

In the first quarter of 1994, the Company incurred \$56 million of pretax charges associated with the March 31 voluntary recall of three of its liquid oral antibiotics. The recall, which was initiated by the Company after consultation with the FDA, was made after four instances were reported of small plastic caps being found in the antibiotics. Shipments of all three products were resumed during the second and third quarters of 1994.

EARNINGS PER SHARE

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

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

DISCONTINUED OPERATIONS:

The Company is proceeding with its plan to complete the divestiture of the Medical Devices and Diagnostics (MDD) Division businesses in 1995, including the split-off (an exchange offer pursuant to which Lilly shareholders will be given the opportunity to exchange some or all their Lilly shares for Guidant shares) of its remaining 80 percent interest in Guidant Corporation (Guidant) and the sale of Hybritech Incorporated. Currently, the Company intends to complete the split-off of Guidant in the latter half of 1995.

As a consequence of the divestiture plan, the operating results of the MDD companies have been reflected as "discontinued operations" in the Company's financial statements and have been excluded from consolidated sales and expenses reflected therein. The Company expects to recognize a net gain on the completion of the divestiture.

OPERATING RESULTS OF CONTINUING OPERATIONS:

The Company's sales for the first quarter increased 31 percent as compared with the first quarter of 1994. Sales inside the United States increased 34 percent while sales outside the United States increased 28 percent. Compared with the first quarter of 1994, volume increased 29 percent (24 percent excluding PCS Health Systems, Inc. (PCS)), prices declined 1 percent, and foreign exchange rates had a favorable effect of 3 percent.

Worldwide sales of pharmaceutical products increased 33 percent in the first quarter compared with the same period last year. Contributing significantly to the growth of worldwide pharmaceutical product sales were Axid(R), cefaclor, Humulin, LorabidTM, and Prozac. Worldwide sales of Prozac in the first quarter of 1995 were \$456.7 million, an increase of 36 percent as compared to the first quarter of 1994. The Company expects continued growth of Prozac sales for the remainder of the year, but at a lower rate. U.S. sales growth of 36 percent was achieved despite the growth in product discounts and rebates associated with the Company's increased participation in managed-care programs. U.S. sales of anti-infectives reflected an increase over the first quarter of 1994 largely as a result of increased cefaclor sales, including a generic form of the product marketed and distributed by the Company's subsidiary STC Pharmaceuticals, Inc. (STC) under the previously announced agreement between STC and Mylan Pharmaceuticals, Inc. A heavier flu season in certain markets, as compared to the previous year, drove the cefaclor sales increase. Service revenue from PCS, which was acquired in November, 1994 contributed \$63 million to the quarter's sales growth. U.S. sales of Dobutrex(R) declined approximately 87 percent during the quarter as a result of generic competition. International pharmaceutical sales growth of 28 percent was achieved primarily as a result of the Company's continuing expansion in global markets.

In May 1995, two companies began marketing generic forms of cefaclor capsules in the U.S. The Company has filed suit against those companies in Federal court in Indianapolis asserting infringement of certain U.S. process patents in the manufacture of cefaclor. The suit seeks, among other things, an injunction against the sale of the product made by the infringed process. The patents at issue expire in July 1996. There can be no assurance that the Company will be successful in this litigation.

Worldwide sales of animal health products increased 15 percent over the first quarter of 1994. The increase resulted from strong performance of the entire product line both in the U.S. and international markets.

Cost of sales increased in the first quarter to 29.8 percent of sales from 29.2 percent of sales in the same quarter of 1994. This increase is primarily the result of the inclusion of PCS and the impact of foreign exchange rates offset, in part, by a favorable product mix.

Operating expenses increased 25 percent in the first quarter compared with the same period in 1994. The increase reflects a 34 percent growth in research and development due to the large number of compounds that have entered the later and most expensive phases of clinical research. Also, marketing and administrative expenses increased 45 percent from the first quarter of 1994 partially due to continued globalization of the Company's products, particularly in emerging markets, the addition of PCS, and increased accruals for performance-based compensation. In March 1994, the Company voluntarily recalled three of its liquid oral antibiotics resulting in a special pre-tax charge of \$56 million. The rate of growth of 1995 operating expenses over 1994 would have been greater if this special charge was not included in the comparison.

For the first quarter of 1995, the Company had interest expense of \$66.2 million as compared with \$16.7 million for the same quarter of 1994, reflecting the Company's increased debt levels associated with the PCS acquisition. Net other income of \$33.2 million for the quarter was \$2.6 million less than 1994. This decrease relates largely to amortization of goodwill associated with the PCS acquisition (an expense of approximately \$25 million each quarter), offset, in part, by non-recurring income received under a development contract and the sale of the U.S. marketing rights to methadone.

The Company's estimated tax rate was 29.0 percent in the first quarter of 1995 versus a tax rate of 30.5 percent in the first quarter of 1994. This decline is primarily the result of increased earnings outside the United States where tax rates are lower, particularly in Ireland, and the effectiveness of various tax planning strategies.

As a consequence of the sales growth and the lower effective tax rate which were partially offset by increased expenses, due largely to the acquisition of PCS, both net income and earnings per share increased 19 percent for the first quarter compared with the first quarter of 1994 to \$383.2 million and \$1.36, respectively. First quarter 1994 earnings per share were reduced by \$.13 as a result of the product recall.

FINANCIAL CONDITION:

As of March 31, 1995, cash, cash equivalents and short-term investments totaled \$1,130.1 million as compared with \$746.7 million at December 31, 1994. Total debt at March 31, 1995, was \$5,258.7 million, an increase of \$408.5 million from December 31, 1994. The increase primarily reflects additional borrowings necessary to fund normal seasonal operating needs. Changes in the classification of borrowings between long and short-term primarily reflect the reclassification from long-term the debt of Guidant which is due January 8, 1996.

The Company has recently filed with the Securities and Exchange Commission a shelf registration statement to register \$1 billion of debt securities. These securities may have maturities exceeding nine months and, once the registration statement is effective, may be offered by the Company from time to time as

business and financing needs dictate. The Company currently plans to use any net proceeds from sales of these securities for general corporate purposes, which would include reducing short-term indebtedness in the form of commercial paper incurred in the acquisition of PCS and other working capital needs.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In February 1995, the Federal Trade Commission requested the Company to produce documents and information in connection with a non-public investigation concerning the pharmacy benefit management business. The Company understands that similar requests were made to several other pharmaceutical companies and other businesses involved in pharmaceutical health care. The Company is cooperating fully with the Commission's investigation.

Reference is made to the discussion of the antitrust litigation brought by retail pharmacies against the Company and numerous other U.S. prescription pharmaceutical manufacturers, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1994, under Part I, Item 3, "Legal Proceedings." A new trial date for the Federal class action cases, pending in the Northern District of Illinois, has been set for April, 1996. In the Federal Robinson-Patman Act cases, the Court in the Northern District of Illinois has designated certain plaintiffs and defendants named in the individual suits to participate in an initial trial or trials of the plaintiffs' Robinson-Patman Act claims. Robinson-Patman claims asserted in suits filed against non-designated defendants, including the Company, are stayed.

Item 6. Exhibits and Reports on Form 8-K

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

Report:

10. Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees
11. Statement re: Computation of Earnings Per Share on Primary and Fully Diluted Bases
12. Statement re: Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
27. Financial Data Schedule
99. Attachment to Form 10-Q: Contingent Payment Obligation Units

(b) During the quarter for which this report is filed, the Company filed no reports on Form 8-K.

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 11, 1995

s/Daniel P. Carmichael

Daniel P. Carmichael
Secretary and Deputy
General Counsel

Date May 11, 1995

s/Arnold C. Hanish

Arnold C. Hanish
Director, Corporate Accounting and
Chief Accounting Officer

INDEX TO EXHIBITS

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

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ELI LILLY AND COMPANY

CHANGE IN CONTROL SEVERANCE PAY PLAN
FOR SELECT EMPLOYEES

1. PURPOSE

This Eli Lilly and Company Change in Control Severance Pay Plan For Select Employees has been established by the Company to provide for the payment of severance pay and benefits to Eligible Employees whose employment with a Participating Employer terminates due to certain conditions created by a Change in Control of the Company. The purpose of the Plan is to assure a continuity in operations of the Company during a period of Change in Control by allowing employees to focus on their responsibilities to the Company knowing that they have certain financial security in the event of their termination of employment. The accomplishment of this purpose is in the best interests of the Company and its shareholders.

2. DEFINITIONS

The terms defined in this Section 2 shall have the meanings given below:

- (a) "Annual Base Salary" means the amount of the Eligible Employee's Monthly Base Salary multiplied by twelve (12).
 - (b) "Board" means the Board of Directors of the Company.
 - (c) "Change in Control" has the meaning given in Section 3.
 - (d) "Code" means the Internal Revenue Code of 1986, as amended.
 - (e) "Committee" means the Compensation and Management Development Committee of the Board, or such other committee appointed by the Board to perform the functions of the Committee under the Plan, provided that at all times the Committee shall be constituted solely of directors who are Continuing Directors (as defined in Section 3) to the extent any such directors remain on the Board and are willing to serve in such capacity.
- 1
- (f) "Covered Termination" has the meaning given in Section 6.
 - (g) "Company" means Eli Lilly and Company, an Indiana corporation.
 - (h) "Eligible Employee" means a Tier I Employee or a Tier II Employee.
 - (i) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
 - (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
 - (k) "Monthly Base Salary" means an Eligible Employee's gross monthly base salary before any deductions, exclusions or any deferrals or contributions under any Participating Employer plan or program, but excluding bonuses, incentive awards or compensation, employee benefits or any other non-salary form of compensation.
 - (l) "Participating Employer" has the meaning given in Section 4.
 - (m) "Plan" means this Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees.
 - (n) "Severance Multiple" means the number of years represented by the Severance Period for the Eligible Employee.
 - (o) "Severance Period" means (i) in the case of Tier I Employees, the three (3) year period immediately following a Covered Termination and (ii) in the case of Tier II Employees, the two (2) year period immediately following a Covered Termination.
 - (p) "Tier I Employees" and "Tier II Employees" have the meanings given in Section 5.

For purposes of the Plan, a "Change in Control" of the Company shall be deemed to have occurred upon:

(a) the acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the Exchange Act (other than (i) the Company, (ii) any subsidiary of the Company, (iii) 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 (iv) Lilly Endowment, Inc.) of "beneficial ownership," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of 20% 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 (or which would have such voting power but for the application of the Indiana Control Shares Statute) ("Voting Stock");

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

(c) approval by the shareholders of the Company 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;

(d) approval by the shareholders of the Company of 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;

(e) either (i) the Company shall have entered into a definitive agreement with any Person, which, if consummated, would result in a Change in Control as specified in paragraphs (a) through (d) of this Section 3 or (ii) any Person initiates a tender offer or exchange offer to acquire shares of the Voting Stock which, if consummated, would result in a Change in Control as specified in paragraphs (a) through (d) of this Section 3; provided, however, that if the Board shall make a final determination that such agreement, tender offer or exchange offer will not be consummated, the occurrence of any such event shall cease to constitute a Change in Control

and the termination of employment of an Eligible Employee after such determination shall not be treated as a Covered Termination on the basis of such event; or

(f) the Board adopts a resolution to the effect that any Person has taken actions which, if consummated, would result in its having acquired effective control of the business and affairs of the Company; provided, however, that if the Board shall make a final determination that such actions will not be consummated, the occurrence of any such event shall cease to constitute a Change in Control and the termination of employment of an Eligible Employee after such determination shall not be treated as a Covered Termination on the basis of such event.

For purposes of this Section 3 only, the term "subsidiary" means a corporation of which the Company owns directly or indirectly fifty (50) percent or more of the voting power.

4. PARTICIPATING EMPLOYERS

A. Designation of Participating Employers. The Company and each subsidiary corporation of which the Company owns directly or indirectly one-hundred (100) percent of the voting power at the time of the Change in Control shall be Participating Employers under the Plan. In addition, the Committee may designate other affiliates of the Company as Participating Employers under the Plan, from time to time and under such terms and conditions, as shall be specified by an action in writing by the Committee. Such terms and conditions may impose limitations on the extent to which any such affiliate participates in the Plan (including but not limited to the duration of any such participation), but shall not provide rights or benefits to Eligible Employees that are broader than those set forth in the Plan. Any entity that is a Participating Employer at the time of a Change in Control shall continue to be a Participating Employer following a Change in Control, and any person, firm or business that is a successor to the business or interests of a Participating Employer following a Change in Control shall be treated as a Participating Employer under the Plan.

B. Limitations in Foreign Jurisdictions. Notwithstanding the foregoing or anything elsewhere in the Plan to the contrary, the Committee shall have the discretionary authority, as specified below, to exclude from participation or limit the participation of any Participating Employer with respect to its Eligible Employees employed outside of the United States. The Committee shall exercise this authority only by an action

in writing taken prior to a Change in Control on the basis of a good faith determination that, as a result of the specific effect of applicable local law or practice with respect to the Plan, it would be in the best interests of the Company to so exclude or limit such participation. In addition, to the extent specified by an action in writing prior to a Change in Control, the Committee may offset the benefits provided under the Plan to any such Eligible Employee by benefits under severance arrangements that exist by reason of applicable local law or practice.

5. ELIGIBLE EMPLOYEES

The following individuals shall be eligible to participate in the Plan and shall be considered an Eligible Employee for all purposes hereunder:

- (i) "Tier I Employees" - the Chief Executive Officer of the Company

immediately prior to the Change in Control, and all members of the Operations Committee (or a successor committee) of the Company appointed by the Chief Executive Officer, as constituted immediately prior to the Change in Control; and

- (ii) "Tier II Employees" - all employees of the Participating

Employers (other than Tier I Employees) who are classified by the Company as Executive Directors or above (or any successor classifications) immediately prior to the Change in Control.

Any person who is an Eligible Employee in accordance with the foregoing shall continue to be an Eligible Employee (and shall retain his/her status as a Tier I or Tier II Employee for purposes of the Plan) notwithstanding any change in his/her position or classification following a Change in Control. The Committee shall notify each Eligible Employee of his/her participation in the Plan and status as a Tier I or Tier II Employee at the time of the Change in Control.

6. COVERED TERMINATIONS

A. General. An Eligible Employee shall be treated as having suffered a "Covered Termination" hereunder under the following circumstances:

- 1. Tier I Employees. The termination of employment of a Tier I

Employee shall be treated as a Covered Termination if his/her employment is terminated under one of the following circumstances:

(i) at anytime within two (2) years following the date of a Change in Control, termination of employment by a Participating Employer without "Cause" or by the Eligible Employee for "Good Reason"; or

(ii) beginning with the one (1) year anniversary of the date of a Change in Control and for a period of thirty (30) calendar days thereafter, termination of employment by a Participating Employer without "Cause" or by the Eligible Employee for any reason (whether or not for "Good Reason").

2. Tier II Employees. The termination of employment of a Tier

 II Employee shall be treated as a Covered Termination if his/her employment is terminated, within a period of two (2) years following the date of a Change in Control, by a Participating Employer other than for "Cause" or by the Eligible Employee for "Good Reason."

For purposes of the foregoing, the time periods specified above within which a termination of employment may be treated as a Covered Termination shall commence on the date the Change in Control becomes effective and, with respect to a Change in Control under paragraphs (e) and (f) of Section 3, shall recommence (for the full applicable period) on the date of consummation of the underlying actions; provided, however, that in the event of a Change in Control under paragraphs (e) and (f) of Section 3, the time period within which a Covered Termination under clause (ii) of paragraph 1 above may occur shall be measured only from the date of consummation of the underlying actions (and not from any earlier date).

An Eligible Employee shall not be treated as having suffered a Covered Termination in the event of his/her death, total disability (within the meaning of the Company's Extended Disability Plan), transfer of employment among Participating Employers (unless such transfer gives rise to a "Good Reason") or involuntary termination for "Cause."

B. Termination For Cause. For purposes hereof, the termination of an Eligible Employee's employment shall be deemed to be a termination for "Cause" if as a result of:

(i) the willful refusal of the Eligible Employee to perform, without legal cause, his/her material duties to the Participating Employer, resulting in demonstrable economic harm to any Participating Employer, which the Eligible Employee has failed to cure after thirty (30) calendar days' advance written notice from the Company; or

(ii) the conviction of the Eligible Employee by a court of competent jurisdiction of any crime (or enters a plea of guilty or nolo contendere to a charge of any crime) constituting a felony.

C. Termination for Good Reason. For purposes hereof, an Eligible Employee may terminate his/her employment for "Good Reason" as a result of:

(i) a material diminution in the nature or status of the Eligible Employee's position, title, reporting relationship, duties, responsibilities or authority, or the assignment to him/her of additional responsibilities that materially increase his/her workload;

(ii) any reduction in the Eligible Employee's then-current Monthly Base Salary;

(iii) a material reduction in the Eligible Employee's opportunities to earn incentive bonuses below those in effect for the year most recently completed before the date of the Change in Control, taking into account all material bonus factors such as targeted bonus amounts and corporate performance measures;

(iv) a material reduction in the Eligible Employee's employee benefits and coverages (including, without limitation, pension, profit sharing and all welfare and fringe benefits) that are provided to the Eligible Employee from the benefit levels in effect immediately prior to the Change in Control;

(v) the failure to grant to the Eligible Employee stock options, performance shares or similar equity incentive rights during each twelve (12) month period following the Change in Control on the basis of a number of shares or units and all other material terms (including vesting requirements) at least as favorable to the Eligible Employee as those rights granted to him/her on an annualized average basis for the three (3) year period immediately prior to the Change in Control; or

(vi) relocation of the Eligible Employee by more than fifty (50) miles from his/her regularly assigned workplace existing on the date of the Change in Control.

7. SEVERANCE PAYMENT

The amount of the severance payment to be received by an Eligible Employee whose employment is terminated under conditions constituting a Covered Termination shall equal the applicable Severance Multiple for the Eligible Employee multiplied by the sum of:

(i) the Eligible Employee's Annual Base Salary at the time of Covered Termination (calculated without regard to any reduction in Monthly Base Salary that results in a Good Reason termination) or, if greater, at the time of the Change in Control, plus

(ii) the greater of (a) the amount of the Eligible Employee's target incentive bonus for the year of Covered Termination or (b) the amount of the Eligible Employee's incentive bonus earned for the year immediately prior to the Change in Control.

The severance payment to be made hereunder shall be paid to the Eligible Employee in a single lump-sum cash payment, net of any required tax withholding, within fifteen (15) calendar days after the date of the Eligible Employee's Covered Termination. Any payment required under this Section 7 or any other provision of the Plan that is not made in a timely manner shall bear interest at a rate equal to one hundred twenty (120) percent of the monthly compounded applicable federal rate, as in effect under Section 1274(d) of the Code for the month in which the payment is required to be made.

8. OTHER SEVERANCE BENEFITS

In addition to the severance payment provided under Section 7, an Eligible Employee shall be entitled to the following benefits and other rights in the event of his/her Covered Termination:

A. Welfare Benefits. The Eligible Employee shall be entitled to continued coverage and benefits for the duration of the applicable Severance Period, at the Company's sole expense for coverage, under all employee welfare benefit plans (including, without limitation, medical, dental, group life, death benefit, dependent life, supplemental life, accidental death and dismemberment, short-term disability and long-term disability plans, health care reimbursement account and dependent day care reimbursement account) of a Participating Employer for which he/she was eligible at the time of Covered Termination or, if it would provide benefit coverages more favorable to the Eligible Employee, at the time of the Change in Control, as though his/her termination of employment had not occurred (the "Welfare Continuation Coverages"). All Welfare

Continuation Coverages shall apply to the Eligible Employee and any of his/her dependents who would have been eligible for coverage if the Eligible Employee remained employed for the applicable Severance Period. The Company may provide the Eligible Employee with the Welfare Continuation Coverages under arrangements other than its generally applicable welfare benefit plans, provided that the benefit coverages so provided are at least as favorable to the Eligible Employee as coverage under the otherwise applicable Welfare Continuation Coverages, on a coverage by coverage basis, and taking into account all tax consequences to the Eligible Employee. At the expiration of the applicable Severance Period, the Eligible Employee shall be treated as a then terminating employee with respect to the right to elect continued medical and dental coverages in accordance with Section 4980B of the Code (or any successor provision thereto).

B. Pension Supplement. The Eligible Employee shall be entitled to the additional pension benefits that would be payable to him/her, under all defined benefit pension plans of a Participating Employer in which he/she is participating at the time of Covered Termination (including all such tax-qualified and supplemental plans), by taking into account under such plans (i) an additional number of years equal to the Severance Period applicable to the Eligible Employee for purposes of the age and service credit of the Eligible Employee under such plans and (ii) the amount of the severance payment to which the Eligible Employee is entitled under Section 7, expressed on an annualized basis for the number of years equal to the Severance Period applicable to the Eligible Employee, for purposes of the compensation credit of the Eligible Employee under such plans (but only to the extent such additional credit would produce a higher benefit for the Eligible Employee than if it were not taken into account). The additional pension benefits provided hereby shall be paid pursuant to a supplemental pension plan of the Company, at the same time and in the same form as pension benefits are otherwise payable to the Eligible Employee (subject to clause (iii) of Section 8.D).

C. Equity Incentives. Immediately upon a Covered Termination, (i) any stock options or similar equity-based incentive rights granted to the Eligible Employee under a stock incentive plan of a Participating Employer that are not then fully vested and exercisable shall become fully vested and immediately exercisable and the Eligible Employee shall be entitled to exercise any such rights until the expiration of their original full term (without regard to any earlier termination otherwise applicable in the event of termination of employment), and (ii) any performance shares or shares of restricted stock granted to the Eligible Employee under a stock incentive plan of a Participating

Employer that remain subject to forfeiture, performance conditions or transfer restrictions at such time shall become fully and immediately vested and all such conditions and restrictions shall immediately lapse. In addition, as to any other types of equity-based incentive awards granted to the Eligible Employee under a stock incentive plan of a Participating Employer prior to the date of Covered Termination, any restrictions on exercise, payment or transfer shall immediately lapse, and the Eligible Employee shall have all rights associated with such awards as of the date of Covered Termination. Notwithstanding the foregoing, the rights provided by this Section 8.C shall not apply with respect to an Eligible Employee who is subject to Section 16 of the Exchange Act to the extent that any such rights could not be made available under the terms of a stock incentive plan of a Participating Employer, unless such plan could be amended to make such rights available without any requirement for shareholder approval for such plan to continue to meet the requirements for exemption of Rule 16b-3 under the Exchange Act. The provisions of this Section 8.C shall apply equally to any awards or rights into which the equity incentive rights described herein are converted or for which such rights are substituted in connection with a Change in Control.

D. Accrued Rights. The Eligible Employee shall be entitled to the following payments and benefits in respect of accrued compensation rights at the time of a Covered Termination, in addition to all other rights provided under the Plan: (i) immediate payment of any accrued but unpaid Annual Base Salary through the date of Covered Termination; (ii) payment within fifteen (15) calendar days of Covered Termination of the accrued bonus for the year in effect on the date of the Covered Termination, determined on the basis of the bonus earned under terms of the applicable bonus plan through the date of termination or, if greater, the pro-rata amount of the target bonus for the period of such year through the date of termination; (iii) payment within fifteen (15) calendar days of Covered Termination of all non-tax-qualified deferred compensation rights, in lieu of payment in respect of such rights that would otherwise be made at a later date in accordance with the terms of such arrangements, except to the extent such rights are funded by amounts held under an irrevocable grantor trust or other irrevocable commitment of funds by the Company; and (iv) all benefits and rights accrued under the employee benefit plans, fringe benefit programs and payroll practices of a Participating Employer (other than those described in clause (iii) above) in accordance with their terms (including, without limitation, employee pension, employee welfare, incentive bonus and stock incentive plans).

E. Outplacement; Relocation. The Eligible Employee shall be provided, at the Company's sole expense, with professional outplacement services selected by the Eligible Employee consistent with his/her duties or profession

and of a type and level customary for persons in his/her position; provided, however, that the Company shall not be required to pay fees in connection with the foregoing in an amount greater than fifteen (15) percent of the Eligible Employee's Annual Base Salary for purposes of clause (i) of Section 7. The Company shall honor any prior agreement or understanding with an Eligible Employee who has suffered a Covered Termination to reimburse his/her relocation expenses to the Indianapolis, Indiana metropolitan area or, if it does not result in a greater cost to the Company, to such other location selected by the Eligible Employee.

F. Indemnification. With respect to any Eligible Employee who is, immediately prior to a Change in Control or a Covered Termination, indemnified by the Company for his/her service as a director, officer or employee of a Participating Employer, the Company shall indemnify such Eligible Employee to the fullest extent permitted by applicable law, and the Company shall maintain in full force and effect, for the duration of all applicable statute of limitation periods, insurance policies at least as favorable to the Eligible Employee as those maintained by the Company for the benefit of its directors and officers at the time of Change in Control, with respect to all costs, charges and expenses whatsoever (including payment of expenses in advance of final disposition of a proceeding) incurred or sustained by the Eligible Employee in connection with any action, suit or proceeding to which he/she may be made a party by reason of being or having been a director, officer or employee of a Participating Employer or serving or having served any other enterprise as a director, officer or employee at the request of a Participating Employer.

9. EXCISE TAX REIMBURSEMENT

In the event it shall be determined that any payment or distribution by the Company or any other person or entity to or for the benefit of an Eligible Employee who suffers a Covered Termination is a "parachute payment" within the meaning of Section 280G of the Code, whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise, or whether prior to or following the Covered Termination, in connection with, or arising out of, his/her employment with a Participating Employer or a change in ownership or effective control of the Company or a substantial portion of its assets (a "Payment"), and would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), concurrent with the making of such Payment, the Company shall pay to the Eligible Employee an additional payment (the "Gross-Up Payment") in an amount such that the net amount retained by the Eligible Employee, after deduction of any Excise Tax on such Payment and any

federal, state or local income tax and Excise Tax on the Gross-Up Payment shall equal the amount of such Payment. In the event the Internal Revenue Service subsequently may assess or seek to assess from the Eligible Employee an amount of Excise Tax in excess of that determined in accordance with the foregoing, the Company shall pay to the Eligible Employee an additional Gross-Up Payment, calculated as described above in respect of such excess Excise Tax, including a Gross-Up Payment in respect of any interest or penalties imposed by the Internal Revenue Service with respect to such excess Excise Tax.

10. NO MITIGATION OR OFFSET

The Eligible Employee shall be under no obligation to minimize or mitigate damages by seeking other employment, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligation to make the payments and provide the benefits required under the Plan. In addition, the Company's obligation to make the payments and provide the benefits required under the Plan shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other rights which a Participating Employer may have against the Eligible Employee.

11. UNFUNDED STATUS

The Plan is intended to constitute an employee pension benefit plan under ERISA which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, and shall be interpreted and administered accordingly. The payments and benefits provided hereunder shall be paid from the general assets of the Company. Nothing herein shall be construed to require the Company to maintain any fund or to segregate any amount for the benefit of any employee, and no employee or other person shall have any right against, right to, or security or other interest in any fund, account or asset of the Company from which the payment pursuant to the Plan may be made. Consistent with the foregoing, the Company may, in its sole discretion, deposit funds in a grantor trust or otherwise establish arrangements to pay amounts that become due under the Plan, and, notwithstanding anything elsewhere in the Plan to the contrary, the payments and benefits due under the Plan shall be reduced to reflect the amount of any payment made in respect of any Eligible Employee from a grantor trust or other arrangement established for this purpose.

12. ADMINISTRATION

The Committee shall be the named fiduciary of the Plan and the plan administrator for purposes of ERISA. The Committee shall be responsible for the overall operation of the Plan and shall have the fiduciary responsibility for the general operation of the Plan. The Committee may allocate to any one or more of the Company's employees any responsibility the Committee may have under the Plan and may designate any other person or persons to carry out any of the Committee's responsibilities under the Plan. As plan administrator, the Committee shall maintain records pursuant to the Plan's provisions and shall be responsible for the handling, processing and payment of any claims for benefits under the Plan.

13. CLAIMS AND DISPUTES

Within fifteen (15) calendar days of a Covered Termination, the Company shall notify each Eligible Employee whom the Company determines is entitled to payments and benefits under the Plan of his/her entitlement to such payments and benefits. An Eligible Employee who is not so notified may submit a claim for payments and benefits under the Plan in writing to the Company within ninety (90) calendar days after becoming entitled to such benefits as described in Section 6. All such claims shall be approved or denied in writing by the Company within fifteen (15) calendar days after submission.

Any denial of a claim by the Company shall be in writing and shall include: (i) the reason or reasons for the denial; (ii) reference to the pertinent Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the Eligible Employee to perfect the claim together with an explanation of why the material or information is necessary; and (iv) an explanation of the Plan's claim review procedure, described below.

An Eligible Employee shall have a reasonable opportunity to appeal a denied claim to the Company for a full and fair review. The Eligible Employee or authorized representative shall have thirty (30) calendar days after receipt of written notification of the denial of claim in which to request a review and to review pertinent documents of the Plan. The Company shall notify the Eligible Employee or his/her authorized representative of the time and place for the claim review. The Company shall issue a decision on the reviewed claim promptly, but no later than fifteen (15) calendar days after receipt of the

request for review. The Company's decision shall be in writing and shall include: (i) the reasons for the decision, and (ii) references to the Plan provisions on which the decision is based.

If the Eligible Employee shall dispute the Company's final decision, the dispute shall be submitted to an arbitration proceeding, conducted before a panel of three arbitrators, in accordance with the rules of the Center for Public Resources (or such other organization selected by mutual agreement of the Company and the Eligible Employee). Such arbitration shall take place in the location most practicably proximate to the Eligible Employee's principal workplace. Judgment may be entered on the arbitrators' award in any court having jurisdiction. Notwithstanding the foregoing, if an Eligible Employee believes the claims procedure or dispute resolution mechanism provided under this Section 13 would be futile or would cause such Eligible Employee irreparable harm, the Eligible Employee may, in his/her sole discretion, elect to enforce his/her rights under the Plan pursuant to Section 502 of ERISA.

The Company shall bear the expense of any enforcement proceeding brought by an Eligible Employee under the Plan and shall reimburse the Eligible Employee for all of his/her reasonable costs and expenses relating to such enforcement proceeding, including, without limitation, reasonable attorneys' fees and expenses, provided that the Eligible Employee is the prevailing party in such proceeding. For purposes hereof, the trier of fact in such enforcement proceeding shall be requested to make a determination as to the reimbursement of the Eligible Employee's costs and expenses as a prevailing party hereunder. In no event shall the Eligible Employee be required to reimburse the Company for any of the costs or expenses relating to such enforcement proceeding.

14. TERM AND AMENDMENT

The Plan shall become effective on the date of its adoption by the Board (the "Effective Date") and shall continue to be effective until the "Expiration Date." The Expiration Date shall initially be the third anniversary of the Effective Date, but as of the first anniversary of the Effective Date and each anniversary date thereafter, the Expiration Date shall be extended by an additional one (1) year unless, not later than ninety (90) calendar days prior to the respective anniversary date of the Effective Date, the Board shall specify by resolution or other written action that the Expiration Date shall not be so extended. Notwithstanding the foregoing, in the event of a Change in Control, the Plan shall continue in effect, and the Expiration Date shall not

occur, until the satisfaction of all severance payments and benefits to which Eligible Employees are or may become entitled to under the Plan. The Board shall have the right, by resolution or other written action, to amend the Plan; provided, however, that the Plan may only be amended prior to a Change in Control, and then only to the extent such amendment is of a technical or clarifying nature, or increases the rights or benefits of all affected Eligible Employees, and does not in any manner reduce the rights or benefits of any Eligible Employee, unless the Company has obtained the express written consent, in return for good and valuable consideration, of all affected Eligible Employees in respect of any such amendment.

15. SUCCESSORS AND ASSIGNS

The Plan shall be binding upon any person, firm or business that is a successor to the business or interests of the Company, whether as a result of a Change in Control of the Company or otherwise. All payments and benefits that become due to an Eligible Employee under the Plan shall inure to the benefit of his/her heirs, assigns, designees or legal representatives.

16. ENFORCEABILITY

The Company intends the Plan to constitute a legally enforceable obligation between it and each Eligible Employee, and that the Plan confer vested rights on each Eligible Employee in accordance with the terms of the Plan, with each Eligible Employee being a third-party beneficiary thereof. Nothing in the Plan, however, shall be construed to confer on any Eligible Employee any right to continue in the employ of a Participating Employer or affect the right of a Participating Employer to terminate the employment or change the terms and conditions of employment of an Eligible Employee, with or without notice or cause, prior to a Change in Control, or to take any such action following a Change in Control, subject to the consequences specified by the Plan.

The Plan shall be construed and enforced in accordance with ERISA and the laws of the State of Indiana to the extent not preempted by ERISA, regardless of the law that might otherwise govern under applicable principles or provisions of choice or conflict of law doctrines. To the extent any provision of the Plan shall be invalid or unenforceable under any applicable law, it shall be considered deleted herefrom and all other provisions of the Plan shall be unaffected and shall continue in full force and effect.

IN WITNESS WHEREOF, the Board has caused this Plan to be adopted and executed by its duly authorized representative as of March 1, 1995.

ELI LILLY AND COMPANY

By: _____ s/Pedro P. Granadillo

Title: Vice President of Human Resources

Attest:

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,		Years Ended December 31,			
	1995 -----	1994 -----	1993 -----	1992 -----	1991 -----	1990 -----
Consolidated Pretax Income from Continuing Operations before Accounting Changes	\$527.9	\$1698.6	\$662.8	\$1193.5	\$1626.3	\$1418.1
Interest from Continuing Operations	75.9	129.2	96.1	108.4	87.1	94.7
Less Interest Capitalized during the Period from Continuing Operations	(9.7)	(25.4)	(25.5)	(35.2)	(48.1)	(27.3)
Earnings	\$594.1 =====	\$1802.4 =====	\$733.4 =====	\$1266.7 =====	\$1665.3 =====	\$1485.5 =====
Fixed Charges:						
Interest Expense from Continuing Operations	\$ 75.9 =====	\$ 129.2 =====	\$ 96.1 =====	\$ 108.4 =====	\$ 87.1 =====	\$ 94.7 =====
Ratio of Earnings to Fixed Charges	7.8 =====	14.0 =====	7.6 =====	11.7 =====	19.1 =====	15.7 =====

FINANCIAL DATA SCHEDULE
(\$ THOUSANDS)
(UNAUDITED)

1,000

	3-MOS	
	DEC-31-1995	
	MAR-31-1995	
		978,770
		151,299
		1,692,673
		54,673
		901,129
		4,443,560
		7,101,948
		2,684,773
		14,960,739
	6,129,022	
		1,638,706
		182,996
	0	
		0
		5,652,167
14,960,739		
		1,654,043
	1,717,306	
		477,538
		512,522
		643,907
		0
		66,232
		527,862
		153,080
	374,782	
		18,444
		0
		0
		393,226
		1.34
		1.34

Note 2 - The information called for is not given as the balances are not individually significant.

Note 1 - Amounts include research and development, selling and general and administrative costs.

CONTINGENT PAYMENT OBLIGATION UNITS

In connection with the acquisition of Hybritech Incorporated by the Company on March 18, 1986, the Company issued Contingent Payment Obligation Units (CPUs). The following information is provided relative to the CPUs.

Hybritech Sales and Gross Profits (Unaudited)

	FIRST QUARTER -----		
	1995 ----	1994* -----	1993* -----
	(Millions)		
Sales	\$25.4	\$32.4	\$40.2
Gross profits	\$13.7	\$15.2	\$21.7

* Includes Pacific Biotech, Inc., another subsidiary of Eli Lilly and Company.

Sales for the first quarter were \$25.4 million compared with \$32.4 million during the same period in 1994, a decrease of 22 percent. Sales declined in both domestic and international markets. Gross profits for the first quarter were \$13.7 million compared with \$15.2 million in the same period last year, a decrease of 10 percent.

Sales of the Company's leading product, Tandem(R) Prostate Specific Antigen (PSA), were lower compared with the same period last year because of continued competitive pressures. In addition, the previously announced sale of Pacific Biotech, Inc., in January 1995, contributed to the decline in sales and gross profits.

Lilly announced in 1994 that it intends to divest itself of its interest in Hybritech in a manner consistent with its obligations under the CPUs.

Computation of Contingent Payment Obligation Unit Payment

CPU holders are entitled to receive cash payments based upon the annual sales and gross profits of Hybritech over the period ending December 31, 1995 if certain performance criteria are achieved. The total amount payable for each year will equal the sum of 6 percent of Hybritech's sales and 20 percent of Hybritech's gross profits for that year, less a deductible amount. Sales is defined in the Indenture governing the CPUs to include net sales of products and royalties but to exclude contract revenues. Gross profits are the excess of sales over costs of products sold and do not represent the net income of Hybritech. The deductible amount was \$11 million for 1986 and increases by 35 percent in each subsequent year. The deductible for 1995 is \$163.8 million. The total amount payable is then divided by 12,933,894 to determine the payment per CPU. The maximum payment that may be made on each CPU if the criteria are achieved cannot, however, exceed \$22. No payments have been made to date.