

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 1994

COMMISSION FILE NUMBER 1-6351

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ELI LILLY AND COMPANY  
(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes  No

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The number of shares of common stock outstanding as of  
October 31, 1994:

Class	Number of Shares Outstanding
-----	-----
Common	292,204,808

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months		Nine Months	
	Ended September 30,	Ended September 30,	Ended September 30,	Ended September 30,
	1994	1993	1994	1993
	-----	-----	-----	-----
	(Dollars in millions except per-share data)			
Net Sales	\$1,817.4	\$1,530.6	\$5,132.9	\$4,651.6
Cost of sales	578.1	467.4	1,620.5	1,383.5
Research & development	260.6	232.5	738.4	679.7
Acquired research	58.4	-	58.4	-
Marketing & administrative	455.2	417.6	1,257.6	1,210.3
Special charges	-	-	66.0	-
Other (income) deductions - net	(0.2)	(4.5)	(62.0)	(61.2)
	-----	-----	-----	-----
	1,352.1	1,113.0	3,678.9	3,212.3

Income before income taxes and				
cumulative effect of changes in				
accounting principles	465.3	417.6	1,454.0	1,439.3
Income taxes	146.6	123.2	458.0	424.6
	-----	-----	-----	-----
Income before cumulative effect of				
changes in accounting principles	318.7	294.4	996.0	1,014.7
Cumulative effect of changes in				
accounting principles (net of taxes) -	-	-	-	(10.9)
	-----	-----	-----	-----
Net Income	\$318.7	\$294.4	\$996.0	\$1,003.8
	=====	=====	=====	=====
Earnings per share:				
Before cumulative effect of changes				
in accounting principles	\$1.10	\$1.00	\$3.44	\$3.46
Net income	\$1.10	\$1.00	\$3.44	\$3.42
Dividends paid per share	\$ .625	\$ .605	\$1.875	\$1.815

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)

Eli Lilly and Company and Subsidiaries

September 30,      December 31,  
1994                      1993

-----  
(Millions)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$999.6	\$539.6
Short-term investments	461.9	447.5
Accounts receivable, net of allowances of \$38.4 (1994) and \$32.3 (1993)	1,090.1	950.1
Inventories	1,041.9	1,103.0
Deferred income taxes	243.8	334.0
Other current assets	339.4	322.9
	-----	-----

TOTAL CURRENT ASSETS      4,176.7      3,697.1

OTHER ASSETS

Prepaid retirement	405.9	266.0
Investments	297.9	221.7
Goodwill and other intangibles, net of allowances for amortization of \$311.1 (1994) and \$289.9 (1993)	400.5	405.0
Sundry	934.1	833.6
	-----	-----

2,038.4      1,726.3

PROPERTY AND EQUIPMENT

Land, buildings, equipment, and construction-in-progress	6,880.3	6,566.5
Less allowances for depreciation	2,587.7	2,366.3
	-----	-----

4,292.6      4,200.2

\$10,507.7      \$9,623.6  
=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Short-term borrowings	\$738.5	\$524.8
Accounts payable	207.6	329.6
Employee compensation	279.3	328.6

Dividends payable	-	183.3
Other liabilities	1,020.7	1,115.7
Income taxes payable	476.7	446.0
	-----	-----
TOTAL CURRENT LIABILITIES	2,722.8	2,928.0
LONG-TERM DEBT	1,174.4	835.2
DEFERRED INCOME TAXES	164.2	127.5
RETIREE MEDICAL BENEFIT OBLIGATION	198.7	183.9
OTHER NONCURRENT LIABILITIES	932.9	980.2
SHAREHOLDERS' EQUITY		
Common stock	183.0	183.0
Additional paid-in capital	281.0	294.6
Retained earnings	5,144.3	4,500.9
Deferred costs-ESOP	(226.3)	(242.8)
Currency translation adjustments	(35.5)	(163.5)
	-----	-----
	5,346.5	4,572.2
Less cost of common stock in treasury	31.8	3.4
	-----	-----
	5,314.7	4,568.8
	-----	-----
	\$10,507.7	\$9,623.6
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

Eli Lilly and Company and Subsidiaries

	Nine Months Ended September 30,	
	1994	1993
	-----	
	(Millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$996.0	\$1,003.8
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Changes in operating assets and liabilities	(410.2)	(288.4)
Change in deferred taxes	127.7	53.4
Acquired research	58.4	-
Other items, net	217.7	208.9
Cumulative effect of accounting changes	-	10.9
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	989.6	988.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to property and equipment	(348.4)	(421.1)
Additions to intangibles and other assets	(65.3)	(53.6)
Reduction of investments	938.1	598.6
Additions to investments	(992.8)	(559.0)
Acquisitions	(74.9)	(31.0)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(543.3)	(466.1)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(542.3)	(531.3)
Purchase of common stock and other capital transactions	(42.0)	(8.2)
Net additions(reductions) to short-term borrowings	219.8	(126.1)
Net additions to long-term debt	346.1	361.1
	-----	-----

NET CASH USED BY FINANCING ACTIVITIES	(18.4)	(304.5)
Effect of exchange rate changes on cash	32.1	(14.3)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	460.0	203.7
Cash and cash equivalents at January 1	539.6	432.4
	-----	-----
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	\$999.6	\$636.1
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash 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.

### INVENTORIES

Inventories consisted of the following:

	September 30, 1994	December 31, 1993
	-----	-----
Finished products	\$ 291.5	\$ 272.5
Work in process	555.2	667.7
Raw materials and supplies	282.9	271.5
	-----	-----
	1,129.6	1,211.7
Less reduction to LIFO cost	(87.7)	(108.7)
	-----	-----
	\$1,041.9	\$1,103.0
	=====	=====

### 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 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 reserved its right to pursue claims for insurance (and in one instance has initiated litigation against its insurance carrier) 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 \$455 million at September 30, 1994). Estimated insurance recoverables appear as assets in the consolidated balance sheets (approximately \$160 million at September 30, 1994).

While it is not possible to predict or determine the outcome of the patent, product liability, 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.

#### EARNINGS PER SHARE

Earnings per share for 1994 are calculated based on the average number of outstanding common shares. For 1993 earnings per share were calculated on a fully diluted basis based on the average number of outstanding common shares and common share equivalents (primarily stock options). The difference in earnings per share calculated under these methods is not material.

#### ACCOUNTING CHANGES

During the first quarter of 1994, the Company adopted two new accounting pronouncements. Effective January 1, 1994, the Company's debt and equity investments have been accounted for under the provisions of FAS 115, "Accounting For Certain Investments in Debt and Equity Securities". All "available-for-sale" securities have been marked to market with unrealized holding gains and losses reported as a net amount in shareholders' equity. There was no income statement impact of this accounting change.

Also, beginning in 1994, the Company implemented the provisions of AICPA Statement of Position 93-6, "Employers' Accounting For Employee Stock Ownership Plans". The principal impact of the adoption was to reduce the average shares outstanding for the quarter by 3.0 million which represents shares owned by the ESOP that have not been allocated to participants' accounts.

Effective January 1, 1993, the Company elected the early adoption of FAS 112, "Employers' Accounting for Postemployment Benefits." FAS 112 requires employers to recognize currently the obligation to provide postemployment benefits to former or inactive employees and others. Prior to 1993, the Company expensed these obligations when paid.

#### SPECIAL CHARGES

During the first six months the Company incurred \$66 million of pre-tax charges associated with the March 31 voluntary recall of three of the Company's 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 these products were resumed during the second and third quarters.

#### PROPOSED ACQUISITION

In July, 1994, the Company announced that it had entered into a definitive agreement with McKesson Corporation for the Company to purchase PCS Health Systems, Inc. (PCS), McKesson's pharmacy benefit management business, for \$4 billion in cash. The acquisition is subject to acceptance of a tender offer by the holders of a majority of the shares of McKesson common stock and certain other conditions. The Company expects the acquisition to close in November, 1994. Prior to the completion of the tender offer, McKesson will spin off to its shareholders all of its businesses other than the pharmacy benefit management business. The Company plans to finance the acquisition

initially by borrowing \$4 billion in short-term and intermediate-term debt. The pharmacy benefit management business of McKesson, which is conducted primarily through PCS, had revenues of \$102.5 million and net income of \$12.8 million for the six months ended June 30, 1994.

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

### RESULTS OF OPERATIONS:

The Company's sales for the third quarter increased 19 percent from the third quarter of 1993. Sales increased 17 percent inside the United States and 22 percent outside the United States. Compared with the third quarter of 1993, volume increased 17 percent and global selling prices and exchange rate comparisons each contributed 1 percent.

The Company's sales for the first nine months of 1994 increased 10 percent over the same period in 1993. Sales in the United States increased 9 percent, while sales outside the United States increased 13 percent. Volume increased 12 percent and changes in foreign exchange rates and selling prices combined to decrease sales by 2 percent over the same period in 1993.

Worldwide sales of pharmaceutical products increased 25 percent in the third quarter and 12 percent in the first nine months compared with the same periods last year. Pharmaceutical sales for the quarter increased 25 percent both inside and outside the United States, with especially strong unit volumes in both markets. The sales growth was led by very strong Prozac sales, due in part to an accumulation of U.S. wholesaler inventories, presumably in anticipation of a price increase that was announced on September 21. Products also contributing to the strong worldwide volume growth for the quarter included Axid(R) and Humulin(R). Anti-infective sales rose slightly as strong international growth offset a decline in the U.S. due to continued competitive pressures. U.S. pharmaceutical sales growth continues to be negatively affected by federally-mandated rebates on sales to Medicaid recipients and increased participation in managed-care programs.

Sales of Ceclor(R) in the United States (which accounted for approximately 5 percent of the Company's worldwide sales in the first nine months of 1994) declined in both 1993 and the first nine months of 1994 primarily as a result of intense competition from other anti-infective products. These competitive pressures are expected to continue to negatively affect Ceclor sales. In addition, the U.S. product patent for Ceclor expired in 1992 and a patent on a key intermediate in Lilly's manufacturing process for the compound expires in December 1994. To date, the Company has experienced only limited competition from generic cefaclor in markets outside the United States and is not aware that any competitor has received U.S. FDA approval to market generic cefaclor. However, the Company expects that within the near term competitors will be entering the U.S. market with generic cefaclor. The Company believes that the quantity of available competitive product will be limited initially by manufacturing capacity constraints but that those constraints are likely to lessen over time.

In response to these competitive challenges, on October 10, 1994, the Company, on behalf of its subsidiary STC Pharmaceuticals, Inc., announced an agreement with Mylan Pharmaceuticals, Inc. to market and distribute a generic form of cefaclor in the United States. This arrangement is intended to enhance cefaclor's competitiveness in the U.S. anti-infective marketplace and to position the Company as the leading supplier to the market for generic cefaclor after the introduction of the product by other manufacturers. The Company anticipates that the combined impact in the United States of the continued competition from other anti-infectives and the introduction of generic cefaclor could have a material adverse effect on the Company's 1995 consolidated results of operations. However, this estimated impact was taken into account in the Company's earlier projection that its 1995 earnings from core pharmaceutical operations would be approximately \$4.00 per share (excluding the effect of the pending PCS acquisition).

Sales of the medical devices and diagnostics companies decreased 1 percent in the third quarter, while increasing 7 percent in the first nine months of 1994 compared with the same periods last year. The division's sales growth during these periods was negatively impacted primarily by the divestiture of Physio Control Corporation in July, 1994. Strong sales growth at Cardiac Pacemakers, Inc. (CPI) and IVAC Corporation was partially offset by declining sales at Hybritech Incorporated. Sales growth at CPI can be attributed to the Endotak(R) lead system and the U.S. launch of the Ventak(R) PRX(R) AICDTM automatic implantable cardioverter defibrillator. IVAC benefited from sales of its Medsystem IIIITM infusion pump. Sales at the other companies within

the division showed modest growth.

Worldwide sales of animal health products increased 7 percent in the third quarter and 6 percent in the first nine months compared with the same periods last year. Worldwide sales growth for both the third quarter and first nine months was led by Tylan.

Manufacturing costs of products sold increased in the third quarter to 31.8 percent of sales from 30.5 percent of sales in the same quarter of 1993. During the first nine months, manufacturing costs increased to 31.6 percent of sales compared with 29.7 percent for the same period in 1993. The increases are due in part to a decision earlier this year to reduce certain in-process inventory levels. The increases were partially offset by a favorable product mix and continued reduction in spending.

Operating expenses excluding research expenditures rose 9.0 percent in the third quarter and 3.9 percent in the nine months. The growth was attributed to higher legal fees associated with pending litigation as well as the expansion of sales forces in emerging international markets. In addition, bonus accruals are higher due to more favorable overall results in 1994 compared with 1993.

Research expenses (excluding acquired research) rose 12 percent in the third quarter and 9 percent in the nine months. Research expenditures continue to increase due in part to the growth of global clinical trials to support the Company's extensive pipeline of potential new products.

In addition, during the quarter the company completed the previously announced acquisition of Sphinx Pharmaceuticals, Inc. The purchase price was approximately \$80.0 million. The transaction was accounted for using the purchase method of accounting; consequently, after recording the net assets at fair market value, the Company determined that \$58.4 million of the purchase price was associated with acquired in-process research which should not be recorded as an intangible asset, therefore resulting in a charge against earnings.

Net other income decreased in the third quarter and was essentially flat in the first nine months compared with the same periods in 1993. The decrease in the quarter was principally due to the higher donations of products for relief efforts in Rwanda.

The Company's 1994 estimated tax rate was 31.5 percent in the third quarter and the first nine months compared with a tax rate of 29.5 percent for the year 1993. The Company's effective tax rate was affected by the Omnibus Budget Reconciliation Act of 1993 causing a lower tax benefit from operations in Puerto Rico.

The Company reported net income for the third quarter of \$318.7 million (\$1.10 per share) as compared with \$294.4 million (\$1.00 per share) for the same period in 1993. The Company reported net income for the first nine months of \$996.0 million (\$3.44 per share) as compared with \$1,003.8 million (\$3.42 per share) for the same period in 1993. The 1994 results benefited from both continued sales growth and operating expense reductions. The year-to-year comparison also benefited from the impact of accounting changes reflected in 1993 (an after-tax charge of \$10.9 million). Net income in the first nine months of 1994 was negatively affected by the antibiotic recall, the Sphinx acquisition, and a higher effective tax rate.

#### FINANCIAL CONDITION:

As of September 30, 1994, cash, cash equivalents, and short-term securities totaled \$1,461.5 million as compared with \$987.1 million at December 31, 1993. Total debt at September 30, 1994, was \$1,912.9 million, an increase from \$1,360.0 million at December 31, 1993. The increase relates primarily to bank borrowings by three of the Company's MDD subsidiaries totaling \$318.5 million which were used to fund dividends to Lilly. The Company continues to generate sufficient cash to fund its operating needs. Capital expenditures continued to decline on a year-to-year comparative basis. The Company expects capital expenditures for 1994 to be below the full year 1993 level.

In addition, in October 1994, the Company's long-term debt rating was lowered from AAA to AA by Standard and Poor's, and in November from Aa1 to Aa3 by Moody's. These actions were a direct result of the Company's plan to finance the pending acquisition of PCS Health Systems by issuing \$4.0 billion of commercial paper, as well as the anticipated heightened competition for the antibiotic Ceclor. The Company continues to believe it will have sufficient

cash flow from combined operations to fund operating needs and debt service. Depending on market conditions, the Company expects over time to reduce the amount of commercial paper outstanding by converting a portion to longer-term debt or possibly through other techniques. The commercial paper is backed up by committed bank credit facilities aggregating \$4.0 billion.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1993, the Company has been named, together with numerous other U.S. prescription pharmaceutical manufacturers and in some cases wholesalers or distributors, as a defendant in many cases among a series of related actions alleging violations of federal or state antitrust laws, or both. The federal cases have been consolidated or coordinated for pretrial proceedings in the Northern District of Illinois. A number of the federal suits purport to be class actions on behalf of nearly all retail pharmacies in the United States and allege an industry-wide agreement in violation of the Sherman Act to deny favorable pricing on sales of brand-name prescription pharmaceuticals to certain retail pharmacies in the United States. Others involve claims by a large number of individual pharmacies alleging price discrimination in violation of the Robinson Patman Act as well as Sherman Act claims. Defense motions to dismiss have been denied and discovery has begun.

In addition, there are state court cases pending in California, Alabama, and Wisconsin alleging violations of various state antitrust and pricing laws. These cases purport to be class actions on behalf of retail pharmacies in all three states and consumers in California.

The Company is defending these cases vigorously. While it is not possible to predict or determine the outcome of the cases, based on the facts as known to the Company, it is the Company's opinion that the cases will not ultimately result in any liability that would have a material adverse effect on the Company's consolidated financial position.

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

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

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Report:

- 11. Statement re: Computation of Earnings Per Share on Primary and Fully Diluted Bases
- 12. Statement re: Computation of Ratio of Earnings to Fixed Charges
- 27. Financial Data Schedule
- 99. Attachment to Form 10-Q: Contingent Payment Obligation Units

(b) Reports on Form 8-K. During the quarter for which this Report on

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Form 10-Q is filed, the Registrant filed no report 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 November 10, 1994  
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s/Daniel P. Carmichael  
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Daniel P. Carmichael  
Secretary and Deputy General Counsel

Date November 10, 1994  
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s/Arnold C. Hanish  
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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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12. Statement re: Computation of Ratio of Earnings to Fixed Charges	15
27. Financial Data Schedule	16-17
99. Attachment to Form 10-Q: Contingent Payment Obligation Units	18

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

Eli Lilly and Company and Subsidiaries

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	1994	1993	1994	1993

-----  
 (Dollars in millions except per-share data)  
 (Shares in thousands)

PRIMARY:

Net income	\$318.7	\$294.4	\$996.0	\$1,003.8
Average number of common shares outstanding	289,070	292,649	289,247	292,674
Add incremental shares:				
Stock plans and contingent payments	2,086	677	2,049	818
Adjusted average shares	291,156	293,326	291,296	293,492
Primary earnings per share	\$1.09	\$1.00	3.42	\$3.42

FULLY DILUTED:

Net income	\$318.7	\$294.4	996.0	\$1,003.8
Average number of common shares outstanding	289,070	292,649	289,247	292,674
Add incremental shares:				
Stock plans and contingent payments	2,722	851	2,745	875
Adjusted average shares	291,792	293,500	291,992	293,549
Fully diluted earning per share	\$1.09	\$1.00	\$3.41	\$3.42

Common stock equivalents are not materially dilutive and, accordingly, have not been considered in the computation of reported net earnings per common share.

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

Eli Lilly and Company and Subsidiaries  
(Dollars in Millions)

	Nine Months Ended September 30,		Years Ended December 31,			
	1994 ----	1993 ----	1992 ----	1991 ----	1990 ----	1989 ----
Consolidated Pretax Income before Accounting Changes	\$1,454.0	\$701.9	\$1182.3	\$1879.2	\$1599.0	\$1329.9
Interest	84.8	96.7	109.1	88.9	93.8	57.1
Less Interest Capitalized during the Period	(19.2) ----	(25.5) ----	(37.4) ----	(49.1) ----	(27.4) ----	(15.8) ----
Earnings	\$1,519.6 =====	\$773.1 =====	\$1254.0 =====	\$1919.0 =====	\$1665.4 =====	\$1371.2 =====
Fixed Charges:						
Interest Expense	\$ 84.8 =====	\$ 96.7 =====	\$ 109.1 =====	\$ 88.9 =====	\$ 93.8 =====	\$ 57.1 =====
Ratio of Earnings to Fixed Charges	17.9 =====	8.0 =====	11.5 =====	21.6 =====	17.8 =====	24.0 =====

EXHIBIT 99. ATTACHMENT TO FORM 10-Q: 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)

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	THIRD QUARTER			NINE MONTHS		
	1994*	1993*	1992*	1994*	1993*	1992*
	(Millions)			(Millions)		
Sales	\$29.8	\$33.5	\$39.7	\$94.9	\$113.9	\$130.9
Gross profits	\$14.7	\$16.2	\$21.3	\$46.8	\$60.4	\$74.8

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

Sales for the third quarter were \$29.8 million compared with \$33.5 million during the same period in 1993, a decrease of 11 percent. Sales declines were experienced in both domestic and international markets as the Company's prostate cancer test, Tandem(R) Prostate Specific Antigen (PSA) continues to experience increased competition.

Gross profits for the third quarter were \$14.7 million compared with \$16.2 million in the same period last year.

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 1994 is \$121.4 million. The total amount payable, if any, 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.

FINANCIAL DATA SCHEDULE  
 (\$ Thousands)  
 (unaudited)

QTR-3	9-MOS		
DEC-31-1994		[BLANK]	
SEP-30-1994		[BLANK]	
	999,590	[BLANK]	
	461,915	[BLANK]	
	1,128,487	[BLANK]	
	38,433	[BLANK]	
	1,041,942	[BLANK]	
	4,176,738	[BLANK]	
	6,880,289	[BLANK]	
	2,587,737	[BLANK]	
	10,507,681	[BLANK]	
2,722,838		[BLANK]	
	1,174,441	[BLANK]	
	183,005	[BLANK]	
0		[BLANK]	
	0	[BLANK]	
	5,131,710	[BLANK]	
10,507,681		[BLANK]	
	1,817,472		5,132,940
1,817,472		5,132,940	
	578,132		1,620,531
	578,132		1,620,531
	774,241		2,054,376
	0		0
29,958			65,620
465,310			1,454,039
146,572			458,022
318,738		996,017	
	0		0
	0		0
	0		0
	318,738		996,017
	1.09		3.42
	1.09		3.41

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