SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2008

COMMISSION FILE NUMBER 001-6351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☑

The number of shares of common stock outstanding as of October 20, 2008:

Class	Number of Shares Outstanding
Common	1,136,953,333

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions except per-share data)			
Net sales	$5,209.5	$4,586.8	$15,167.5	$13,443.9
Cost of sales	1,155.2	1,054.6	3,467.4	2,976.0
Research and development	953.0	844.5	2,781.6	2,533.1
Marketing, selling, and administrative	1,649.2	1,477.8	4,899.8	4,339.3
Acquired in-process research and development (Note 3)	28.0	—	150.0	656.6
Asset impairments, restructuring, and other special charges (Note 4)	1,659.4	81.3	1,894.0	204.3
Other income — net (Note 12)	(2.5)	(49.8)	(55.1)	(89.9)
	5,442.3	3,408.4	13,137.7	10,619.4
Income (loss) before income taxes	(232.8)	1,178.4	2,029.8	2,824.5
Income taxes (Note 9)	232.8	252.1	472.3	725.9
Net income (loss)	$ (465.6)	$ 926.3	$ 1,557.5	$ 2,098.6
Earnings (loss) per share — basic (Note 8)	$ (.43)	$ .85	$ 1.42	$ 1.93
Earnings (loss) per share — diluted (Note 8)	$ (.43)	$ .85	$ 1.42	$ 1.93
Dividends paid per share	$ .47	$ .425	$ 1.41	$ 1.275

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
ELI LILLY AND COMPANY AND SUBSIDIARIES

	September 30, 2008	December 31, 2007
	(Dollars in millions)	
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,353.6	$ 3,220.5
Short-term investments (Note 5)	1,765.2	1,610.7
Accounts receivable, net of allowances of $99.2 (2008) and $103.1 (2007)	2,702.0	2,673.9
Other receivables	557.0	1,030.9
Inventories	2,111.6	2,523.7
Deferred income taxes	631.4	642.8
Prepaid expenses	825.0	613.6
TOTAL CURRENT ASSETS	12,945.8	12,316.1
OTHER ASSETS		
Prepaid pension (Note 10)	1,843.8	1,670.5
Investments (Note 5)	1,186.6	577.1
Goodwill and other intangibles — net (Note 3)	2,298.8	2,455.4
Sundry	1,170.0	1,280.6
	6,499.2	5,983.6
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	14,895.6	14,841.3
Less allowances for depreciation	(6,633.5)	(6,266.2)
	8,262.1	8,575.1
	$27,707.1	$26,874.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 426.5	$ 413.7
Accounts payable	854.4	924.4
Employee compensation	662.5	823.8
Sales rebates and discounts	799.8	706.8
Dividends payable	—	513.6
Income taxes payable (Note 9)	403.7	238.4
Accrued marketing investigation charges (Note 11)	1,477.0	—
Other current liabilities	1,885.9	1,816.1
TOTAL CURRENT LIABILITIES	6,509.8	5,436.8
Long-term debt	4,185.6	4,593.5
Accrued retirement benefit (Note 10)	1,105.8	1,145.1
Long-term income taxes payable (Note 9)	930.8	1,196.7
Deferred income taxes	284.2	287.5
Other noncurrent liabilities	949.3	711.3
	7,455.7	7,934.1
SHAREHOLDERS' EQUITY (Notes 6 and 7)		
Common stock	711.1	709.5
Additional paid-in capital	3,913.1	3,805.2
Retained earnings	12,336.3	11,806.7
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(88.8)	(95.2)
Accumulated other comprehensive income (loss)	(395.9)	13.2
	13,840.8	13,604.4
Less cost of common stock in treasury	99.2	100.5
	13,741.6	13,503.9
	$27,707.1	$26,874.8

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,	
	2008	2007
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,557.5	$ 2,098.6
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities, net of acquisitions	144.0	(621.5)
Depreciation and amortization	842.3	773.1
Stock-based compensation expense	192.7	214.5
Change in deferred taxes	288.7	(283.1)
Acquired in-process research and development, net of tax	107.3	634.7
Accrued marketing investigation charges, net of tax	1,456.3	—
Other, net	326.3	108.5
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,915.1	2,924.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(671.5)	(715.7)
Net change in short-term investments	(237.3)	(225.2)
Purchases of noncurrent investments	(1,295.4)	(471.3)
Proceeds from sales and maturities of noncurrent investments	653.5	924.7
Cash paid for acquisitions, net of cash acquired	(44.4)	(2,667.5)
Purchase of in-process research and development	(122.0)	(25.0)
Other, net	(85.4)	(84.0)
NET CASH USED IN INVESTING ACTIVITIES	(1,802.5)	(3,264.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,541.5)	(1,389.8)
Proceeds from issuance of long-term debt	0.1	2,500.0
Repayment of long-term debt	(10.8)	(1,057.7)
Issuances of common stock under stock plans	—	21.6
Net change in short-term borrowings	(392.2)	(432.1)
Other, net	(6.8)	3.8
NET CASH USED IN FINANCING ACTIVITIES	(1,951.2)	(354.2)
Effect of exchange rate changes on cash and cash equivalents	(28.3)	79.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,133.1	(613.8)
Cash and cash equivalents at January 1	3,220.5	3,109.3
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 4,353.6	$ 2,495.5

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Net income (loss)	$ (465.6)	$ 926.3	$1,557.5	$2,098.6
Other comprehensive income (loss)[1]	(610.0)	374.4	(409.1)	621.1
Comprehensive income (loss)	$(1,075.6)	$1,300.7	$1,148.4	$2,719.7

1 The significant components of other comprehensive loss were losses from foreign currency translation adjustments of $640.4 million and $376.7 million for the three months and nine months ended September 30, 2008, respectively. In addition, the other comprehensive loss for the nine months ended September 30, 2008 reflected unrealized losses on investment securities of $103.4 million and reclassification adjustments of $58.1 million of other comprehensive income as a result of the amortization of unrecognized losses from our defined benefit plans into the income statement. The significant components of other comprehensive income were gains from foreign currency translation adjustments of $304.3 million and $495.9 million for the three months and nine months ended September 30, 2007, respectively.

See Notes to Consolidated Condensed Financial Statements.

SEGMENT INFORMATION

We operate in one significant business segment — pharmaceutical products. Operations of our animal health business segment are not material and share many of the same economic and operating characteristics as our pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting. Our business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. Income before income taxes for the animal health business was $47.6 million and $32.0 million for the quarters ended September 30, 2008 and 2007, respectively, and $102.9 million and $99.5 million for the nine months ended September 30, 2008 and 2007, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Net sales — to unaffiliated customers				
Neurosciences	$2,160.4	$1,903.6	$ 6,258.5	$ 5,682.1
Endocrinology	1,483.2	1,363.7	4,412.3	3,990.1
Oncology	754.0	609.4	2,142.5	1,776.9
Cardiovascular	477.4	419.0	1,416.1	1,154.9
Animal health	277.1	236.6	766.9	666.4
Other pharmaceuticals	57.4	54.5	171.2	173.5
Net sales	$5,209.5	$4,586.8	$15,167.5	$13,443.9

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

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

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K/A for the year ended December 31, 2007.

Note 2: Implementation of New Financial Accounting Pronouncements

We adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 07-3 (EITF 07-3), Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities, on January 1, 2008. Pursuant to EITF 07-3, nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense when the related goods are delivered or services are performed, or when the goods or services are no longer expected to be received. This Issue is to be applied prospectively for contracts entered into on or after the effective date.

We adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), Fair Value Measurements, on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The implementation of this Statement was not material to our consolidated financial position or results of operations.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. This Statement is effective for us January 1, 2009.

In December 2007, the FASB revised and issued Statement No. 141, Business Combinations (SFAS 141(R)). SFAS 141(R) changes how the acquisition method is applied in accordance with SFAS 141. The primary revisions to this Statement require an acquirer in a business combination to measure assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date, with limited exceptions specified in the Statement. This Statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with the Statement). Assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date are to be measured at their acquisition-date fair values, and assets or liabilities arising from all other contingencies as of the acquisition date are to be measured at their

acquisition-date fair value, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, Elements of Financial Statements. This Statement significantly amends other Statements and authoritative guidance, including FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, and now requires the capitalization of research and development assets acquired in a business combination at their acquisition-date fair values, separately from goodwill. SFAS No. 109, Accounting for Income Taxes, was also amended by this Statement to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. This Statement is effective for us for business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, in conjunction with SFAS 141(R), the FASB issued Statement No. 160, Accounting for Noncontrolling Interests. This Statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51), by requiring companies to report a noncontrolling interest in a subsidiary as equity in its consolidated financial statements. Disclosure of the amounts of consolidated net income attributable to the parent and the noncontrolling interest will be required. This Statement also clarifies that transactions that result in a change in a parent's ownership interest in a subsidiary that do not result in deconsolidation will be treated as equity transactions, while a gain or loss will be recognized by the parent when a subsidiary is deconsolidated. This Statement is effective for us January 1, 2009, and we do not anticipate the implementation will be material to our consolidated financial position or results of operations.

In December 2007, the FASB ratified the consensus reached by the EITF on Issue No. 07-1 (EITF 07-1), Accounting for Collaborative Arrangements. EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. This Issue is effective for us beginning January 1, 2009 and will be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. While we have not yet completed our analysis, we do not anticipate the implementation of this Issue will be material to our consolidated financial position or results of operations.

Note 3: Acquisitions and Collaborations

SGX Pharmaceuticals, Inc. Acquisition

On August 20, 2008, we acquired all of the outstanding common stock of SGX Pharmaceuticals, Inc. (SGX). The acquisition allows us to integrate SGX's structure-guided drug discovery platform into our drug discovery efforts. It also gives us access to FAST™, SGX's fragment-based, protein structure guided drug discovery technology, and to a portfolio of preclinical oncology compounds focused on a number of kinase targets. Under the terms of the agreement, the outstanding shares of SGX common stock were redeemed for an aggregate purchase price, including transaction costs, of approximately $66.5 million.

The acquisition has been accounted for as a business combination under the purchase method of accounting. We allocated $28.7 million of the purchase price to deferred tax assets and $28.0 million to acquired in-process research and development (IPR&D). The IPR&D represents products in development and technology that were not yet approved for marketing or were not yet proven technology and had no alternative future use. Accordingly, the $28.0 million allocated to acquired IPR&D was expensed immediately subsequent to the acquisition. SGX's results of operations are included in our consolidated condensed financial statements from the date of acquisition. The amount allocated to each of the intangible assets acquired is not deductible for tax purposes.

ICOS Corporation Acquisition

On January 29, 2007, we acquired all of the outstanding common stock of ICOS Corporation (ICOS), our partner in the Lilly ICOS LLC joint venture for the manufacture and sale of Cialis® for the

treatment of erectile dysfunction. The acquisition brought the full value of Cialis to us and enabled us to realize operational efficiencies in the further development, marketing, and selling of this product. Under the terms of the agreement, each outstanding share of ICOS common stock was redeemed for $34 in cash for an aggregate purchase price of approximately $2.3 billion, which was financed through borrowings.

The acquisition has been accounted for as a business combination under the purchase method of accounting. Under the purchase method of accounting, the assets acquired and liabilities assumed from ICOS are recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The excess of the purchase price over the fair value of the acquired net assets has been recorded as goodwill in the amount of $646.7 million. No portion of this goodwill is expected to be deductible for tax purposes. ICOS's results of operations are included in our consolidated financial statements from the date of acquisition.

We have determined the following estimated fair values for the assets purchased and liabilities assumed as of the date of acquisition. The determination of estimated fair value required management to make significant estimates and assumptions.

	Estimated Fair Value at January 29, 2007
Cash and short-term investments	$ 197.7
Developed product technology (Cialis)[1]	1,659.9
Acquired in-process research and development	303.5
Tax benefit of net operating losses	404.1
Goodwill	646.7
Other assets and liabilities — net	(32.1)
Deferred taxes	(583.5)
Long-term debt assumed	(275.6)
Total purchase price	$ 2,320.7

1 The intangible asset will be amortized over the remaining expected patent lives of Cialis in each country; patent expiry dates range from 2015 to 2017.

The acquired IPR&D represented compounds under development that had not yet achieved regulatory approval for marketing. New indications for and formulations of the Cialis compound in clinical testing at the time of the acquisition represented approximately 48 percent of the estimated fair value of the IPR&D. The remaining value of IPR&D represents several other products in development, with no one asset comprising a significant portion of this value. In accordance with FIN 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, these IPR&D intangible assets totaling $303.5 million were written off by a charge to income immediately subsequent to the acquisition because the compounds had no alternative future use. This charge was not deductible for tax purposes. The ongoing activity with respect to each of these compounds under development is not material to our research and development expenses.

There are several methods that can be used to determine the estimated fair value of the acquired IPR&D. We utilized the "income method," which applies a probability weighting to the estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, and expected industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. This analysis is performed for each project independently. The discount rate we used in valuing the acquired IPR&D projects was 20 percent.

Other Acquisitions

During the second quarter of 2007, we acquired all of the outstanding stock of both Hypnion, Inc. (Hypnion), a privately held neuroscience drug discovery company focused on sleep disorders, and Ivy Animal Health, Inc. (Ivy), a privately held applied research and pharmaceutical product development company focused on the animal health industry, for $445.0 million in cash. The ongoing activities with respect to these companies' products in development are not material to our research and development expenses. The results of operations are included in our consolidated condensed financial statements from the respective dates of acquisition.

The acquisition of Hypnion provided us with a broader and more substantive presence in the area of sleep disorder research and ownership of HY10275, a novel Phase II compound with a dual mechanism of action aimed at promoting better sleep onset and sleep maintenance. This was Hypnion's only significant asset. For this acquisition, we recorded a charge of $291.1 million, representing the estimated fair value of the acquired compound, to acquired IPR&D in the second quarter of 2007 because the development-stage compound acquired had no alternative future use. This charge was not deductible for tax purposes. Because Hypnion was a development-stage company, the transaction was accounted for as an acquisition of assets rather than as a business combination and, therefore, goodwill was not recorded.

The acquisition of Ivy provides us with products that complement those of our animal health product line. This acquisition has been accounted for as a business combination under the purchase method of accounting. We have allocated $88.7 million of the purchase price to other identifiable intangible assets, primarily related to marketed products, $37.0 million to acquired IPR&D, and $25.0 million to goodwill. The IPR&D represents products in development that were not yet approved for marketing and had no alternative future use. Accordingly, the $37.0 million allocated to acquired IPR&D was expensed immediately subsequent to the acquisition. The other identifiable intangible assets are being amortized over their estimated remaining useful lives of 10 to 20 years. Goodwill resulting from this acquisition was fully allocated to the animal health business segment. The amount allocated to each of the intangible assets acquired, including goodwill, was expected to be deductible for tax purposes.

Product Acquisitions

In June 2008, we entered into a licensing and development agreement with TransPharma Medical Ltd. (TransPharma) to acquire rights to its product and related drug delivery system for the treatment of osteoporosis. The product, which is administered transdermally using TransPharma's proprietary technology, was in Phase II clinical testing, and had no alternative future use. Under the arrangement, we also gain non-exclusive access to TransPharma's ViaDerm drug delivery system for the product. As with many development-phase products, launch of the product, if approved, was not expected in the near term. The charge of $35.0 million for acquired IPR&D related to this arrangement was included as expense in the second quarter of 2008 and is deductible for tax purposes.

In December 2007, we entered into an agreement with BioMS Medical Corp. to acquire the rights to its compound for the treatment of multiple sclerosis. This agreement became effective upon clearance under the Hart-Scott-Rodino Anti-Trust Improvements Act in January 2008. At the inception of this agreement, this compound was in the development stage (Phase III clinical trials) and had no alternative future use. As with many development-phase compounds, launch of the product, if approved, was not expected in the near term. The charge of $87.0 million for acquired IPR&D related to this arrangement was included as expense in the first quarter of 2008 and is deductible for tax purposes.

In October 2007, we entered into an agreement with Glenmark Pharmaceuticals Limited India whereby we acquired the rights to a portfolio of transient receptor potential vanilloid sub-family 1 (TRPV1) antagonist molecules, including a clinical-phase compound. The compound was in early clinical phase development as a potential next-generation treatment for various pain conditions,

including osteoarthritic pain, and had no alternative future use. As with many development-phase compounds, launch of the product, if approved, was not expected in the near term. The charge of $45.0 million for acquired IPR&D was deductible for tax purposes and was included as expense in the fourth quarter of 2007. Development of this compound has been suspended.

In October 2007, we entered into a global strategic alliance with MacroGenics, Inc. (MacroGenics) to develop and commercialize teplizumab, a humanized anti-CD3 monoclonal antibody, as well as other potential next-generation anti-CD3 molecules for use in the treatment of autoimmune diseases. As part of the arrangement, we acquired the exclusive rights to the molecule, which was in the development stage (Phase II/III clinical trial for individuals with recent-onset type 1 diabetes) and had no alternative future use. As with many development-phase compounds, launch of the product, if approved, was not expected in the near term. The charge of $44.0 million for acquired IPR&D was deductible for tax purposes and was included as expense in the fourth quarter of 2007.

In January 2007, we entered into an agreement with OSI Pharmaceuticals, Inc. to acquire the rights to its compound for the treatment of type 2 diabetes. At the inception of this agreement, this compound was in the development stage (Phase I clinical trials) and had no alternative future use. As with many development-phase compounds, launch of the product, if approved, was not expected in the near term. The charge of $25.0 million for acquired IPR&D related to this arrangement was included as expense in the first quarter of 2007 and was deductible for tax purposes.

In connection with these arrangements, our partners are generally entitled to future milestones and royalties based on sales should these products be approved for commercialization.

Collaborations

In the second quarter of 2008, we entered into an agreement with an affiliate of TPG-Axon Capital (TPG) for the Phase III development of our gamma-secretase inhibitor and our A-beta antibody, our two lead molecules for the treatment of mild to moderate Alzheimer's disease. Pursuant to the terms of the agreement, both we and TPG will provide funding for the Alzheimer's clinical trials. Funding from TPG will not exceed $325 million and could extend into 2014. In exchange for their funding, TPG may receive success-based milestones totaling $330 million and mid-to high-single-digit royalties that are contingent upon the successful development of the Alzheimer's treatments. The royalties will be paid for approximately eight years after launch of a product. Our reported research and development costs related to the Alzheimer's treatments are reflected net of the at-risk funding we receive from TPG for their share of the development costs. The funding from TPG is not expected to be material in any period.

Note 4: Asset Impairments, Restructuring, and Other Special Charges

As discussed further in Note 11, in the third quarter of 2008, we recorded a charge of $1.48 billion related to the pending Zyprexa® investigations led by the U.S. Attorney for the Eastern District of Pennsylvania, as well as the resolution of a multi-state investigation regarding Zyprexa involving 32 states and the District of Columbia.

In the third quarter of 2008, as a result of our previously announced agreements with Covance Inc. (Covance), Quintiles Transnational Corp. (Quintiles), and Ingenix Pharmaceutical Services, Inc., doing business as i3 Statprobe (i3), and as part of our efforts to transform into a more flexible organization, we recognized asset impairments, restructuring, and other special charges of $182.4 million. We sold our Greenfield, Indiana site to Covance, a global drug development services firm, and entered into a 10-year service agreement under which Covance will provide preclinical toxicology work and perform additional clinical trials for us as well as operate the site to meet our needs and those of other pharmaceutical industry clients. In addition, we signed agreements with Quintiles for clinical trial monitoring services and with i3 for clinical data management services. Components of the third-quarter restructuring charge include non-cash charges of $148.3 million primarily related to the loss on sale of assets sold to Covance, severance costs of $27.8 million, and exit costs of $6.3 million. Substantially all of these costs will be paid in 2008.

In April 2008, we announced a voluntary exit program that was offered to employees primarily in manufacturing. In the second quarter of 2008, we recognized restructuring and other special charges of $88.9 million. Components of the second-quarter restructuring charge include total severance costs of $53.5 million related to these programs and $35.4 million related to exit costs incurred during the second quarter in connection with previously announced strategic decisions made in prior periods. Substantially all of these costs were paid by the end of July 2008. In addition, we recognized non-cash charges of $57.1 million for the write-down of impaired manufacturing assets that had no future use, which are included in cost of sales.

In March 2008, we terminated development of our AIR® Insulin program, which was being conducted in collaboration with Alkermes, Inc. The program had been in Phase III clinical development as a potential treatment for type 1 and type 2 diabetes. This decision was not a result of any observations during AIR Insulin trials relating to the safety of the product, but rather was a result of increasing uncertainties in the regulatory environment, and a thorough evaluation of the evolving commercial and clinical potential of the product compared to existing medical therapies. As a result of this decision, we halted our ongoing clinical studies and transitioned the AIR Insulin patients in these studies to other appropriate therapies. We have implemented a patient program in the U.S., and other regions of the world where allowed, to provide clinical trial participants with appropriate financial support to fund their medications and diagnostic supplies through the end of 2008.

We recognized asset impairment, restructuring, and other special charges of $145.7 million in the first quarter of 2008. These charges were primarily related to the decision to terminate development of AIR Insulin. Components of these charges included non-cash charges of $40.9 million for the write-down of impaired manufacturing assets that had no use beyond the AIR Insulin program, as well as charges of $91.7 million for estimated contractual obligations and wind-down costs associated with the termination of clinical trials and certain development activities, and costs associated with the patient program to transition participants from AIR Insulin. This amount includes an estimate of Alkermes's wind-down costs for which we were contractually obligated. The wind-down activities and patient programs should be substantially complete by the end of 2008. The remaining component of these charges, $13.1 million, is related to exit costs incurred in the first quarter of 2008 in connection with previously announced strategic decisions made in prior periods.

In connection with previously announced strategic decisions, we recorded asset impairment, restructuring, and other special charges of $123.0 million in the first quarter of 2007. These charges primarily related to a voluntary severance program at one of our U.S. plants and other costs related to this action as well as management actions taken in the fourth quarter of 2006. The component of these charges related to the non-cash asset impairment was $67.6 million and was necessary to adjust the carrying value of the assets to fair value. These restructuring activities were substantially complete at December 31, 2007.

Note 5: Fair Value Measurements

The following table summarizes certain fair value information at September 30, 2008 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount of certain other investments:

Description	Carrying Amount	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments					
Debt securities	$1,765.2	$1,765.2	$ 543.0	$1,222.2	$ —
Noncurrent investments					
Marketable equity	$ 39.8	$ 39.8	$ 39.8	$ —	$ —
Debt securities	1,030.5	1,030.5	449.0	581.5	—
Equity method and other investments	116.3	N/A			
	$1,186.6				
Risk-management instruments — assets	$ 57.2	$ 57.2	$ —	$ 57.2	$ —

The fair value of equity method investments and other investments is not readily available.

The fair value of the portion of our available-for-sale securities in an unrealized gain position was $700.3 million at September 30, 2008, with an unrealized gain of $6.8 million. The fair value of our available-for-sale securities in an unrealized loss position was $2.06 billion, with an unrealized loss of $147.1 million. Substantially all of the securities in a loss position are investment-grade debt securities and have no indications of deterioration in credit quality. The majority of these securities first moved into an unrealized loss position during 2008. We have the intent and ability to hold these securities until the market values recover or the underlying cash flows have been received, and we have concluded that for those securities in an unrealized loss position, no other-than-temporary loss exists at September 30, 2008. As of September 30, 2008, we did not hold auction rate securities, collateralized debt obligations, or securities issued by structured investment vehicles.

Note 6: Stock-Based Compensation

In 2008 and 2007, our stock-based compensation expense consisted primarily of performance awards (PAs), shareholder value awards (SVAs), and stock options. We recognized pretax stock-based compensation cost in the amount of $77.9 million and $79.3 million in the third quarter of 2008 and 2007, respectively. In the first nine months of 2008 and 2007, we recognized stock-based compensation expense of $192.7 million and $214.5 million, respectively.

PAs are granted to officers and management and are payable in shares of our common stock. The number of PA shares actually issued, if any, varies depending on the achievement of certain earnings-per-share targets over a one-year period. PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the fiscal year of the grant. As of September 30, 2008, the total remaining unrecognized compensation cost

related to nonvested PAs amounted to $47.7 million, which will be amortized over the weighted-average remaining requisite service period of three months.

SVAs are granted to officers and management and are payable in shares of common stock at the end of a three-year period. The number of shares actually issued varies depending on our stock price at the end of the three-year vesting period compared to pre-established target prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. As of September 30, 2008, the total remaining unrecognized compensation cost related to nonvested SVAs amounted to $59.6 million, which will be amortized over the weighted-average remaining requisite service period of 25 months.

We discontinued issuing stock options beginning in 2007. As of September 30, 2008, the total remaining unrecognized compensation cost related to nonvested stock options amounted to $6.7 million, which will be amortized over the weighted-average remaining requisite service period of four months.

Note 7: Shareholders' Equity

As of September 30, 2008, we have purchased $2.58 billion of our previously announced $3.0 billion share repurchase program. During the third quarter of 2008, we did not acquire any shares pursuant to this program, nor do we expect any share repurchases under this program for the remainder of 2008.

Note 8: Earnings Per Share

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

Note 9: Income Taxes

We file income tax returns in the United States (U.S.) federal jurisdiction and various state, local, and non-U.S. jurisdictions. We are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations in major taxing jurisdictions for years before 2002. During the first quarter of 2008, we completed and effectively settled our Internal Revenue Service (IRS) audit of tax years 2001-2004 except for one matter for which we will seek resolution through the IRS administrative appeals process. As a result of the IRS audit conclusion, gross unrecognized tax benefits were reduced by approximately $618 million, and the consolidated results of operations were benefited by $210.3 million through a reduction in income tax expense. The majority of the reduction in gross unrecognized tax benefits related to intercompany pricing positions that were agreed with the IRS in a prior audit cycle for which a prepayment of tax was made in 2005. Application of the prepayment and utilization of tax carryovers resulted in a refund of approximately $50 million. The IRS began its examination of tax years 2005-2007 during the third quarter of 2008.

Note 10: Retirement Benefits

Net pension and retiree health benefit expense included the following components:

	Defined Benefit Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 61.4	$ 62.9	$ 186.8	$ 194.9
Interest cost	102.7	86.5	308.5	258.9
Expected return on plan assets	(151.3)	(134.6)	(455.0)	(403.1)
Amortization of prior service cost	1.8	1.4	5.3	4.0
Recognized actuarial loss	19.2	30.9	57.8	93.1
Net periodic benefit cost	$ 33.8	$ 47.1	$ 103.4	$ 147.8

	Retiree Health Benefit Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 15.5	$ 17.6	$ 46.6	$ 54.3
Interest cost	26.5	25.3	79.4	76.0
Expected return on plan assets	(29.1)	(25.3)	(88.3)	(77.0)
Amortization of prior service cost	(9.0)	(3.9)	(27.0)	(11.7)
Recognized actuarial loss	15.7	23.8	47.1	70.9
Net periodic benefit cost	$ 19.6	$ 37.5	$ 57.8	$112.5

In 2008, we expect to contribute approximately $80 million to our defined benefit pension plans to satisfy minimum funding requirements for the year. In addition, we expect to contribute approximately $100 million of additional discretionary funding in 2008 to our defined benefit plans. As of September 30, 2008, we have contributed substantially all of these amounts to our plans.

Note 11: Contingencies

We are a party to various legal actions, government investigations, and environmental proceedings. The most significant of these are described below. While it is not possible to determine the outcome of these matters, we believe that, except as specifically noted below, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

Patent Litigation

We are engaged in the following patent litigation matters brought pursuant to procedures set out in the Hatch-Waxman Act (the Drug Price Competition and Patent Term Restoration Act of 1984):

- Cymbalta®: We have received notice that at least four generic drug manufacturers have submitted Abbreviated New Drug Applications (ANDAs) seeking permission to market generic versions of Cymbalta prior to the expiration of our relevant U.S. patents (the earliest of which expires in 2013) and alleging that these patents are either invalid or not infringed. We are currently reviewing the allegations and will take appropriate action to seek rulings that the patents are valid and infringed.
- Gemzar®: Sicor Pharmaceuticals, Inc. (Sicor), Mayne Pharma (USA) Inc. (Mayne), and Sun

Pharmaceutical Industries Inc. (Sun) each submitted an ANDA seeking permission to market generic versions of Gemzar prior to the expiration of our relevant U.S. patents (compound patent expiring in 2010 and method of use patent expiring in 2013), and alleging that these patents are invalid. We filed lawsuits in the U.S. District Court for the Southern District of Indiana against Sicor (February 2006) and Mayne (October 2006 and January 2008), seeking rulings that these patents are valid and are being infringed. The suit against Sicor has been scheduled for trial in July 2009. The statutory stay barring final approval of Sicor's ANDAs has expired; however, Sicor must provide 90 days notice prior to marketing generic Gemzar upon receipt of final approval by the FDA to allow time for us to seek a preliminary injunction. Both suits against Mayne have been administratively closed, and the parties have agreed to be bound by the results of the Sicor suit. In November 2007, Sun filed a declaratory judgment action in the United States District Court for the Eastern District of Michigan, seeking rulings that our method-of-use and compound patents are invalid or unenforceable, or would not be infringed by the sale of Sun's generic product. This trial is scheduled for December 2009.

- Alimta®: Teva Parenteral Medicines, Inc. (Teva) and APP Pharmaceuticals, LLC (APP) each submitted ANDAs seeking approval to market generic versions of Alimta prior to the expiration of the relevant U.S. patent (licensed from the Trustees of Princeton University and expiring in 2016), and alleging the patent is invalid. We, along with Princeton, filed lawsuits in the U.S. District Court for the District of Delaware against Teva and APP, seeking rulings that the compound patent is valid and infringed. The court has not set a date for trial in either case.

- Evista®: Barr Laboratories, Inc. (Barr), submitted an ANDA in 2002 seeking permission to market a generic version of Evista prior to the expiration of our relevant U.S. patents (expiring in 2012-2017) and alleging that these patents are invalid, not enforceable, or not infringed. In November 2002, we filed a lawsuit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid, enforceable, and being infringed by Barr. Teva Pharmaceuticals USA, Inc. (Teva) has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a similar lawsuit against Teva in the U.S. District Court for the Southern District of Indiana. The lawsuit against Teva is currently scheduled for trial beginning March 9, 2009, while no trial date has been set in the lawsuit against Barr. In April 2008, the FDA granted Teva tentative approval of its ANDA, but Teva's ability to market a generic product before a decision at trial is subject to a statutory stay that expires on March 9, 2009.

- Strattera®: Actavis Elizabeth LLC (Actavis), Glenmark Pharmaceuticals Inc., USA (Glenmark), Sun Pharmaceutical Industries Limited (Sun), Sandoz Inc. (Sandoz), Mylan Pharmaceuticals Inc. (Mylan), Teva Pharmaceuticals USA, Inc. (Teva), Apotex Inc. (Apotex), Aurobindo Pharma Ltd. (Aurobindo), Synthon Laboratories, Inc. (Synthon), and Zydus Pharmaceuticals, USA, Inc. (Zydus) each submitted an ANDA seeking permission to market generic versions of Strattera prior to the expiration of our relevant U.S. patent (expiring in 2017), and alleging that this patent is invalid. We filed a lawsuit against Actavis in the United States District Court for the District of New Jersey in August 2007, and added Glenmark, Sun, Sandoz, Mylan, Teva, Apotex, Aurobindo, Synthon, and Zydus as defendants in September 2007. In December 2007, Zydus agreed to entry of a consent judgment in which Zydus conceded the validity and enforceability of the patent and agreed to a permanent injunction. In June 2008, Glenmark agreed to entry of a permanent injunction, enjoining it from selling a generic product prior to the expiration of the U.S. patent. Also in June 2008, Synthon notified us that it has withdrawn its ANDA and agreed to a stipulated dismissal of all outstanding claims. For the remaining defendants, trial is anticipated as early as December 2009.

We believe each of these Hatch-Waxman challenges is without merit and expect to prevail in this litigation. However, it is not possible to determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome in any of these cases could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We have received challenges to Zyprexa patents in a number of countries outside the U.S.:

- In Canada, several generic pharmaceutical manufacturers have challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In April 2007, the Canadian Federal Court ruled against the first challenger, Apotex Inc. (Apotex), and that ruling was affirmed on appeal in February 2008. In June 2007, the Canadian Federal Court held that an invalidity allegation of a second challenger, Novopharm Ltd. (Novopharm), was justified and denied our request that Novopharm be prohibited from receiving marketing approval for generic olanzapine in Canada. Novopharm began selling generic olanzapine in Canada in the third quarter of 2007. We have sued Novopharm for patent infringement, and the trial is scheduled for November 2008. In November 2007, Apotex filed an action seeking a declaration of the invalidity of our Zyprexa compound and method-of-use patents, and no trial date has been set. We have brought similar actions against Pharmascience (August 2007), Sandoz (July 2007), Nu-Pharm (June 2008), and Genpharm (June 2008); none of these suits has been scheduled for trial. Pharmascience has agreed to be bound by the outcome of the Novopharm suit, and, pending the outcome of the lawsuit, we have agreed not to take any further steps to prevent them from coming to market with generic olanzapine tablets, subject to a contingent damages obligation should we be successful against Novopharm.
- In Germany, generic pharmaceutical manufacturers Egis-Gyogyszergyar and Neolab Ltd. challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In June 2007, the German Federal Patent Court held that our patent is invalid. We are appealing the decision to the German Supreme Court, which has scheduled a hearing for December 2008. Generic olanzapine was launched by competitors in Germany in the fourth quarter of 2007. Notwithstanding the Federal Patent Court ruling, we have sought preliminary injunctions against all generic companies who are marketing generic olanzapine products in Germany. In May 2008 the Court of Appeal in Düsseldorf granted an injunction against the first of these generic companies, STADApharm GmbH, as a result of which STADA has had to withdraw its generic olanzapine product from the German market. Preliminary injunction actions against other generic companies in Germany were denied. We continue to pursue these companies in main actions for infringement.
- We have received challenges in a number of other countries, including Spain, the United Kingdom (UK), and several smaller European countries. In Spain, we have been successful at both the trial and appellate court levels in defeating the generic manufacturers' challenge, but we anticipate further legal challenges from generic manufacturers. In the UK, the generic pharmaceutical manufacturer Dr. Reddy's Laboratories (UK) Limited has challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In October, 2008, the Patents Court in the High Court, London ruled that our patent was valid. We anticipate that Dr. Reddy's will appeal this decision.

We are vigorously contesting the various legal challenges to our Zyprexa patents on a country-by-country basis. We cannot determine the outcome of this litigation. The availability of generic olanzapine in additional markets could have a material adverse impact on our consolidated results of operations.

Xigris® and Evista: In June 2002, Ariad Pharmaceuticals, Inc., the Massachusetts Institute of Technology, the Whitehead Institute for Biomedical Research, and the President and Fellows of Harvard College in the U.S. District Court for the District of Massachusetts sued us, alleging that sales

of two of our products, Xigris and Evista, were inducing the infringement of a patent related to the discovery of a natural cell signaling phenomenon in the human body, and seeking royalties on past and future sales of these products. On May 4, 2006, a jury in Boston issued an initial decision in the case that Xigris and Evista sales infringe the patent. The jury awarded the plaintiffs approximately $65 million in damages, calculated by applying a 2.3 percent royalty to all U.S. sales of Xigris and Evista from the date of issuance of the patent through the date of trial. In addition, a separate bench trial with the U.S. District Court of Massachusetts was held in August 2006, on our contention that the patent is unenforceable and impermissibly covers natural processes. In June 2005, the United States Patent and Trademark Office (USPTO) commenced a reexamination of the patent, and in August 2007 took the position that the Ariad claims at issue are unpatentable, a position that Ariad continues to contest. In September 2007, the Court entered a final judgment indicating that Ariad's claims are patentable, valid, and enforceable, and finding damages in the amount of $65 million plus a 2.3 percent royalty on net U.S. sales of Xigris and Evista since the time of the jury decision. However, the Court deferred the requirement to pay any damages until after all rights to appeal have been exhausted. We have appealed this judgment. We believe that these allegations are without legal merit, that we will ultimately prevail on these issues, and therefore that the likelihood of any monetary damages is remote.

Government Investigations and Related Litigation

In March 2004, the Office of the U.S. Attorney for the Eastern District of Pennsylvania (EDPA) advised us that it had commenced an investigation related to our U.S. marketing and promotional practices, including our communications with physicians and remuneration of physician consultants and advisors, with respect to Zyprexa, Prozac®, and Prozac Weekly™. In November 2007, we received a grand jury subpoena from the EDPA for a broad range of documents related to Zyprexa. In addition, the State Medicaid Fraud Control Units of more than 30 states are coordinating with the EDPA in its investigation of any Medicaid-related claims relating to our marketing and promotion of Zyprexa. Twelve other states (Arkansas, Connecticut, Idaho, Louisiana, Minnesota, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, Utah, and West Virginia) have filed lawsuits over Zyprexa and are not participating in the coordinated investigation. In October 2008, we announced that we are in advanced discussions to resolve the ongoing investigations led by the EDPA, and we recorded a charge of $1.42 billion. The charge reflects our currently estimable exposure with respect to these matters. If the ongoing discussions are successfully concluded, we expect that they would settle the Zyprexa-related federal claims, as well as similar Medicaid-related claims of states participating in the settlement.

In October 2005, the EDPA advised that it is also conducting an inquiry regarding certain rebate agreements we entered into with a pharmacy benefit manager covering Axid®, Evista, Humalog®, Humulin®, Prozac, and Zyprexa. The inquiry includes a review of our Medicaid best price reporting related to the product sales covered by the rebate agreements.

In June 2005, we received a subpoena from the Office of the Attorney General, Medicaid Fraud Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa.

In September 2006, we received a subpoena from the California Attorney General's Office seeking production of documents related to our efforts to obtain and maintain Zyprexa's status on California's formulary, marketing and promotional practices with respect to Zyprexa, and remuneration of health care providers.

In February 2007, we received a subpoena from the Office of the Attorney General of the State of Illinois seeking production of documents and information relating to sales of Zyprexa and our marketing and promotional practices, including our communications with physicians and remuneration of physician consultants and advisors, with respect to Zyprexa.

Beginning in August 2006, we received civil investigative demands or subpoenas from the attorneys general of a number of states under various state consumer protection laws. Most of these

requests became part of a multistate investigative effort coordinated by an executive committee of attorneys general. In October 2008, we reached a settlement with 32 states and the District of Columbia. While there is no finding that we have violated any provision of the state laws under which the investigations were conducted, we will pay $62 million and undertake certain commitments regarding Zyprexa for a period of six years, through consent decrees filed in the settling states. The 32 states participating in the Multistate agreement are: Alabama, Arizona, California, Delaware, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Missouri, Nebraska, Nevada, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Vermont, Washington, and Wisconsin.

We are cooperating in each of these investigations, including providing a broad range of documents and information relating to the investigations. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges and fines, penalties, or other monetary or nonmonetary remedies. Except to the extent described above, we cannot determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

Product Liability and Related Litigation

We have been named as a defendant in a large number of Zyprexa product liability lawsuits in the United States and have been notified of many other claims of individuals who have not filed suit. The lawsuits and unfiled claims (together the “claims”) allege a variety of injuries from the use of Zyprexa, with the majority alleging that the product caused or contributed to diabetes or high blood-glucose levels. The claims seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the claims also allege that we improperly promoted the drug. Almost all of the federal lawsuits are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). The majority of non-federal cases are pending in the state court of Indiana.

Since June 2005, we have entered into agreements with various claimants’ attorneys involved in U.S. Zyprexa product liability litigation to settle a substantial majority of the claims. The agreements cover a total of approximately 31,350 claimants, including a large number of previously filed lawsuits and other asserted claims. The two primary settlements were as follows:

- In June 2005, we reached an agreement in principle (and in September 2005 a final agreement) to settle more than 8,000 claims for $690.0 million plus $10.0 million to cover administration of the settlement.
- In January 2007, we reached agreements with a number of plaintiffs’ attorneys to settle more than 18,000 claims for approximately $500 million.

The 2005 settlement totaling $700.0 million was paid during 2005. The January 2007 settlements were paid during 2007.

We are prepared to continue our vigorous defense of Zyprexa in all remaining claims. The U.S. Zyprexa product liability claims not subject to these agreements include approximately 180 lawsuits in the U.S. covering approximately 1,615 plaintiffs, of which about 130 cases covering about 305 plaintiffs are part of the MDL. The MDL cases have been scheduled for trial in groups, with the earliest trial scheduled to begin March 16, 2009.

In early 2005, we were served with four lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. One of these four lawsuits has been certified for residents of Quebec, and a second has been certified in Ontario and includes all Canadian residents except for residents of Quebec and British Columbia. The allegations in the Canadian actions are similar to those in the litigation pending in the U.S.

Since the beginning of 2005, we have recorded aggregate net pretax charges of $1.61 billion for Zyprexa product liability matters. The net charges, which take into account our actual insurance recoveries, covered the following:

- The cost of the Zyprexa product liability settlements to date; and
- Reserves for product liability exposures and defense costs regarding the known Zyprexa product liability claims and expected future claims to the extent we could formulate a reasonable estimate of the probable number and cost of the claims.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York (EDNY). In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses. We have been served with similar lawsuits filed by the states of Alaska, Arkansas, Connecticut, Idaho, Minnesota, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, Utah, and West Virginia in the courts of the respective states. The Connecticut, Louisiana, Minnesota, Mississippi, Montana, New Mexico, and West Virginia cases are part of the MDL proceedings in the EDNY. The Alaska case was settled in March 2008 for a payment of $15.0 million, plus terms designed to ensure, subject to certain limitations and conditions, that Alaska is treated as favorably as certain other states that may settle with us in the future over similar claims. The following cases have been set for trial in 2009: Connecticut in the EDNY in June, Pennsylvania in November, and South Carolina in August, in their respective states.

In 2005, two lawsuits were filed in the EDNY purporting to be nationwide class actions on behalf of all consumers and third-party payors, excluding governmental entities, which have made or will make payments for their members or insured patients being prescribed Zyprexa. These actions have now been consolidated into a single lawsuit, which is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, seeking a refund of the cost of Zyprexa, treble damages, punitive damages, and attorneys' fees. Two additional lawsuits were filed in the EDNY in 2006 on similar grounds. In September 2008, Judge Weinstein certified a class consisting of third-party payors, excluding governmental entities and individual consumers. We appealed the certification order, and Judge Weinstein's order denying our motion for summary judgment, in September 2008. In 2007, The Pennsylvania Employees Trust Fund brought claims in state court in Pennsylvania as insurer of Pennsylvania state employees, who were prescribed Zyprexa on similar grounds as described in the New York cases. As with the product liability suits, these lawsuits allege that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug. The Pennsylvania case is set for trial in October 2009.

We cannot determine with certainty the additional number of lawsuits and claims that may be asserted. The ultimate resolution of Zyprexa product liability and related litigation could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In addition, we have been named as a defendant in numerous other product liability lawsuits involving primarily diethylstilbestrol (DES) and thimerosal. The majority of these claims are covered by insurance, subject to deductibles and coverage limits.

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability and related claims for other products in the future. In the past

few years, we have experienced difficulties in obtaining product liability insurance due to a very restrictive insurance market. Therefore, for substantially all of our currently marketed products, we have been and expect that we will continue to be completely self-insured for future product liability losses. In addition, there is no assurance that we will be able to fully collect from our insurance carriers on past claims.

Environmental Matters

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, we have been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. We also continue remediation of certain of our own sites. We have accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters. This takes into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to payment of those costs. We have limited liability insurance coverage for certain environmental liabilities.

Note 12: Other Income — Net

Other income — net, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Interest expense	$ 44.0	$ 55.8	$ 146.4	$ 167.9
Interest income	(53.2)	(49.6)	(156.8)	(157.0)
Joint-venture income	—	—	—	(11.0)
Other	6.7	(56.0)	(44.7)	(89.8)
	$ (2.5)	$(49.8)	$ (55.1)	$ (89.9)

The joint-venture income represents our share of the Lilly ICOS LLC joint venture results of operations, net of income taxes, prior to the acquisition of ICOS Corporation on January 29, 2007.

Note 13: Subsequent Events

ImClone Systems, Inc.

We, along with ImClone Sytems, Inc. (ImClone), have approved a definitive merger agreement under which we will acquire ImClone through an all-cash tender offer of $70 per share, or approximately $6.5 billion. This strategic combination will create one of the leading oncology franchises in the biopharmaceutical industry, offering both targeted therapies and oncolytic agents along with a pipeline spanning all phases of clinical development. The combination also expands our biotechnology capabilities. The transaction, which is expected to close in either the fourth quarter of 2008 or the first quarter of 2009, is conditioned upon at least a majority of the outstanding ImClone shares being tendered, as well as clearance under the Hart-Scott-Rodino Antitrust Improvements Act, similar requirements outside the U.S., and other customary closing conditions. In addition, a shareholder lawsuit has been filed seeking to enjoin the closing of the transaction. If we close in the fourth quarter, we will incur a one-time charge to earnings for IPR&D, but it is premature to estimate what that charge would be.

Posilac®

On October 1, 2008, we acquired the worldwide rights to the dairy cow supplement, Posilac (sometribove), as well as the product's supporting operations, from Monsanto Company (Monsanto). The acquisition of Posilac provides us with a product that complements those of our animal health product line. Under the terms of the agreement, we acquired the rights to the Posilac brand, as well as the product's U.S. sales force and manufacturing facility for a $300.0 million upfront payment as well as contingent consideration based on future Posilac sales. The allocation of the purchase price has not been finalized; however, we do not anticipate incurring an IPR&D charge.

This acquisition will be accounted for as a business combination under the purchase method of accounting, which requires the assets acquired and liabilities assumed from Monsanto to be recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The results of operations will be included in our consolidated financial statements from the date of acquisition.

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

OPERATING RESULTS

Executive Overview

I. Financial Results

Worldwide sales increased 14 percent and 13 percent for the third quarter and first nine months of 2008, respectively, driven by the collective growth of Cymbalta, Alimta, Cialis, Humalog, and Gemzar, and by the favorable impact of foreign exchange rates. Third-quarter net loss was $465.6 million and loss per share was $.43 as compared to 2007 net income of $926.3 million and earnings per share of $.85. Net income and earnings per share decreased 26 percent for the first-nine-months of 2008, to $1.56 billion and $1.42, respectively, as compared with the same period of 2007. Net income for the first nine months of 2008 and the first nine months of 2007 was affected by the following significant items:

2008

- We recorded charges of $1.48 billion (pretax) related to the pending Zyprexa investigations led by the U.S. Attorney for the Eastern District of Pennsylvania, as well as the resolution of a multi-state investigation regarding Zyprexa involving 32 states and the District of Columbia, which decreased earnings per share by $1.33 in the third quarter.
- We recognized asset impairments, restructuring, and other special charges of $182.4 million (pretax), primarily associated with previously-announced strategic exit activities related to our Greenfield, Indiana site, which decreased earnings per share by $.11 in the third quarter.
- We incurred an in-process research and development (IPR&D) charge associated with the acquisition of SGX Pharmaceuticals, Inc. (SGX) of $28.0 million (pretax), which decreased earnings per share by $.03 in the third quarter.
- We recognized restructuring and other special charges of $88.9 million (pretax), primarily associated with previously-announced strategic exit activities related to manufacturing operations, which decreased earnings per share by $.05 in the second quarter.
- We recognized asset impairments associated with certain manufacturing operations (included in cost of sales) of $57.1 million (pretax), which decreased earnings per share by $.04 in the second quarter.
- We incurred an IPR&D charge associated with the licensing arrangement with TransPharma Medical Ltd. of $35.0 million (pretax), which decreased earnings per share by $.02 in the second quarter.

- We recognized a discrete income tax benefit of $210.3 million as a result of the resolution of a substantial portion of the IRS audit of our federal income tax returns for years 2001 through 2004, which increased earnings per share by $.19 in the first quarter.
- We recognized asset impairments, restructuring, and other special charges of $145.7 million (pretax), primarily associated with certain impairment, termination, and wind-down costs resulting from the termination of the AIR Insulin program, which decreased earnings per share by $.09 in the first quarter.
- We incurred an IPR&D charge associated with the licensing arrangement with BioMS Medical Corp. of $87.0 million (pretax), which decreased earnings per share by $.05 in the first quarter.

2007

- We incurred a special charge following a settlement with one of our insurance carriers over Zyprexa product liability claims, which led to a reduction of our expected product liability insurance recoveries. This resulted in a charge of $81.3 million (pretax), which decreased earnings per share by $.06 in the third quarter.
- We incurred IPR&D charges associated with the acquisition of Hypnion of $291.1 million (no tax benefit) and the acquisition of Ivy of $37.0 million (pretax), which decreased earnings per share by $.29 in the second quarter.
- We incurred IPR&D charges associated with the acquisition of ICOS of $303.5 million (no tax benefit) and the licensing arrangement with OSI Pharmaceuticals of $25.0 million (pretax), which decreased earnings per share by $.29 in the first quarter.
- We recognized asset impairments, restructuring, and other special charges associated with previously announced strategic decisions affecting manufacturing and research facilities of $123.0 million (pretax), which decreased earnings per share by $.08 in the first quarter.

II. Late-Stage Pipeline Developments and Business Development Activity in 2008

Pipeline

- We, along with our partner Daiichi Sankyo Company, Limited, confirmed that the U.S. Food and Drug Administration (FDA) did not complete its review for the prasugrel New Drug Application (NDA) by the Prescription Drug User Fee Act goal date of September 26, 2008. We continue to have discussions with the FDA regarding the review of this application. We are seeking FDA approval for prasugrel as a treatment for patients with acute coronary syndrome being managed with percutaneous coronary intervention. We also submitted prasugrel to the European Medicines Agency (EMEA) for the same indication.
- In September, the FDA approved Alimta, in combination with cisplatin, as a first-line treatment for locally advanced and metastatic non-small cell lung cancer (NSCLC) for patients with nonsquamous histology. In April, the European health authorities approved Alimta, in combination with cisplatin, as a first-line treatment for non-small-cell lung cancer patients with other than predominantly squamous cell histology.
- We submitted tadalafil as a treatment for pulmonary arterial hypertension (PAH) to regulatory authorities in both the U.S. and Japan.
- The Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion recommending approval of Zypadhera™ (also known as olanzapine long-acting injection) for maintenance treatment of adult patients with schizophrenia sufficiently stabilized during acute treatment with oral olanzapine. The opinion issued by the CHMP will need to be ratified by the European Commission before the new indication is considered approved.
- In July, the European Commission approved Cymbalta for the treatment of generalized anxiety disorder (GAD).
- In June, the FDA approved Cymbalta for the management of fibromyalgia, a chronic widespread pain disorder.
- We submitted a supplemental New Drug Application (sNDA) to the FDA seeking approval for a new indication for Cymbalta for the management of chronic pain.
- In May, the FDA approved Strattera for maintenance treatment of attention-deficit hyperactivity disorder (ADHD) in children and adolescents.

- We, along with our partner Amylin Pharmaceuticals, Inc., submitted Byetta® as a monotherapy treatment for type 2 diabetes to the FDA.
- In April, the European Commission approved a new indication for Forsteo® for the treatment of osteoporosis associated with sustained, systemic glucocorticoid therapy in women and men at increased risk for fracture. We have also received an approvable letter from the FDA for Forteo® for the same indication.
- In March, we terminated development of our AIR Insulin program, which was being conducted in collaboration with Alkermes, Inc. The program had been in Phase III clinical development as a potential treatment for type 1 and type 2 diabetes. We noted that this decision is not a result of any observations during AIR Insulin trials relating to the safety of the product, but rather was a result of increasing uncertainties in the regulatory environment, and a thorough evaluation of the evolving commercial and clinical potential of the product compared to existing medical therapies.
- In February, we received a not-approvable letter from the FDA for Zyprexa long-acting injection for the treatment and maintenance treatment of schizophrenia in adults. In its letter, the FDA said it needs more information to better understand the risk and underlying cause of excessive sedation events that have been observed in about 1 percent of patients in clinical trials. In the second quarter, we submitted a complete response to the FDA's not-approvable decision.

Business Development

- In October, we along with ImClone Systems, Inc. (ImClone), approved a definitive merger agreement to acquire ImClone through an all-cash tender offer of $70 per share, or approximately $6.5 billion. We expect the transaction to close in either the fourth quarter of 2008 or the first quarter of 2009. If we close in the fourth quarter, we will incur a one-time charge to earnings for IPR&D, but it is premature to estimate what that charge would be.
- In October, we acquired the worldwide rights to the dairy cow supplement, Posilac (sometribove), as well as the product's supporting operations, from Monsanto Company (Monsanto) for an upfront payment of $300.0 million, as well as contingent consideration based on future Posilac sales. The acquisition of Posilac provides us with a product that complements those of our animal health product line, and will be included in our results of operations from the date of acquisition.
- In October, we sold our Greenfield Laboratories site in Greenfield, Indiana, to Covance Inc. We also signed a 10-year service agreement, under which Covance will assume responsibility for our toxicology testing and other R&D support activities at the site.
- In August, we acquired SGX for approximately $64 million in cash. The acquisition allows us to integrate SGX's structure-guided drug discovery platform into our drug discovery efforts. It also gives us access to FAST™, SGX's fragment-based, protein structure guided drug discovery technology, and to a portfolio of preclinical oncology compounds focused on a number of kinase targets.
- In June, we entered into a licensing and development agreement with TransPharma Medical Ltd. (TransPharma) to acquire rights to its product and related drug delivery system for the treatment of osteoporosis. The product, which is administered transdermally using TransPharma's proprietary technology, is currently in Phase II clinical testing.
- In the second quarter, we entered into an agreement with an affiliate of TPG-Axon Capital (TPG) for the Phase III development of our two lead molecules for the treatment of Alzheimer's disease. This agreement provides TPG with success-based milestones and royalties in exchange for clinical trial funding.
- In March, we entered into a licensing and collaboration agreement with Transition Therapeutics Inc. in which we were granted exclusive worldwide rights to develop and commercialize Transition's gastrin-based therapies, including the lead compound TT-223, which is currently in early Phase II testing as a potential treatment for type 2 diabetes.

III. Legal, Regulatory, and Other Matters

We have reached agreements with claimants' attorneys involved in U.S. Zyprexa product liability litigation to settle a total of approximately 31,350 claims against us relating to the medication. Approximately 1,615 claims remain. As a result of our product liability exposures, since the beginning of 2005, we have recorded aggregate net pretax charges of $1.61 billion for Zyprexa product liability matters.

In March 2004, we were notified by the U.S. Attorney's office for the Eastern District of Pennsylvania (EDPA) that it had commenced an investigation relating to our U.S. marketing and promotional practices for Zyprexa, Prozac, and Prozac Weekly. In November 2007, we received a grand jury subpoena from the EDPA requesting documents related to Zyprexa. In October 2008, we announced that we are in advanced discussions to resolve the ongoing investigations led by the EDPA, and we recorded a charge of $1.42 billion. The charge reflects our currently estimable exposure with respect to these matters. If the ongoing discussions are successfully concluded, we expect that they would settle the Zyprexa-related federal claims, as well as similar Medicaid-related claims of states participating in the settlement.

Beginning in August 2006, we received civil investigative demands or subpoenas from the attorneys general of a number of states under various state consumer protection laws seeking Zyprexa documents. In October 2008, we reached a settlement with 32 states and the District of Columbia. While there is no finding that we have violated any provision of the state laws under which the investigations were conducted, we will pay $62.0 million and undertake certain commitments regarding Zyprexa for a period of six years, through consent decrees filed in the settling states.

In the third quarter of 2008, we initiated a strategic review of our Tippecanoe Labs facility in Lafayette, Indiana. Options being considered for this site include continuing operations with a revised site mission, exploring opportunities to sell the facility, and ceasing operations altogether. The review is expected to last six to twelve months. No final decisions have been made at this time; however, depending on the decision, we could record significant charges.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), continues to effectively provide a prescription drug benefit under the Medicare program (known as Medicare Part D). Various measures have been discussed and/or passed in both the U.S. House of Representatives and U.S. Senate that would impose additional pricing pressures on our products, including proposals to legalize the importation of prescription drugs and either allow, or require, the Secretary of Health and Human Services to negotiate drug prices within Medicare Part D directly with pharmaceutical manufacturers. Additionally, various proposals have been introduced that would increase the rebates we pay on sales to Medicaid patients. We expect pricing pressures at the federal and state levels to continue.

International operations also are generally subject to extensive price and market regulations, and there are many proposals for additional cost-containment measures, including proposals that would directly or indirectly impose additional price controls or reduce the value of our intellectual property protection.

Sales

Third-quarter and first-nine-months 2008 sales growth of 14 percent and 13 percent, respectively, was driven primarily by the collective growth of Cymbalta, Alimta, Cialis, Humalog, and Gemzar, and by the favorable impact of foreign exchange rates. Sales in the U.S. increased by $291.9 million, or 12 percent, and $704.4 million, or 10 percent, for the third quarter and first nine months of 2008, respectively, compared with the same periods of 2007. Sales outside the U.S. increased $330.9 million, or 16 percent, and $1.02 billion, or 17 percent, for the third quarter and first nine months of 2008, respectively. For the third quarter of 2008, worldwide sales volume, exchange rates, and selling prices contributed 6 percent, 4 percent, and 3 percent, respectively, to worldwide sales growth (numbers do not add due to rounding). For the first nine months of 2008,

worldwide sales volume, exchange rates, and selling prices contributed 6 percent, 5 percent, and 2 percent, respectively, to worldwide sales growth.

The following tables summarize our net sales activity for the three- and nine-month periods ended September 30, 2008 and 2007:

Product	Three Months Ended September 30, 2008 U.S.[1]	Outside U.S.	Total	Three Months Ended September 30, 2007 Total	Percent Change From 2007
			(Dollars in millions)		
Zyprexa	$ 555.6	$ 633.9	$1,189.5	$1,166.1	2
Cymbalta	597.1	119.3	716.4	513.2	40
Gemzar	189.2	251.0	440.2	394.4	12
Humalog	245.1	187.5	432.6	362.5	19
Cialis	139.8	236.8	376.6	311.4	21
Alimta	149.3	164.6	313.9	215.0	46
Animal health products	127.9	149.2	277.1	236.6	17
Humulin	95.1	176.5	271.6	243.3	12
Evista	170.8	94.9	265.7	263.2	1
Forteo	117.0	75.7	192.7	180.5	7
Strattera	109.5	40.0	149.5	130.5	15
Other pharmaceutical products	272.6	311.1	583.7	570.1	2
Total net sales	$2,769.0	$2,440.5	$5,209.5	$4,586.8	14

Product	Nine Months Ended September 30, 2008 U.S.[1]	Outside U.S.	Total	Nine Months Ended September 30, 2007 Total	Percent Change From 2007
			(Dollars in millions)		
Zyprexa	$1,618.5	$ 1,931.0	$ 3,549.5	$ 3,487.1	2
Cymbalta	1,651.1	324.8	1,975.9	1,474.6	34
Gemzar	548.3	758.2	1,306.5	1,166.9	12
Humalog	733.2	544.6	1,277.8	1,060.4	21
Cialis[2]	391.2	684.5	1,075.7	797.6	35
Alimta	400.8	435.2	836.0	610.0	37
Evista	520.4	286.2	806.6	805.0	—
Humulin	279.8	521.0	800.8	711.9	12
Animal health products	352.3	414.6	766.9	666.5	15
Forteo	364.7	219.6	584.3	511.1	14
Strattera	326.4	106.3	432.7	412.6	5
Other pharmaceutical products	809.5	945.3	1,754.8	1,740.2	—
Total net sales	$7,996.2	$ 7,171.3	$15,167.5	$ 13,443.9	13

1 U.S. sales include sales in Puerto Rico.

2 Prior to the acquisition of ICOS in January 2007, the Cialis sales shown in the table above represent results only in the territories in which we marketed Cialis exclusively. The remaining sales for that one-month period relate to the joint-venture territories of Lilly ICOS LLC (North America, excluding Puerto Rico, and Europe). Our share of the joint-venture territory sales, net of expenses and taxes, is reported in other income — net in our consolidated condensed income statement. Subsequent to the acquisition, all Cialis product sales are included in our net sales in our consolidated condensed income statement. Cialis sales for the first nine months of 2008 represent 24 percent growth over total worldwide sales of $870.3 million for the first nine months of 2007, which includes the joint-venture territory sales.

Product Highlights

Zyprexa, our top-selling product, is a treatment for schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance. In the third quarter of 2008, Zyprexa sales in the U.S. increased 3 percent compared with the third quarter of 2007, driven by increased net effective selling prices, offset partially by decreased demand. In the first nine months of 2008, U.S. Zyprexa sales decreased 1 percent compared with the same period of 2007 driven by decreased demand, offset partially by increased prices. Sales outside the U.S. increased 1 percent and 4 percent during the third quarter and first nine months of 2008, respectively, driven by the favorable impact of foreign exchange rates, offset by decreased demand and decreased prices. Demand outside the U.S. was unfavorably impacted by generic competition in Canada and Germany, offset by growth in Japan and several European markets.

U.S. sales of Cymbalta, a product for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and fibromyalgia, increased 34 percent and 28 percent during the third quarter and first nine months of 2008, respectively, driven primarily by increased demand and, to a lesser extent, increased prices. Sales outside the U.S. increased 73 percent and 74 percent, respectively, driven primarily by increased demand and, to a lesser extent, the favorable impact of foreign exchange rates. Increased demand outside the U.S. reflects both increased demand in established markets, as well as recent launches in new markets.

U.S. sales of Gemzar, a product approved to fight various cancers, increased 14 percent and 11 percent during the third quarter and first nine months of 2008, respectively, driven by increased demand and increased prices. Sales outside the U.S. increased 10 percent and 13 percent, respectively, driven primarily by the favorable impact of foreign exchange rates.

U.S. sales of Humalog, our injectable human insulin analog for the treatment of diabetes, increased 13 percent and 15 percent for the third quarter and first nine months of 2008, respectively, driven by increased demand and, to a lesser extent, increased net effective selling prices. Sales outside the U.S. increased 28 percent and 29 percent during both periods, respectively, driven by increased demand and the favorable impact of exchange rates.

Total worldwide sales of Cialis, a treatment for erectile dysfunction, increased 21 percent and 24 percent during the third quarter and first nine months of 2008, respectively. This comparison includes $72.7 million of sales in the Lilly ICOS joint-venture territories for the one-month period prior to the acquisition of ICOS in January 2007. Prior to the ICOS acquisition, Cialis sales in our territories were reported in revenue, while our 50 percent share of the joint-venture net income was reported in other income — net. Total U.S. sales increased 20 percent during the third quarter of 2008, driven by increased prices and, to a lesser extent, increased demand. For the first nine months of 2008, U.S. sales increased 20 percent, driven by increased demand and, to a lesser extent, increased prices. Total sales outside the U.S. increased 22 percent during the third quarter of 2008, driven primarily by the favorable impact of foreign exchange rates and increased demand. For the first nine months of 2008, sales outside the U.S. increased 26 percent, driven primarily by increased demand and the favorable impact of foreign exchange rates.

U.S. sales of Alimta, a treatment for various cancers, increased 35 percent and 24 percent during the third quarter and first nine months of 2008, respectively, driven by increased demand. Alimta

sales outside the U.S. increased 58 percent and 51 percent during the same periods, driven by increased demand and, to a lesser extent, the favorable impact of foreign exchange rates.

U.S. sales of Evista, a product for the prevention and treatment of osteoporosis in postmenopausal women and for risk reduction of invasive breast cancer in postmenopausal women with osteoporosis and postmenopausal women at high risk for invasive breast cancer, increased 1 percent and remained essentially flat during the third quarter and first nine months of 2008, respectively, driven by increased prices, partially offset by decreased demand. Evista sales outside the U.S. increased 1 percent for the third quarter of 2008, driven by the favorable impact of foreign exchange rates and increased prices, offset by decreased volume. Sales outside the U.S. for the first nine months of 2008 remained essentially flat due to the favorable impact of foreign exchange rates, offset by decreased demand and decreased prices.

U.S. sales of Humulin, an injectable human insulin for the treatment of diabetes, increased by 5 percent and 6 percent, during the third quarter and first nine months of 2008, respectively, driven primarily by higher net effective selling prices. Humulin sales outside the U.S. increased 16 percent for both periods, driven by the favorable impact of exchange rates and increased demand.

U.S. sales of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture, decreased 6 percent during the third quarter of 2008, driven by changes in wholesaler buying patterns, offset partially by higher net effective selling prices. For the first nine months of 2008, sales increased 3 percent due to increased prices, offset partially by decreased demand. Forteo sales outside the U.S. grew 36 percent and 41 percent during the same periods, respectively, driven by increased demand and the favorable impact of foreign exchange rates.

U.S. sales of Strattera, a treatment for attention-deficit hyperactivity disorder in children, adolescents, and adults, increased 6 percent during the third quarter of 2008 driven primarily by increased prices. For the first nine months of 2008, sales decreased 4 percent driven by decreased demand, offset partially by increased prices. Strattera sales outside the U.S. increased 49 percent and 43 percent during the same periods, respectively, driven by increased demand and the favorable impact of foreign exchange rates, and for the third quarter of 2008, increased net effective selling prices.

Worldwide sales of Byetta, an injectable product for the treatment of type 2 diabetes, which we market with Amylin Pharmaceuticals (Amylin), increased 22 percent to $201.2 million and 21 percent to $564.9 million, for the third quarter and first nine months of 2008, respectively. We report as revenue our 50 percent share of Byetta's gross margin in the U.S., 100 percent of sales outside the U.S., and our sales of Byetta pen delivery devices to Amylin. Our revenues increased 25 percent and 23 percent to $109.2 million and $293.1 million during the third quarter and first nine months of 2008, respectively.

Animal health product sales in the U.S. increased 14 percent and 17 percent during the third quarter and first nine months of 2008, respectively, driven by increased demand and the 2007 launch of Comfortis™, a new companion animal product that kills fleas and prevents flea infestations on dogs, and for the first nine months of 2008, the impact of the 2007 acquisition of Ivy Animal Health, Inc. Sales outside the U.S increased 20 percent and 14 percent, compared to the same periods in 2007, driven primarily by increased demand and the favorable impact of foreign exchange rates.

Gross Margin, Costs, and Expenses

For the third quarter of 2008, gross margins as a percent of net sales increased by .8 percentage points, to 77.8 percent, driven by higher product prices and manufacturing expenses growing at a slower rate than sales. For the first nine months of 2008, gross margins as a percentage of net sales decreased by .8 percentage points, to 77.1 percent. This decrease was primarily due to the impact of foreign exchange rates and the inclusion in cost of sales of asset impairments at certain manufacturing facilities of $57.1 million, partially offset by manufacturing expenses growing at a slower rate than sales.

Marketing, selling, and administrative expenses rose 12 percent, to $1.65 billion, and 13 percent, to $4.90 billion, for the third quarter and first nine months of 2008, respectively. This increase was due to increased marketing and sales force expenses, including prelaunch expenses for prasugrel and marketing costs associated with Cymbalta and Evista, the impact of foreign exchange rates, and increased litigation-related expenses. Research and development expenses were $953.0 million and $2.78 billion for the third quarter and first nine months of 2008, respectively, or 18 percent of sales. Compared with the third quarter and first nine months of 2007, research and development expenses increased 13 percent and 10 percent, respectively. This increase was primarily due to increased discovery research and late-stage clinical trial costs, and for the first nine months of 2008, to a $47.0 million expense for a milestone payment made to MacroGenics, Inc. related to progress in the clinical trials of teplizumab, offset by lower prasugrel clinical trial costs. The increase in research and development expenses for the first nine months of 2008 was also offset by the first-quarter 2007 costs associated with the consequences of the FDA's rejection of our appeal of the approvable letter for Arxxant™ and the withdrawal of the Arxxant application in Europe.

Acquired IPR&D charges were $28.0 million and $150.0 million in the third quarter and first nine months of 2008, respectively, compared with no charges for the third quarter of 2007 and $656.6 million for the first nine months of 2007, respectively. We recognized asset impairments, restructuring, and other special charges of $1.66 and $1.89 billion in the third quarter of 2008 and first nine months of 2008, respectively, as compared to $81.3 million and $204.3 million in the third quarter and first nine months of 2007, respectively. See Notes 3, 4, and 11 to the consolidated condensed financial statements for additional information.

Other income — net decreased by $47.3 million, to $2.5 million, and by $34.8 million, to $55.1 million, for the third quarter and first nine months of 2008, respectively. Other income — net consists of interest expense, interest income, the after-tax operating results of the Lilly ICOS joint venture prior to the 2007 ICOS acquisition, and all other miscellaneous income and expense items.

- Interest expense for the third quarter and first nine months of 2008 decreased $11.8 million and $21.5 million, respectively, to $44.0 million and $146.4 million, respectively, driven by lower debt balances and lower interest rates in 2008 as compared with the same periods of 2007, offset partially by lower capitalized interest due to lower construction-in-progress balances.
- Interest income for the third quarter of 2008 increased $3.6 million to $53.2 million, driven primarily by higher average cash balances in the third quarter of 2008 as compared to the same period in 2007, offset by lower short-term interest rates. Interest income for the first nine months of 2008 decreased $.2 million to $156.8 million, driven by lower interest rates in 2008, offset by higher cash balances in 2008.
- The Lilly ICOS joint venture income prior to the 2007 acquisition was $11.0 million. Subsequent to the acquisition, all activity related to ICOS is included in our consolidated financial results.
- Net other miscellaneous income (loss) items for the third quarter and first nine months of 2008 decreased $62.7 million, to a loss of $6.7 million, and $45.1 million, to $44.7 million, respectively, driven by lower out-licensing income and the $10.9 million write-down of certain investment securities in the third quarter of 2008, offset partially by the gains on the sale of investment securities.

We recorded income tax expense of $232.8 million for the third quarter of 2008 despite a net loss before income taxes, due to the uncertainty of the tax treatment of the Zyprexa charges. We recorded income tax expense of $472.3 million, an effective tax rate of 23.3 percent, for the first nine months of 2008, down from 25.7 percent for the first nine months of 2007. In the first quarter of 2008, we recognized a discrete income tax benefit of $210.3 million, which was a result of the resolution of a substantial portion of the IRS audit of our federal income tax returns for the years 2001 through 2004. This item reduced the effective tax rate for the first nine months of 2008. Furthermore, the in-process research and development charges in 2007 associated with the

acquisitions of ICOS and Hypnion were not deductible, resulting in higher effective tax rates for 2007.

FINANCIAL CONDITION

As of September 30, 2008, cash, cash equivalents, and short-term investments totaled $6.12 billion compared with $4.83 billion at December 31, 2007. Cash flows from operations of $4.92 billion during the first nine months of 2008 were offset by dividends paid of $1.54 billion, net purchases of property and equipment of $671.5 million, and net purchases of noncurrent investments of $641.9 million.

Total debt at September 30, 2008, was $4.61 billion, a decrease of $395.1 million from December 31, 2007. Subsequent to the announcement of the proposed acquisition of ImClone, Standard & Poor's affirmed our AA/A+ long-term rating and our A-1 short-term rating. Moody's Investors Service placed our Aa3 long-term rating under review for possible downgrade, but affirmed our Prime-1 short-term rating.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including debt service, capital expenditures, costs associated with litigation and government investigations, dividends, and taxes in 2008. We approved a definitive merger agreement under which we will acquire ImClone through an all-cash tender offer of $70 per share, or approximately $6.5 billion. We intend to fund the acquisition, as well as any payments required in connection with the EDPA investigation, with cash and cash equivalents on hand and short-term borrowings through the issuance of commercial paper. We have $1.25 billion of unused committed bank credit facilities, $1.2 billion of which backs our commercial paper program. Additionally, we have obtained commitments to provide a short-term revolving credit facility in the amount of $4.0 billion as back-up, alternative financing. Our access to credit markets has not been adversely affected by the recent illiquidity in the market due to the high credit quality of our short- and long-term debt; however, long-term borrowing costs have increased. Various risks and uncertainties, including those discussed in the Financial Expectations for 2008 section, may affect our operating results and cash generated from operations.

LEGAL AND REGULATORY MATTERS

We are a party to various legal actions and government investigations. The most significant of these are described below. While it is not possible to determine the outcome of these matters, we believe that, except as specifically noted below, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

Patent Litigation

We are engaged in the following patent litigation matters brought pursuant to procedures set out in the Hatch-Waxman Act (the Drug Price Competition and Patent Term Restoration Act of 1984):

- Cymbalta: We have received notice that at least four generic drug manufacturers have submitted Abbreviated New Drug Applications (ANDAs) seeking permission to market generic versions of Cymbalta prior to the expiration of our relevant U.S. patents (the earliest of which expires in 2013) and alleging that these patents are either invalid or not infringed. We are currently reviewing the allegations and will take appropriate action to seek rulings that the patents are valid and infringed.
- Gemzar: Sicor Pharmaceuticals, Inc. (Sicor), Mayne Pharma (USA) Inc. (Mayne), and Sun

Pharmaceutical Industries Inc. (Sun) each submitted an Abbreviated New Drug Application (ANDA) seeking permission to market generic versions of Gemzar prior to the expiration of our relevant U.S. patents (compound patent expiring in 2010 and method of use patent expiring in 2013), and alleging that these patents are invalid. We filed lawsuits in the U.S. District Court for the Southern District of Indiana against Sicor (February 2006) and Mayne (October 2006 and January 2008), seeking rulings that these patents are valid and are being infringed. The suit against Sicor has been scheduled for trial in July 2009. The statutory stay barring final approval of Sicor's ANDAs has expired; however, Sicor must provide 90 days notice prior to marketing generic Gemzar upon receipt of final approval by the FDA to allow time for us to seek a preliminary injunction. Both suits against Mayne have been administratively closed, and the parties have agreed to be bound by the results of the Sicor suit. In November 2007, Sun filed a declaratory judgment action in the United States District Court for the Eastern District of Michigan, seeking rulings that our method-of-use and compound patents are invalid or unenforceable, or would not be infringed by the sale of Sun's generic product. This trial is scheduled for December 2009.

- Alimta: Teva Parenteral Medicines, Inc. (Teva) and APP Pharmaceuticals, LLC (APP) each submitted ANDAs seeking approval to market generic versions of Alimta prior to the expiration of the relevant U.S. patent (licensed from the Trustees of Princeton University and expiring in 2016), and alleging the patent is invalid. We, along with Princeton, filed lawsuits in the U.S. District Court for the District of Delaware against Teva and APP, seeking rulings that the compound patent is valid and infringed. The court has not set a date for trial in either case.

- Evista: Barr Laboratories, Inc. (Barr), submitted an ANDA in 2002 seeking permission to market a generic version of Evista prior to the expiration of our relevant U.S. patents (expiring in 2012-2017) and alleging that these patents are invalid, not enforceable, or not infringed. In November 2002, we filed a lawsuit against Barr in the U.S. District Court for the Southern District of Indiana, seeking a ruling that these patents are valid, enforceable, and being infringed by Barr. Teva Pharmaceuticals USA, Inc. (Teva) has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a similar lawsuit against Teva in the U.S. District Court for the Southern District of Indiana. The lawsuit against Teva is currently scheduled for trial beginning March 9, 2009, while no trial date has been set in the lawsuit against Barr. In April 2008, the FDA granted Teva tentative approval of its ANDA, but Teva's ability to market a generic product before a decision at trial is subject to a statutory stay that expires on March 9, 2009.

- Strattera: Actavis Elizabeth LLC (Actavis), Glenmark Pharmaceuticals Inc., USA (Glenmark), Sun Pharmaceutical Industries Limited (Sun), Sandoz Inc. (Sandoz), Mylan Pharmaceuticals Inc. (Mylan), Teva Pharmaceuticals USA, Inc. (Teva), Apotex Inc. (Apotex), Aurobindo Pharma Ltd. (Aurobindo), Synthon Laboratories, Inc. (Synthon), and Zydus Pharmaceuticals, USA, Inc. (Zydus) each submitted an ANDA seeking permission to market generic versions of Strattera prior to the expiration of our relevant U.S. patent (expiring in 2017), and alleging that this patent is invalid. We filed a lawsuit against Actavis in the United States District Court for the District of New Jersey in August 2007, and added Glenmark, Sun, Sandoz, Mylan, Teva, Apotex, Aurobindo, Synthon, and Zydus as defendants in September 2007. In December 2007, Zydus agreed to entry of a consent judgment in which Zydus conceded the validity and enforceability of the patent and agreed to a permanent injunction. In June 2008, Glenmark agreed to entry of a permanent injunction, enjoining it from selling a generic product prior to the expiration of the U.S. patent. Also in June 2008, Synthon notified us that it has withdrawn its ANDA and agreed to a stipulated dismissal of all outstanding claims. For the remaining defendants, trial is anticipated as early as December 2009.

We believe each of these Hatch-Waxman challenges is without merit and expect to prevail in this litigation. However, it is not possible to determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome in any of these cases could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We have received challenges to Zyprexa patents in a number of countries outside the U.S.:

- In Canada, several generic pharmaceutical manufacturers have challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In April 2007, the Canadian Federal Court ruled against the first challenger, Apotex Inc. (Apotex), and that ruling was affirmed on appeal in February 2008. In June 2007, the Canadian Federal Court held that an invalidity allegation of a second challenger, Novopharm Ltd. (Novopharm), was justified and denied our request that Novopharm be prohibited from receiving marketing approval for generic olanzapine in Canada. Novopharm began selling generic olanzapine in Canada in the third quarter of 2007. We have sued Novopharm for patent infringement, and the trial is scheduled for November 2008. In November 2007, Apotex filed an action seeking a declaration of the invalidity of our Zyprexa compound and method-of-use patents, and no trial date has been set. We have brought similar actions against Pharmascience (August 2007), Sandoz (July 2007), Nu-Pharm (June 2008), and Genpharm (June 2008); none of these suits has been scheduled for trial. Pharmascience has agreed to be bound by the outcome of the Novopharm suit, and, pending the outcome of the lawsuit, we have agreed not to take any further steps to prevent them from coming to market with generic olanzapine tablets, subject to a contingent damages obligation should we be successful against Novopharm.
- In Germany, generic pharmaceutical manufacturers Egis-Gyogyszergyar and Neolab Ltd. challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In June 2007, the German Federal Patent Court held that our patent is invalid. We are appealing the decision to the German Supreme Court, which has scheduled a hearing for December 2008. Generic olanzapine was launched by competitors in Germany in the fourth quarter of 2007. Notwithstanding the Federal Patent Court ruling, we have sought preliminary injunctions against all generic companies who are marketing generic olanzapine products in Germany. In May 2008 the Court of Appeal in Düsseldorf granted an injunction against the first of these generic companies, STADApharm GmbH, as a result of which STADA has had to withdraw its generic olanzapine product from the German market. Preliminary injunction actions against other generic companies in Germany were denied. We continue to pursue these companies in main actions for infringement.
- We have received challenges in a number of other countries, including Spain, the United Kingdom (UK), and several smaller European countries. In Spain, we have been successful at both the trial and appellate court levels in defeating the generic manufacturers' challenge, but we anticipate further legal challenges from generic manufacturers. In the UK, the generic pharmaceutical manufacturer Dr. Reddy's Laboratories (UK) Limited has challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011). In October, 2008, the Patents Court in the High Court, London ruled that our patent was valid. We anticipate that Dr. Reddy's will appeal this decision.

We are vigorously contesting the various legal challenges to our Zyprexa patents on a country-by-country basis. We cannot determine the outcome of this litigation. The availability of generic olanzapine in additional markets could have a material adverse impact on our consolidated results of operations.

Xigris and Evista: In June 2002, Ariad Pharmaceuticals, Inc., the Massachusetts Institute of Technology, the Whitehead Institute for Biomedical Research, and the President and Fellows of Harvard College in the U.S. District Court for the District of Massachusetts sued us, alleging that sales

of two of our products, Xigris and Evista, were inducing the infringement of a patent related to the discovery of a natural cell signaling phenomenon in the human body, and seeking royalties on past and future sales of these products. On May 4, 2006, a jury in Boston issued an initial decision in the case that Xigris and Evista sales infringe the patent. The jury awarded the plaintiffs approximately $65 million in damages, calculated by applying a 2.3 percent royalty to all U.S. sales of Xigris and Evista from the date of issuance of the patent through the date of trial. In addition, a separate bench trial with the U.S. District Court of Massachusetts was held in August 2006, on our contention that the patent is unenforceable and impermissibly covers natural processes. In June 2005, the United States Patent and Trademark Office (USPTO) commenced a reexamination of the patent, and in August 2007 took the position that the Ariad claims at issue are unpatentable, a position that Ariad continues to contest. In September 2007, the Court entered a final judgment indicating that Ariad's claims are patentable, valid, and enforceable, and finding damages in the amount of $65 million plus a 2.3 percent royalty on net U.S. sales of Xigris and Evista since the time of the jury decision. However, the Court deferred the requirement to pay any damages until after all rights to appeal have been exhausted. We have appealed this judgment. We believe that these allegations are without legal merit, that we will ultimately prevail on these issues, and therefore that the likelihood of any monetary damages is remote.

Government Investigations and Related Litigation

In March 2004, the Office of the U.S. Attorney for the Eastern District of Pennsylvania (EDPA) advised us that it had commenced an investigation related to our U.S. marketing and promotional practices, including our communications with physicians and remuneration of physician consultants and advisors, with respect to Zyprexa, Prozac, and Prozac Weekly. In November 2007, we received a grand jury subpoena from the EDPA for a broad range of documents related to Zyprexa. In addition, the State Medicaid Fraud Control Units of more than 30 states are coordinating with the EDPA in its investigation of any Medicaid-related claims relating to our marketing and promotion of Zyprexa. Twelve other states (Arkansas, Connecticut, Idaho, Louisiana, Minnesota, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, Utah, and West Virginia) have filed lawsuits over Zyprexa and are not participating in the coordinated investigation. In October 2008, we announced that we are in advanced discussions to resolve the ongoing investigations led by the EDPA, and we recorded a charge of $1.42 billion. The charge reflects our currently estimable exposure with respect to these matters. If the ongoing discussions are successfully concluded, we expect that they would settle the Zyprexa-related federal claims, as well as similar Medicaid-related claims of states participating in the settlement.

In October 2005, the EDPA advised that it is also conducting an inquiry regarding certain rebate agreements we entered into with a pharmacy benefit manager covering Axid, Evista, Humalog, Humulin, Prozac, and Zyprexa. The inquiry includes a review of our Medicaid best price reporting related to the product sales covered by the rebate agreements.

In June 2005, we received a subpoena from the Office of the Attorney General, Medicaid Fraud Control Unit, of the State of Florida, seeking production of documents relating to sales of Zyprexa and our marketing and promotional practices with respect to Zyprexa.

In September 2006, we received a subpoena from the California Attorney General's Office seeking production of documents related to our efforts to obtain and maintain Zyprexa's status on California's formulary, marketing and promotional practices with respect to Zyprexa, and remuneration of health care providers.

In February 2007, we received a subpoena from the Office of the Attorney General of the State of Illinois seeking production of documents and information relating to sales of Zyprexa and our marketing and promotional practices, including our communications with physicians and remuneration of physician consultants and advisors, with respect to Zyprexa.

Beginning in August 2006, we received civil investigative demands or subpoenas from the attorneys general of a number of states under various state consumer protection laws. Most of these

requests became part of a multistate investigative effort coordinated by an executive committee of attorneys general. In October 2008, we reached a settlement with 32 states and the District of Columbia. While there is no finding that we have violated any provision of the state laws under which the investigations were conducted, we will pay $62 million and undertake certain commitments regarding Zyprexa for a period of six years, through consent decrees filed in the settling states. The 32 states participating in the Multistate agreement are: Alabama, Arizona, California, Delaware, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Missouri, Nebraska, Nevada, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Vermont, Washington, and Wisconsin.

We are cooperating in each of these investigations, including providing a broad range of documents and information relating to the investigations. It is possible that other Lilly products could become subject to investigation and that the outcome of these matters could include criminal charges and fines, penalties, or other monetary or nonmonetary remedies. Except to the extent described above, we cannot determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from an adverse outcome. It is possible, however, that an adverse outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position. We have implemented and continue to review and enhance a broadly based compliance program that includes comprehensive compliance-related activities designed to ensure that our marketing and promotional practices, physician communications, remuneration of health care professionals, managed care arrangements, and Medicaid best price reporting comply with applicable laws and regulations.

Product Liability and Related Litigation

We have been named as a defendant in a large number of Zyprexa product liability lawsuits in the United States and have been notified of many other claims of individuals who have not filed suit. The lawsuits and unfiled claims (together the “claims”) allege a variety of injuries from the use of Zyprexa, with the majority alleging that the product caused or contributed to diabetes or high blood-glucose levels. The claims seek substantial compensatory and punitive damages and typically accuse us of inadequately testing for and warning about side effects of Zyprexa. Many of the claims also allege that we improperly promoted the drug. Almost all of the federal lawsuits are part of a Multi-District Litigation (MDL) proceeding before The Honorable Jack Weinstein in the Federal District Court for the Eastern District of New York (MDL No. 1596). The majority of non-federal cases are pending in the state court of Indiana.

Since June 2005, we have entered into agreements with various claimants’ attorneys involved in U.S. Zyprexa product liability litigation to settle a substantial majority of the claims. The agreements cover a total of approximately 31,350 claimants, including a large number of previously filed lawsuits and other asserted claims. The two primary settlements were as follows:

- In June 2005, we reached an agreement in principle (and in September 2005 a final agreement) to settle more than 8,000 claims for $690.0 million plus $10.0 million to cover administration of the settlement.
- In January 2007, we reached agreements with a number of plaintiffs’ attorneys to settle more than 18,000 claims for approximately $500 million.

The 2005 settlement totaling $700.0 million was paid during 2005. The January 2007 settlements were paid during 2007.

We are prepared to continue our vigorous defense of Zyprexa in all remaining claims. The U.S. Zyprexa product liability claims not subject to these agreements include approximately 180 lawsuits in the U.S. covering approximately 1,615 plaintiffs, of which about 130 cases covering about 305 plaintiffs are part of the MDL. The MDL cases have been scheduled for trial in groups, with the earliest trial scheduled to begin March 16, 2009.

In early 2005, we were served with four lawsuits seeking class action status in Canada on behalf of patients who took Zyprexa. One of these four lawsuits has been certified for residents of Quebec, and a second has been certified in Ontario and includes all Canadian residents except for residents of Quebec and British Columbia. The allegations in the Canadian actions are similar to those in the litigation pending in the U.S.

Since the beginning of 2005, we have recorded aggregate net pretax charges of $1.61 billion for Zyprexa product liability matters. The net charges, which take into account our actual insurance recoveries, covered the following:

- The cost of the Zyprexa product liability settlements to date; and
- Reserves for product liability exposures and defense costs regarding the known Zyprexa product liability claims and expected future claims to the extent we could formulate a reasonable estimate of the probable number and cost of the claims.

In December 2004, we were served with two lawsuits brought in state court in Louisiana on behalf of the Louisiana Department of Health and Hospitals, alleging that Zyprexa caused or contributed to diabetes or high blood-glucose levels, and that we improperly promoted the drug. These cases have been removed to federal court and are now part of the MDL proceedings in the Eastern District of New York (EDNY). In these actions, the Department of Health and Hospitals seeks to recover the costs it paid for Zyprexa through Medicaid and other drug-benefit programs, as well as the costs the department alleges it has incurred and will incur to treat Zyprexa-related illnesses. We have been served with similar lawsuits filed by the states of Alaska, Arkansas, Connecticut, Idaho, Minnesota, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, Utah, and West Virginia in the courts of the respective states. The Connecticut, Louisiana, Minnesota, Mississippi, Montana, New Mexico, and West Virginia cases are part of the MDL proceedings in the EDNY. The Alaska case was settled in March 2008 for a payment of $15.0 million, plus terms designed to ensure, subject to certain limitations and conditions, that Alaska is treated as favorably as certain other states that may settle with us in the future over similar claims. The following cases have been set for trial in 2009: Connecticut in the EDNY in June, Pennsylvania in November, and South Carolina in August, in their respective states.

In 2005, two lawsuits were filed in the EDNY purporting to be nationwide class actions on behalf of all consumers and third-party payors, excluding governmental entities, which have made or will make payments for their members or insured patients being prescribed Zyprexa. These actions have now been consolidated into a single lawsuit, which is brought under certain state consumer protection statutes, the federal civil RICO statute, and common law theories, seeking a refund of the cost of Zyprexa, treble damages, punitive damages, and attorneys' fees. Two additional lawsuits were filed in the EDNY in 2006 on similar grounds. In September 2008, Judge Weinstein certified a class consisting of third-party payors, excluding governmental entities and individual consumers. We appealed the certification order, and Judge Weinstein's order denying our motion for summary judgment, in September 2008. In 2007, The Pennsylvania Employees Trust Fund brought claims in state court in Pennsylvania as insurer of Pennsylvania state employees, who were prescribed Zyprexa on similar grounds as described in the New York cases. As with the product liability suits, these lawsuits allege that we inadequately tested for and warned about side effects of Zyprexa and improperly promoted the drug. The Pennsylvania case is set for trial in October 2009.

We cannot determine with certainty the additional number of lawsuits and claims that may be asserted. The ultimate resolution of Zyprexa product liability and related litigation could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In addition, we have been named as a defendant in numerous other product liability lawsuits involving primarily diethylstilbestrol (DES) and thimerosal. The majority of these claims are covered by insurance, subject to deductibles and coverage limits.

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability and related claims for other products in the future. In the past

few years, we have experienced difficulties in obtaining product liability insurance due to a very restrictive insurance market. Therefore, for substantially all of our currently marketed products, we have been and expect that we will continue to be completely self-insured for future product liability losses. In addition, there is no assurance that we will be able to fully collect from our insurance carriers on past claims.

FINANCIAL EXPECTATIONS FOR 2008

Our full-year 2008 earnings guidance on a GAAP basis is now $2.44 to $2.49 per share. The change from earlier guidance of $3.79 to $3.94 per share results from the previously mentioned third-quarter 2008 significant items totaling $1.47 per share that are reflected in our financial results, as well as from improved financial performance. Our full-year 2008 guidance does not reflect any impact related to the proposed acquisition of ImClone Systems, Inc., including any potential charges associated with the purchase.

We have also revised other aspects of our previously-issued 2008 full-year financial guidance. Specifically, guidance for gross margin as a percent of sales, other income and deductions, and the effective tax rate has been revised. All other line-item guidance remains unchanged. Sales are still expected to grow in the high-single to low-double digits. As a result of the weakening of foreign currencies, we now expect significant improvement in gross margin as a percent of sales, an increase from prior guidance that gross margin would remain essentially flat. The sum of marketing, selling, and administrative expenses and research and development expenses is still expected to grow in the high-single digits. Marketing, selling, and administrative expenses are still expected to grow in the high-single digits, and research and development expenses are still expected to grow in the high-single to low-double digits. Other income and deductions are now expected to contribute approximately $50 million, a reduction from our previous guidance of less than $100 million. As a result of the Zyprexa charges, the effective tax rate is now expected to be approximately 23 percent.

We caution investors that any forward-looking statements or projections made by us, including those above, are based on management's belief at the time they are made. However, they are subject to risks and uncertainties. Actual results could differ materially and will depend on, among other things, the continuing growth of our currently marketed products; developments with competitive products; the timing and scope of regulatory approvals and the success of our new product launches; asset impairments and restructuring charges; acquisitions and business development transactions; foreign exchange rates; wholesaler inventory changes; other regulatory developments, litigation, and government investigations; and the impact of governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals or the protection of intellectual property rights. Other factors that may affect our operations and prospects are discussed in Item 1A of our 2007 Form 10-K/A, "Risk Factors." We undertake no duty to update these forward-looking statements.

AVAILABLE INFORMATION ON OUR WEBSITE

We make available through our company website, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents.

The website link to our SEC filings is http://investor.lilly.com/edgar.cfm.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*. Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of John C. Lechleiter, Ph.D., president and chief executive officer, and Derica W. Rice, senior vice president and chief financial officer, evaluated our disclosure controls and procedures as of September 30, 2008, and concluded that they are effective.

(b) *Changes in Internal Controls.* During the third quarter of 2008, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 2, Management's Discussion and Analysis, "Legal and Regulatory Matters," for information on various legal proceedings, including but not limited to:

- The U.S. patent matters involving Cymbalta, Gemzar, Alimta, Evista, Strattera, and Xigris
- The patent litigation outside the U.S. involving Zyprexa
- The investigation by the U.S. Attorney for the Eastern District of Pennsylvania and various state attorneys general relating to our U.S. sales, marketing, and promotional practices
- The Zyprexa product liability and related litigation, including claims brought on behalf of state Medicaid agencies and private healthcare payors

That information is incorporated into this Item by reference.

Other Product Liability Litigation

We refer to Part I, Item 3, of our Form 10-K/A annual report for 2007 for the discussion of product liability litigation involving diethylstilbestrol (DES) and vaccines containing the preservative thimerosal. In the DES litigation, we have been named as a defendant in approximately 70 suits involving approximately 125 claimants. In the thimerosal litigation, we have been named as a defendant in approximately 210 suits with approximately 280 claimants.

Employee Litigation

In April 2006, three former employees and one current employee filed a putative class action against the company in the U.S. District Court for the Southern District of Indiana (*Welch, et al. v. Eli Lilly and Company*, filed April 20, 2006) alleging racial discrimination. Plaintiffs have since amended their complaint twice, adding to the lawsuit a total of 154 individual plaintiffs as well as the national and local chapters of the National Association for the Advancement of Colored People (NAACP). Under the current schedule, the plaintiffs are to file their class certification motion in March 2009. The company believes this lawsuit is without merit and is prepared to defend against it vigorously.

We have also been named as a defendant in a lawsuit filed in the U.S. District Court for the Northern District of New York (*Schaefer-LaRose, et al*., filed November 14, 2006) claiming that our pharmaceutical sales representatives should have been categorized as "non-exempt" rather than "exempt" employees, and claiming that the company owes them back wages for overtime worked, as well as penalties, interest, and attorneys fees. Other pharmaceutical industry

participants face identical lawsuits. The case was transferred to the U.S. District Court for the Southern District of Indiana in August 2007. In February 2008, the Indianapolis court conditionally certified a nationwide opt-in collective action under the Fair Labor Standards Act of all current and former employees who served as a Lilly pharmaceutical sales representative at any time from November 2003 to the present. As of the close of the opt-in period, fewer than 400 of the over 7,500 potential plaintiffs elected to participate in the lawsuit. We believe this lawsuit is without merit and are prepared to defend against it vigorously.

ImClone Shareholder Litigation

In October 2008, a class action complaint was filed in the Supreme Court of the State of New York, purportedly on behalf of all shareholders of ImClone Systems, Inc. (ImClone), against us, ImClone, and the members of its board of directors. The complaint alleges, among other things, that the members of ImClone's board of directors breached their fiduciary duties to ImClone's shareholders in connection with the transactions contemplated by the merger agreement and failed to provide ImClone's shareholders with material information to make an informed decision as to whether to tender their shares in the offer. In addition, the complaint alleges that Lilly knowingly aided and abetted the alleged wrongdoing of ImClone's board of directors. The complaint seeks, among other relief, injunctive relief preliminarily and permanently enjoining the defendants from proceeding with the offer; a judgment enjoining the defendants from consummating the offer and the merger until certain additional information is provided; and an award to plaintiffs of the costs of the action, including reasonable attorneys' and experts' fees. We believe that the complaint is without merit and intend to vigorously defend the action.

Other Matters

During 2004 we, along with several other pharmaceutical companies, were named in one consolidated case in California state court brought on behalf of consumers alleging that the conduct of pharmaceutical companies in preventing commercial importation of prescription drugs from outside the United States violated antitrust laws. The case sought restitution for alleged overpayments for pharmaceuticals and an injunction against the allegedly violative conduct. Summary judgment was granted to us and the other defendants. In July 2008, the California Court of Appeals affirmed that decision. Plaintiffs have petitioned the California Supreme Court to accept a further appeal.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the activity related to repurchases of our equity securities during the three-month period ended September 30, 2008:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (d)
	(in thousands)		(in thousands)	(in millions)
July 2008	—	—	—	$ 419.2
August 2008	—	—	—	419.2
September 2008	—	—	—	419.2
Total	—	—	—	

The amounts presented in columns (a) and (b) above represent purchases of common stock related to our stock-based compensation programs. The amounts presented in columns (c) and (d) in the above table represent activity related to our $3.0 billion share repurchase program announced in March 2000. As of September 30, 2008, we have purchased $2.58 billion related to this program. During the first nine months of 2008, no shares were repurchased pursuant to this program and we do not expect to purchase any shares under this program during the remainder of 2008.

Item 6. Exhibits

The following documents are filed as exhibits to this Report:

EXHIBIT 10.1	2002 Lilly Stock Plan, as amended effective January 1, 2009
EXHIBIT 10.2	Lilly Directors Deferral Plan, as amended effective October 20, 2008
EXHIBIT 10.3	The Lilly Deferred Compensation Plan, as amended effective January 1, 2009
EXHIBIT 10.4	2007 Change In Control Severance Pay Plan for Select Employees, as amended effective January 1, 2009
EXHIBIT 10.5	2007 Change In Control Severance Pay Plan for Select Employees, as amended effective October 20, 2010
EXHIBIT 11.	Statement re: Computation of Earnings per Share
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of John C. Lechleiter, Ph.D., President and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Derica W. Rice, Senior Vice President and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification

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 3, 2008

s/ James B. Lootens
James B. Lootens
Secretary and Deputy General Counsel

Date November 3, 2008

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

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2002
LILLY STOCK PLAN
As amended effective January 1, 2009

The 2002 Lilly Stock Plan ("2002 Plan") authorizes the Board of Directors of Eli Lilly and Company ("Board") and the Compensation Committee of the Board, as applicable, to provide officers and other employees of Eli Lilly and Company and its subsidiaries and nonemployee directors of Eli Lilly and Company ("Nonemployee Directors") with certain rights to acquire shares of Eli Lilly and Company common stock ("Lilly Stock"). The Company believes that this incentive program will benefit the Company's shareholders by allowing the Company to attract, motivate, and retain employees and directors and by providing those employees and directors stock-based incentives to strengthen the alignment of interests between those persons and the shareholders. For purposes of the 2002 Plan, the term "Company" shall mean Eli Lilly and Company and its subsidiaries, unless the context requires otherwise.

1. Administration.

(a) ***Grants to Eligible Employees.*** With respect to Grants to Eligible Employees (as those terms are defined in Sections 2 and 3(a), respectively), the 2002 Plan shall be administered and interpreted by the Compensation Committee of the Board consisting of not less than two independent directors appointed by the Board from among its members. A person may serve on the Compensation Committee for purposes of administration and interpretation of the 2002 Plan only if he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) satisfies the New York Stock Exchange rules for independence. The Compensation Committee may, subject to the provisions of the 2002 Plan, from time to time establish such rules and regulations and delegate such authority to administer the 2002 Plan as it deems appropriate for the proper administration of the Plan, except that no such delegation shall be made in the case of awards intended to be qualified under Rule 16b-3 of the 1934 Act or Section 162(m) of the Code. The decisions of the Compensation Committee or its authorized designees (the "Committee") shall be made in its sole discretion and shall be final, conclusive, and binding with respect to the interpretation and administration of the 2002 Plan and any Grant made under it.

(b) ***Grants to Nonemployee Directors.*** With respect to Stock Option Grants made to Nonemployee Directors pursuant to Section 8, the Board shall serve to administer and interpret the 2002 Plan and any such Grants, and all duties, powers and authority given to the Committee in subsection (a) above or elsewhere in the 2002 Plan in connection with Grants to Eligible Employees shall be deemed to be given to the Board in its sole discretion in connection with Stock Option Grants to Nonemployee Directors.

2. Grants.

Incentives under the 2002 Plan shall consist of incentive stock options or other forms of tax-qualified stock options under the Code, nonqualified stock options, performance awards, stock appreciation rights, stock unit awards, and restricted stock grants (collectively,

"Grants"). The Committee shall approve the form and provisions of each Grant to Eligible Employees and the Board shall approve the form and provisions of each Stock Option Grant to Nonemployee Directors. All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with the 2002 Plan as the Committee or Board, as applicable, deems appropriate. Grants under a particular section of the 2002 Plan need not be uniform and Grants under two or more sections may be combined in one instrument. The Committee shall determine the fair market value of Lilly Stock for purposes of the 2002 Plan.

3. Eligibility for Grants.

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

(b) ***Grants to Nonemployee Directors.*** Grants may be made to any member of the Board who is not an employee of the Company (a "Nonemployee Director"). The Board shall select the persons who will receive Grants ("Grantees") from among the Nonemployee Directors and determine the number of shares subject to any particular Grant.

4. Shares Available for Grant.

(a) ***Shares Subject to Issuance or Transfer.*** Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 2002 Plan shall be the sum of the following amounts:

(i) 119,000,000 shares;

(ii) Any shares of Lilly Stock subject to an award hereunder or under the 1989, 1994 or 1998 Lilly Stock Plans (the "Prior Shareholder-Approved Plans") which, after the effective date of the 2002 Plan:

a. are not issued or transferred in connection with a Stock Option, Stock Appreciation Right or Stock Unit Award due to termination, lapse, surrender or forfeiture;

b. are not issued or transferred in connection with the payment of a Performance Award due to termination, lapse, surrender, forfeiture, failure to achieve Performance Goals, or payment in cash in lieu of shares pursuant to Section 6(c); or

c. are forfeited under a Restricted Stock Grant.

(iii) Upon the termination or expiration of the 1998 Lilly Stock Plan, any shares of Lilly Stock that remained available for grant under that plan at the time of termination or expiration; and

(iv) The number of shares of Lilly Stock exchanged by a Grantee as full or partial payment to the Company of the exercise price of a Stock Option that was granted

hereunder or under a Prior Shareholder-Approved Plan or withheld for taxes under Sections 5(e), 7(c), 9(e) or 10(c).

The shares may be authorized but unissued shares or treasury shares.

(b) ***Adjustment Provisions.*** If any subdivision or combination of shares of Lilly Stock or any stock dividend, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off or other extraordinary distribution, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Sections 4(a), 5(f) and (g), 6(f), and 9(d). The Committee shall also adjust as it determines appropriate the number of shares and Option Price or base price as applicable in outstanding Grants made before the event. It is intended that any such adjustment shall, to the extent necessary, be structured for compliance with the requirements of Section 409A of the Code.

5. Stock Option Grants to Eligible Employees.

The Committee may grant to Eligible Employees options qualifying as incentive stock options under the Code ("Incentive Stock Options"), other forms of tax-favored stock options under the Code, and nonqualified stock options (collectively, "Stock Options"). All Stock Options granted under the Plan are intended to comply with the requirements for exemption under Section 409A of the Code. The Committee shall determine the terms and conditions applicable to Stock Options granted to Eligible Employees consistent with the following:

(a) ***Option Price.*** The Committee shall determine the price or prices at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") which shall be not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Committee's discretion, the Grant Date of a Stock Option may be established as the date on which Committee action approving the Stock Option is taken or any later date specified by the Committee. Once established, the Option Price may not be reduced except in the case of adjustments under Section 4(b).

(b) ***Option Exercise Period.*** The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date in the case of an Incentive Stock Option, and eleven years in the case of any other Stock Option.

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

(d) ***Satisfaction of Option Price.*** A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within which payment must be made ("Payment Period"). The Grantee shall pay or cause to be

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

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

(f) ***Limits on Individual Grants.*** No individual Grantee may be granted Stock Options or Stock Appreciation Rights, considered together, under the 2002 Plan for more than 3,500,000 shares of Lilly Stock in any period of three consecutive calendar years.

(g) ***Limits on Incentive Stock Options.*** The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 2002 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed $100,000 (or such other limit as may be established by the Code). The aggregate fair market value for this purpose will be determined at the Grant Date. An Incentive Stock Option shall not be granted to any Eligible Employee who, on the Grant Date, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company. Not more than 30,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Incentive Stock Options.

6. Performance Awards to Eligible Employees.

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

(a) ***Award Period.*** The Committee shall determine and include in the Grant the period of time (which shall be four or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. Award Periods for different Grants may

overlap. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed, or in the case of an Award intended to be qualified under Section 162(m) of the Code, after 90 days or more of such period has elapsed.

(b) ***Performance Goals and Payment.*** Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, are limited to earnings per share; divisional income; net income; return on equity; sales; divisional sales; economic value added (EVA); market value added (MVA); any of the foregoing before the effect of acquisitions, divestitures, accounting changes, restructuring and special charges, and other unusual gains or losses (determined according to criteria established by the Committee at or within 90 days after the time of grant); total shareholder return; or stock price goals. The Committee shall also set forth in the Grant the number of Performance Shares to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)). A Performance Award shall become payable to a Grantee at the time or times determined by the Committee and set forth in the award agreement, which may be upon or following the vesting of the award. The payment terms under a Performance Award shall be established in compliance with the requirements of Section 409A of the Code.

(c) ***Computation of Payment.*** After an Award Period, the performance of the Business Unit during the period shall be measured against the Performance Goals. Prior to payment the Committee shall certify in writing as to the performance achieved against the Performance Goals and certify the number of Performance Shares, if any, or the amount of payment, if any, to be made under a Performance Award in accordance with the grant for each Grantee. The Committee, in its sole discretion, may elect to pay part or all of the Performance Award in cash in lieu of issuing or transferring Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment (subject to Section 6(f)). The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash, if any, he or she is to receive.

(d) ***Revisions for Significant Events.*** At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unusual events occur during an Award Period which have a substantial effect on the Performance Goals and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made; *provided*, *however*, that no such revision shall be permissible with respect to a Performance Award intended to qualify for exemption under Section 162(m) of the Code, except that the Committee (i) may provide in the terms of any such Performance Award that revisions to the Performance Goals shall be made on a non-discretionary basis upon the occurrence of one or more specific objective events, the occurrence of which are substantially uncertain at the time of grant, and (ii) may in its discretion make a revision with respect to such Performance Award that results in a lesser payment than would have occurred without the revision or in no payment at all.

(e) ***Requirement of Employment.*** To be entitled to receive payment under a Performance

Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable in its sole discretion, consistent with maintaining the exemption under Section 162(m) of the Code. The Committee may impose additional conditions on the Grantee's entitlement to receive payment under a Performance Award.

(f) ***Maximum Payments.*** No individual may receive Performance Award payments in respect of Performance Awards in excess of 600,000 shares of Lilly Stock in any calendar year. For purposes of determining the maximum payment under this subsection, payment in cash of all or part of a Performance Award will be deemed an issuance of the number of shares with respect to which such cash payment is made.

7. Restricted Stock Grants to Eligible Employees.

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

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

(b) ***Restrictions on Transfer.*** During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 13(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall be held in escrow by the Company until the expiration of the Restriction Period.

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

(d) ***Lapse of Restrictions.*** All restrictions imposed under the Restricted Stock Grant shall lapse (i) upon the expiration of the Restriction Period if all conditions stated in Sections 7(a), (b) and (c) have been met or (ii) as provided under Section 12(a)(ii). The Grantee shall then be entitled to delivery of the certificate.

8. Stock Option Grants to Nonemployee Directors

The Board may grant Stock Options to Nonemployee Directors and may determine the terms and conditions applicable to such Stock Options consistent with the following provisions:

(a) ***Option Price.*** The Board shall determine the price or prices at which Lilly Stock may be purchased by the Nonemployee Director under a Stock Option ("Option Price") which shall be not less than the fair market value of Lilly Stock on the date the Stock Option is granted (the "Grant Date"). In the Board's discretion, the Grant Date of a Stock Option may be established as the date on which Board action approving the Stock Option is taken or any later date specified by the Board. Once established, the Option Price may not be reduced except in the case of adjustments under Section 4(b).

(b) ***Option Exercise Period.*** The Board shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the Grant Date. Unless the Board shall otherwise expressly provide in a Stock Option agreement, in the event a Grantee's service on the Board is terminated, any Stock Option held by such Grantee shall remain exercisable for five years after such termination (or until the end of the option exercise period, if earlier). In the event a Nonemployee Director is removed from the Board for "cause" (as determined in accordance with applicable state law and the Articles of Incorporation of Lilly), any Stock Option held by that Nonemployee Director shall terminate immediately.

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

(d) ***Satisfaction of Option Price.*** A Stock Option may require payment of the Option Price upon exercise or may specify a period not to exceed 30 days following exercise within which payment must be made ("Payment Period"). The Grantee shall pay or cause to be paid the Option Price in cash, or with the Board's permission, by delivering (or providing adequate evidence of ownership of) shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and such shares. If the Grantee fails to pay the Option Price within the Payment Period, the Board shall have the right to take whatever action it deems appropriate, including voiding the option exercise or voiding that part of the Stock Option for which payment was not timely received. Lilly shall not deliver shares of Lilly Stock upon exercise of a Stock Option until the Option Price and any required withholding tax are fully paid. All Stock Options granted to Nonemployee Directors under the Plan are intended to comply with the requirements for exemption under Section 409A of the Code.

9. Stock Appreciation Rights to Eligible Employees.

The Committee may grant Stock Appreciation Rights to Eligible Employees. A Stock Appreciation Right is an award in the form of a right to receive, upon exercise or settlement of the right but without other payment, an amount based on appreciation in the fair market

value of shares of Lilly Stock over a base price established for the Award. Stock Appreciation Rights shall be settled or exercisable at such time or times and upon conditions as may be approved by the Committee, provided that the Committee may accelerate the exercisability of a Stock Appreciation Right at any time. All Stock Appreciation Rights granted under the Plan are intended to comply with the requirements for exemption under Section 409A of the Code. The following provisions are applicable to Stock Appreciation Rights:

(a) ***Freestanding Stock Appreciation Rights.*** A Stock Appreciation Right may be granted without any related Stock Option, and in such case, will be settled or exercisable at such time or times as determined by the Committee, but in no event after eleven years from the Grant Date. The Committee shall determine the base price of a Stock Appreciation Right granted without any related Option, provided, however, that such base price per share shall not be less than the fair market value of Lilly Stock on the Grant Date.

(b) ***Tandem Stock Appreciation Rights.*** A Stock Appreciation Right may be granted in connection with a Stock Option, either at the time of grant or at any time thereafter during the term of the Stock Option. A Stock Appreciation Right granted in connection with a Stock Option will entitle the holder, upon exercise, to surrender the Stock Option or any portion thereof to the extent unexercised, with respect to the number of shares as to which such Stock Appreciation Right is exercised, and to receive payment of an amount computed as described in Section 9(c). The Stock Option will, to the extent and when surrendered, cease to be exercisable. A Stock Appreciation Right granted in connection with a Stock Option hereunder will have a base price per share equal to the per share exercise price of the Stock Option, will be exercisable at such time or times, and only to the extent, that the related Stock Option is exercisable, and will expire no later than the related Stock Option expires. If a related Stock Option is exercised in whole or in part, then the SAR related to the shares purchased terminates as of the date of such exercise.

(c) ***Payment of Stock Appreciation Rights.*** A Stock Appreciation Right will entitle the holder, upon settlement or exercise, as applicable, to receive payment of an amount determined by multiplying: (i) the excess of the fair market value of a share of Lilly Stock on the date of settlement or exercise of the Stock Appreciation Right over the base price of the Stock Appreciation Right, by (ii) the number of shares as to which the Stock Appreciation Right is settled or exercised. Payment of the amount determined under the foregoing will be made in shares of Lilly Stock valued at their fair market value on the date of settlement or exercise, as applicable, subject to applicable tax withholding requirements.

(d) ***Limits on Individual Grants.*** No individual Grantee may be granted Stock Options or Stock Appreciation Rights, considered together, under the 2002 Plan for more than 3,500,000 shares of Lilly Stock in any period of three consecutive calendar years.

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

withholding tax.

10. Stock Unit Awards to Eligible Employees.

The Committee may grant Stock Unit Awards to Eligible Employees. A Stock Unit Award is an award of a number of hypothetical share units with respect to shares of Lilly Stock that are granted subject to such vesting and transfer restrictions and conditions of payment as the Committee shall determine and set forth in an award agreement. The value of each unit under a Stock Unit Award is equal to the fair market value of the Lilly Stock on any applicable date of determination. A Stock Unit Award shall be subject to such restrictions and conditions as the Committee shall determine. A Stock Unit Award may be granted, at the discretion of the Committee, together with a dividend equivalent right with respect to the same number of shares of Lilly Stock. The following provisions are applicable to Stock Unit Awards:

(a) ***Vesting of Stock Unit Awards.*** On the Grant Date, the Committee shall determine any vesting requirements with respect to a Stock Unit Award, which shall be set forth in the award agreement, provided that the Committee may accelerate the vesting of a Stock Unit Award at any time. Vesting requirements may be based on the continued employment of the Grantee with the Company for a specified time period or periods. Vesting requirements may also be based on the attainment of specified performance goals or measures established by the Committee. A Stock Unit Award may also be granted on a fully vested basis, with a deferred payment date.

(b) ***Payment of Stock Unit Awards.*** A Stock Unit Award shall become payable to a Grantee at the time or times determined by the Committee and set forth in the award agreement, which may be upon or following the vesting of the award. The payment with respect to each share unit under a Stock Unit Award shall be determined by reference to the fair market value of Lilly Stock on each applicable payment date. Payment will be made in shares of Lilly Stock or cash at the discretion of the Committee. The payment terms under a Restricted Stock Unit shall be established in compliance with the requirements of Section 409A of the Code.

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

11. Amendment and Termination of the 2002 Plan.

(a) ***Amendment.*** The Board may amend or terminate the 2002 Plan, but no amendment shall (i) allow the repricing of Stock Options or Stock Appreciation Rights at a price below the original Option Price or base price as applicable; (ii) allow the grant of Stock Options or Stock Appreciation Rights at an Option Price (or base price as applicable) below the fair market value of Lilly Stock on the Grant Date; (iii) increase the number of shares authorized for issuance or transfer pursuant to Section 4(a); or (iv) increase the maximum limitations on the number of shares subject to Grants imposed under Sections 5(f), 5(g), 6(f), or 9(d), unless in any case such amendment receives approval of the

shareholders of the Company.

(b) ***Termination of 2002 Plan; Resubmission to Shareholders.*** The 2002 Plan shall remain in effect until April 20, 2020 or until earlier terminated by the Board. To the extent required under Section 162(m) of the Code, the material terms of the 2002 Plan will be submitted to the shareholders of the Company for reapproval not later than the annual meeting of shareholders that occurs in 2013 if the Plan has not been terminated at that time.

(c) ***Termination and Amendment of Outstanding Grants.*** A termination or amendment of the 2002 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 13(e). The termination of the 2002 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 2002 Plan has terminated, an outstanding Grant may be terminated or amended under Section 13(e) or may be amended (i) by agreement of the Company and the Grantee consistent with the 2002 Plan or (ii) by action of the Committee provided that the amendment is consistent with the 2002 Plan and is found by the Committee not to impair the rights of the Grantee under the Grant.

12. Change in Control.

(a) ***Effect on Grants.*** The Committee may provide in the agreement relating to a Grant or at any later date, that upon the occurrence of a Change in Control (as defined below) the following shall occur:

(i) In the case of Stock Options, each outstanding Stock Option that is not then fully exercisable shall automatically become fully exercisable and shall remain so for the period permitted in the agreement relating to the Grant;

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

(iii) Each Grantee of a Performance Award for an Award Period that has not been completed at the time of the Change in Control shall be deemed to have earned a minimum Performance Award equal to the product of (y) such Grantee's maximum award opportunity for such Performance Award, and (z) a fraction, the numerator of which is the number of full and partial months that have elapsed since the beginning of such Award Period to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Award Period; *provided*, *however,* that nothing in this subsection shall prejudice the right of the Grantee to receive a larger payment under such Performance Award pursuant to the terms of the Award or under any other plan of the Company;

(iv) Each outstanding Stock Appreciation Right that is not then fully exercisable shall automatically become fully exercisable and shall remain so for the period

permitted in the agreement relating to the Grant; and

(v) Each outstanding Stock Unit Award shall fully and immediately vest and become payable.

(b) ***Change in Control.*** "Change in Control" shall mean: (A) a change in ownership of the Company under paragraph (i) below, or (B) a change in effective control of the Company under paragraph (ii) below, or (C) a change in the ownership of a substantial portion of the assets of the Company under paragraph (iii) below.

(i) *Change in the Ownership of the Company*. A change in the ownership of the Company shall occur on the date that any one person, or more than one person acting as a group (as defined in paragraph (iv), acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if any one person or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Company (or to cause a change in the effective control of the corporation (within the meaning of paragraph (ii) below). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this section. This paragraph (i) applies only when there is a transfer of stock of the Company and stock in the Company remains outstanding after the transaction.

(ii) *Change in the Effective Control of the Company*. A change in the effective control of the Company shall occur on the date that either (a) any one person, or more than one person acting as a group (as defined in paragraph (iv)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company (or which would have such voting power but for the application of the Indiana Control Share Statute), provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a change in effective control of the Company; or (b) a majority of members of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's board of directors prior to the date of the appointment or election.

(iii) *Change in the Ownership of a Substantial Portion of the Company's Assets*. A change in the ownership of a substantial portion of the Company's assets shall

occur on the date that any one person, or more than one person acting as a group (as defined in paragraph (iv)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. There is no Change in Control event under this paragraph (iii) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer. A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to (a) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (b) an entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (c) a person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company, or (d) an entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in paragraph (iv). For purposes of this paragraph (iii), a person's status is determined immediately after the transfer of the assets.

(iv) *Persons Acting As a Group.* For the purposes of paragraphs (i), (ii), and (iii), persons will not be considered to be acting as a group solely because they purchase or own assets or stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets or stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of assets or stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

(e) Each of the sub-paragraphs (i) through (iv) above shall be construed and interpreted consistent with the requirements of Section 409A of the Code and any Treasury regulations or other guidance issued thereunder.

13. General Provisions.

(a) ***Prohibitions Against Transfer.***

(i) Except as provided in part (ii) of this subparagraph, during a Grantee's lifetime, only the Grantee or his or her authorized legal representative may exercise rights

under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether voluntary, involuntary, or by operation of law, and any such attempted disposition shall be void; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the 2002 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

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

(b) ***Substitute Grants.*** In the event of a business combination in which another corporation is combined with the Company by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation in which the Company is the surviving entity, the Committee may make Grants to individuals who are or were employees, directors, or consultants to such other corporation in substitution for stock options, performance awards, restricted stock grant, stock appreciation rights, or stock unit awards granted to such individuals by such other corporation that are outstanding at the time of the business combination ("Substituted Stock Incentives"). The terms and conditions of the substitute Grants may vary from the terms and conditions that would otherwise be required by the 2002 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where practical the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) ***Subsidiaries.*** The term "subsidiary" means a corporation, limited liability company or similar form of entity of which Eli Lilly and Company owns directly or indirectly 50 percent or more of the voting power.

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

(e) ***Compliance with Law.*** The 2002 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to

all applicable laws and regulations and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory law or government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

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

(g) ***No Right to Employment or to Future Grants.*** The 2002 Plan and the Grants under it shall not confer upon any Eligible Employee or Grantee the right to continue in the employment of the Company or as a member of the Board or affect in any way (i) the right of the Company to terminate the employment of an Eligible Employee or Grantee at any time, with or without notice or cause, or (ii) any right of the Company or its shareholders to terminate the Grantee's service on the Board. Neither the status of an individual as an Eligible Employee nor the receipt of one or more Grants by a Grantee shall confer upon the Eligible Employee or Grantee any rights to future Grants.

(h) ***Foreign Jurisdictions.*** The Committee may adopt, amend, and terminate such arrangements and make such Grants, not inconsistent with the intent of the 2002 Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign jurisdictions to Grantees who are subject to such laws. The terms and conditions of such foreign Grants may vary from the terms and conditions that would otherwise be required by the 2002 Plan.

(i) ***Governing Law.*** The 2002 Plan and all Grants made under it shall be governed by and interpreted in accordance with the laws of the State of Indiana, regardless of the laws that might otherwise govern under applicable Indiana conflict-of-laws principles.

(j) ***Effective Date of the Amended 2002 Plan.*** The amended 2002 Plan is effective January 1, 2009.

(k) ***Section 409A Compliance***. To the extent applicable, it is intended that the Plan and all Awards hereunder comply with the requirements of Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder, and that the Plan and all award agreements shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A of the Code. In the event that any provision of the Plan or an award agreement is determined by the Committee to not comply with the applicable requirements of Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder, the Committee shall have the authority to take such actions and to make such changes to the Plan or an award agreement as the Committee deems necessary to comply with such requirements. Notwithstanding the foregoing or anything elsewhere in the Plan or an award agreement to the contrary, if a Grantee is a "specified employee" as defined in Section 409A of the Code, as determined by the

Company in accordance with its procedures, at the time of termination of Service with respect to an Award, then solely to the extent necessary to avoid the imposition of any additional tax under Section 409A of the Code, the commencement of any payments or benefits under the Award shall be deferred until the date that is six months following the Grantee's termination of Service (or such other period as required to comply with Section 409A). In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Grantee by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

* * *

ELI LILLY AND COMPANY

THE LILLY DIRECTORS' DEFERRAL PLAN
(as Amended and Restated Effective 1/1/2009)

Preamble

The Lilly Directors' Deferral Plan has been established by the Company for the purpose of providing an opportunity for Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. Subject to adjustment as provided in Section 5(f), the aggregate number of shares of Eli Lilly and Company common stock that may be issued or transferred under this Plan after April 28, 2003, is 750,000. The shares may be authorized and unissued shares or treasury shares.

The Plan constitutes a plan of unfunded deferred compensation and is intended to comply with the requirements of Section 409A. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

For the rules that apply to the distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A, see Appendix A.

Section 1. Definition of Terms

The following terms used in the Plan shall have the meanings set forth below:

(a) "Account" means one or more deferred compensation accounts maintained for each Participant under the Plan. A Participant's Account shall consist of a Deferred Compensation Account and the Deferred Stock Account as described in Section 5 hereof.

(b) "Annual Allocation Date" means the last Business Day in November of each calendar year, or such other annual date, not earlier than the third Monday in February, established by the Plan Administrator as the date as of which Shares are allocated to each Deferred Stock Account in accordance with Section 5.

(c) "Beneficiary" means the person or persons who are designated by the Participant or are otherwise entitled to receive benefits under the Plan in the event of the Participant's death, as provided in Section 6(d) hereof.

(d) “Board” means the Board of Directors of the Company.

(e) “Business Day” means a day on which the Company’s corporate headquarters are open for regular business.

(f) “Code” means the Internal Revenue Code of 1986, as amended.

(g) “Company” means Eli Lilly and Company, an Indiana corporation.

(h) “Deferral Amount” means the amount of a Participant’s Monthly Compensation that is elected by a Participant for deferral under the Plan.

(i) “Deferred Stock Participant” means a Director who is not, and for the preceding 12 months has not been, a salaried employee of the Company.

(j) “Director” means a member of the Board of Directors of the Company.

(k) “Dividend Payment Date” means the date as of which the Company pays a cash dividend on Shares.

(l) “Dividend Record Date” means the date established by the Board of Directors as the record date for determining shareholders entitled to the dividend with respect to any Dividend Payment Date.

(m) “Election Form” means the written or electronic form or forms approved by the Plan Administrator and completed by the Participant specifying the Participant’s election to defer Monthly Compensation pursuant to Section 4 and setting forth the Participant’s Beneficiary designation and the terms of distribution of the Participant’s Deferred Compensation Account and/or Deferred Stock Account pursuant to Section 6.

(n) “Monthly Compensation” means the monthly retainer and the aggregate of all meeting fees, committee fees and committee chairperson fees to which a Director is entitled for services rendered to the Company as a Director during the month, as established from time to time by resolution of the Board of Directors. For avoidance of doubt, Monthly Compensation does not include stock options granted to Directors or the Shares allocated pursuant to Section 5 of this Plan.

(o) “Monthly Deferral Participant” means a Director who is not, and for the preceding 12 months has not been, a salaried employee of the Company and who elects to defer all or part of his or her Monthly Compensation pursuant to the Plan in accordance with Section 4 hereof.

(p) “Participant” means any current or former Director with an outstanding Account balance the Plan.

(q) “Plan” means The Lilly Directors’ Deferral Plan, as amended and restated herein.

(r) "Plan Administrator" means the Directors and Corporate Governance Committee of the Board of Directors, or any successor committee of the Board of Directors that is charged with matters relating to the compensation of non-employee directors. Except with respect to Section 5(f) of this Plan, the Plan Administrator may at its discretion delegate any of its responsibilities to one or more individuals provided that such delegation is in accordance with applicable laws.

(s) "Plan Year" means the calendar year from January 1 through December 31 with respect to which compensation eligible for deferral under the Plan is earned.

(t) "Section 409A" means section 409A of the Code and the Treasury regulations and other official guidance promulgated thereunder.

(u) "Separation from Service" means a "separation from service" within the meaning of Section 409A.

(v) "Share" means a share of common stock of the Company.

(w) "Unforeseeable Emergency" means a severe financial hardship of a Participant resulting from an illness or accident of such Participant or Beneficiary, such Participant's spouse or a dependent (as defined in section 152(a) of the Code) of such Participant, loss of such Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of such Participant, each as determined in the manner consistent with Section 409A, and any other event or circumstance within the meaning of the term "unforeseeable emergency" under Section 409A.

(x) "Valuation Date" means for any month, the third Monday of the month, or if Shares are not traded on the New York Stock Exchange on such third Monday, the next day on which Shares are traded on the New York Stock Exchange.

Section 2. Plan Administrator

(a) Authority. The Plan Administrator shall have full authority to administer the Plan in accordance with its terms and to exercise all responsibilities and authorities as provided herein, including the discretionary authorities to determine the terms and conditions of deferrals of compensation under the Plan, to determine the terms and conditions of crediting to and distributing from Accounts under the terms of the Plan, and to adopt such rules and regulations for administering the Plan as it may deem necessary or appropriate. The Plan Administrator has the discretionary authority to interpret and construe all provisions of the Plan, to remedy possible ambiguities, inconsistencies, or omissions under the Plan, and to resolve all questions of fact arising under the Plan. The decisions of the Plan Administrator shall be final, binding and conclusive on all parties. No member of the Board, the Plan Administrator nor any officers of the Company shall have any liability for any action or determination taken under the Plan.

(b) Delegation; Expenses. The appropriate officer(s) of the Company as designated by the Plan Administrator are authorized to act on behalf of the Plan Administrator

for the day-to-day administration of the Plan, subject to the authority of the Plan Administrator. Expenses of the administration of the Plan may be borne by the Company or may be deducted from Participants' Accounts at the sole discretion of the Plan Administrator.

Section 3. Participation

The Plan Administrator may require a Participant to comply with such terms and conditions as the Plan Administrator may specify in order for the Participant to participate in the Plan.

Section 4. Elections to Participate

(a) Deferral Elections. A Monthly Deferral Participant in the Plan may file an Election Form with the Plan Administrator on or before the date specified in accordance with Section 4(c) hereof. The Election Form shall permit the Monthly Deferral Participant to specify the Deferral Amount subject to a minimum Deferral Amount of five thousand dollars ($5,000) for the deferral of Monthly Compensation, or such amounts as may be specified by the Plan Administrator in its sole discretion, and whether such Deferral Amount shall be credited in cash to his or her Deferred Compensation Account or in Shares to his or her Deferred Stock Account, pursuant to Section 5(a) hereof. The Election Form shall also set forth the terms of distribution of the Participant's Account in accordance with Section 6 hereof and the Participant's Beneficiary designation. All elections to defer compensation under the Plan are irrevocable, and no changes to any Election Form delivered to the Plan Administrator shall be permitted, except as specifically provided under the terms of the Plan.

(b) Maximum Deferrals. A Monthly Deferral Participant may elect a Deferral Amount of up to 100% of the Participant's Monthly Compensation for a Plan Year. One hundred percent (100%) of any annual allocation of Shares earned pursuant to Section 5(c) will be automatically credited to a Deferred Stock Participant's Deferred Stock Account.

(c) Timing and Effect of Elections. Unless otherwise specified by the Plan Administrator in accordance with the requirements of Section 409A, deferral elections on an Election Form shall be made:

(i) In the case of Monthly Compensation or an annual Share allocation not qualifying as "performance-based compensation" within the meaning of Section 409A, prior to the beginning of the Plan Year with respect to which the compensation is earned; and

(ii) In the case of Monthly Compensation or an annual Share allocation which the Plan Administrator has determined qualifies as "performance-based compensation" within the meaning of Section 409A, no later than June 30th of the applicable Plan Year with respect to which the compensation is earned.

Deferral elections shall apply to Monthly Compensation and annual Share allocations with respect to the Plan Year for which the elections are made. Participants will be required to make deferral elections for future Plan Years at such times to be specified by the Plan Administrator in accordance with the foregoing. If a Participant does not file an Election Form with the Plan

Administrator on or before the deadline established by the Plan Administrator for deferral elections for a Plan Year, a Participant will be deemed not to have elected to defer Monthly Compensation for such Plan Year, as applicable. Notwithstanding the foregoing, in the first year in which an individual who is newly elected or appointed to serve as a Director becomes eligible to participate in the Plan, such individual may, not later than thirty (30) days after the date he or she becomes eligible to participate in the Plan, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Monthly Compensation and set forth the terms of distribution of the individual's Account with respect to services to be performed after the filing of the election with the Company.

Section 5. Accounts and Interest Credits

(a) Participant Accounts. Accounts shall be maintained for each Participant under the Plan:

(i) Deferred Compensation Account — The Company shall maintain a Deferred Compensation Account in the name of each Monthly Deferral Participant who elects to have a Deferral Amount credited in cash pursuant to Section 4 hereof for a given Plan Year. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. For each month, Deferral Amounts allocated to a Deferred Compensation Account shall be credited to the Deferred Compensation Account as of the last Business Day of the month.

(ii) Deferred Stock Account — The Company shall maintain a Deferred Stock Account for each Deferred Stock Participant and for each Monthly Deferral Participant who elects to have a Deferral Amount credited in Shares. The Deferred Stock Account shall be denominated in Shares and maintained in fractions rounded to three (3) decimal places. Deferral Amounts allocated to a Deferred Stock Account shall be credited to the Deferred Stock Account as of the last Business Day of the month. Shares and, if necessary, fractional Shares, shall be credited based upon the closing price of Shares on the New York Stock Exchange on the Valuation Date for that month. Shares allocated to each Share Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 6 hereof.

A Participant's Account shall consist of book entries only and shall not constitute a separate cash or Share fund or other asset held in trust or as security for the Company's obligation to pay the amount of the Account to the Participant. The balance of a Participant's Account shall be adjusted pursuant to this Section 5 and reduced by the amount of applicable tax withholding, distributions and expenses. A Participant's Account may include sub-accounts as the Company considers necessary or advisable for purposes of maintaining a proper accounting of amounts credited or debited for a Participant under the Plan. A Participant shall receive or have on-line access to a statement of such Participant's Account no less frequently than once a year following the end of each Plan Year.

(b) Crediting of Deferral Amount. A Participant who has filed an Election Form with the Plan Administrator for the deferral of Monthly Compensation with respect to a Plan Year shall have the Deferral Amount deducted from the applicable compensation and credited to the Participant's appropriate Account under the Plan. The Deferral Amount so credited shall be reduced by applicable tax withholding, distributions and expenses.

(c) Annual Share Allocation. As of the Annual Allocation Date of each Plan Year, there shall be allocated to the Deferred Stock Account of each Deferred Stock Participant who is a Deferred Stock Participant on that date, as part of his or her compensation for service on the Board of Directors, up to 7,500 Shares, as may be specified from time to time by resolution of the Board of Directors.

(d) Interest Credits. The Deferred Compensation Accounts of Participants shall be credited with interest computed each Plan Year or portion thereof at a rate equal to 120% of the long-term applicable federal rate, with monthly compounding (as prescribed under section 1274(d) of the Code), as in effect for the month of December for the immediately preceding Plan Year. Such interest shall accrue on all Deferral Amounts and prior earnings thereon of Deferred Compensation Accounts and be credited daily to such accounts.

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

(f) Capital Adjustments. The number of Shares referred to in the Preamble and Section 5 hereof and the number of Shares allocated to each Deferred Stock Account shall be adjusted by the Plan Administrator, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with the Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

(g) Vesting of Accounts. A Participant is fully vested in his or her entire Account balance.

Section 6. Distribution of Accounts

(a) Distribution upon Separation from Service. A Participant shall specify on an Election Form the manner in which the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for a Plan Year (and earnings thereon) shall be distributed from the Participant's Account upon the Participant's Separation from Service. All elections are irrevocable, and no changes shall be permitted to any Election Form delivered to the Plan Administrator, except as specifically provided under the terms of the Plan. A Participant may elect, to the extent permitted by the Plan Administrator and set forth on the

Election Form, that such portion of the Account be distributed upon a Participant's Separation from Service either in:

(i) Lump Sum payment in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs; or

(ii) Annual Installment payments over a period of two (2) to ten (10) years commencing in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs, with subsequent installment payments to be made in each January within the applicable period.

If a Participant fails to make a timely payment election on the Election Form for a Plan Year, the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for such Plan Year (and earnings thereon) shall be distributed in a lump sum in accordance with Section 6(a)(i) hereof.

(b) Form of Distributions. All distributions of a Participant's Deferred Compensation Account under the Plan shall be made in cash. Except as provided in Section 6(f), all distributions of a Participant's Deferred Stock Account shall be paid in Shares, at which time the Shares shall be issued or transferred from the books of the Company to the Participant. All Shares to be issued or transferred hereunder may be newly issued or treasury shares. Fractional Shares shall not be issued or transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fraction remaining in the Participant's Deferred Stock Account shall be rounded up to the next whole Share and that number of whole Shares shall be issued or transferred. The value of the Deferred Stock Account is calculated with reference to the closing price of Shares on the last trading day of the prior Plan Year.

(c) Distribution of Account. The Company shall distribute amounts from the Participant's Deferred Compensation Account and the Deferred Stock Account in the manner and on the date(s) applicable under this Section 6. If the payment option described in Section 6(a)(i) hereof is applicable, the amount of the lump sum shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the payment. If the payment option described in Section 6(a)(ii) hereof is applicable, the amount of each installment shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the installment payment divided by the number of installment payments that have not yet been made.

(d) Distribution upon Death. Notwithstanding any election made by a Participant or any other provision of this Section 6 to the contrary, if a Participant dies before full distribution of his or her Account balance, any remaining balance shall be distributed to the Participant's Beneficiary in a lump sum within 90 days following the date of the Participant's death. The amount of such lump sum distribution shall be calculated using the valuation of the Participant's Account as of the date preceding the date of distribution. Any payment required to be made to a Participant under the Plan that cannot be made due to the Participant's death shall be made to the Participant's Beneficiary, subject to applicable law. Each Participant shall have the right to designate one or more Beneficiaries, and to change a Beneficiary designation, from time to time by filing a written notice with the Plan Administrator. In the event that a

Beneficiary does not survive the Participant and no successor Beneficiary is selected, or in the event no valid Beneficiary designation has been made, the Participant's Beneficiary shall be the Participant's estate.

(e) Unforeseeable Emergency. Upon the written request of a Participant, the Plan Administrator may permit the Participant to withdraw some or all of the Participant's Account for the purpose of enabling the Participant to meet the immediate needs created by an Unforeseeable Emergency. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but in any case, the amounts distributed with respect to an Unforeseeable Emergency shall not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan.

(f) Payment of Cash in Lieu of Shares. If at any time the Plan Administrator determines that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Plan Administrator shall pay all or a portion of the Participant's Deferred Stock Account in cash.

(g) Withholding Taxes. All distributions of a Participant's Account under the Plan shall be subject to income tax and other withholdings that the Plan Administrator deems necessary or appropriate, and the Plan Administrator may reduce the amount credited to any Participant's Account to the extent it deems necessary to satisfy tax withholding requirements. Participants or Beneficiaries receiving distributions under the Plan shall bear all taxes on amounts paid under the Plan to the extent that taxes are not withheld thereon, irrespective of whether withholding is required.

Section 7. Administrative Matters

(a) Claims Procedure. Any person making a claim for benefits hereunder shall submit the claim in writing to the Plan Administrator. If the Plan Administrator denies the claim in whole or in part, it shall issue to the claimant a written notice explaining the reason for the denial and identifying any additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within sixty (60) days of receiving a written notice of denial, submit a written request for reconsideration to the Plan Administrator, together with a written explanation of the basis of the request. The Plan Administrator shall consider any such request and shall provide the claimant with a written decision together with a written explanation thereof. No legal action may be commenced or maintained against the Plan more than one year after the Plan Administrator wholly or partially denies, or is deemed to have wholly or patially denied, a claim for Plan benefits. All interpretations, determinations, and decisions of the Plan Administrator in respect of any claim shall be final, binding and conclusive.

(b) Incapacity. If the Plan Administrator determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness, accident or

other physical and mental incapacity, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid consistent with the terms described herein for the benefit of such person to such person's spouse, parent, brother, sister, adult child or other party deemed by the Plan Administrator in its sole discretion to ensure proper care for such person.

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

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

Section 8. Unfunded Status

All Accounts and all rights of Participants to benefits under the Plan are unfunded obligations of the Company. Plan benefits shall be paid from the general assets of the Company, and Participants shall have the status of an unsecured general creditor of the Company with respect to all interests under the Plan. The Plan is a plan of unfunded deferred compensation. Notwithstanding the foregoing, the Company may, but shall not be required to, establish a trust or other funding vehicle under the Plan that does not affect the Plan's status as a Plan of unfunded deferred compensation.

Section 9. Nontransferability; Successors

No interest of any person in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person.

The obligations of the Company under the Plan will be binding upon the Company's successors, transferees and assigns.

Section 10. Limitation of Rights

Nothing in the Plan shall confer upon any Participant the right to continue to serve as a Director of the Company or to serve in the capacity in which the Participant is employed by the Company. Nothing in the Plan shall be interpreted as creating a right of a Participant to

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

Section 11. Enforceability

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

Section 12. Effective Date; Amendment and Termination

The Plan, as amended and restated, shall become effective for the 2009 Plan Year and for future Plan Years until terminated by the Board. The Board may amend or terminate the Plan at any time and in any manner; provided that no amendment or termination shall reduce the amount credited to a Participant's Account at the time of any such amendment or termination, and no amendment shall be effective that shall cause the Plan to fail to meet the requirements of Section 409A. Upon termination of the Plan in accordance with the requirements of Section 409A, (i) all future deferrals of compensation will cease, (ii) all Plan Accounts will continue to receive interest credits (or be invested) as permitted under the Plan, and (iii) all Plan Accounts will be distributed in accordance with the Participant's elections under the provisions of the Plan, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements of Section 409A.

ELI LILLY AND COMPANY

APPENDIX A

GRANDFATHERED AMOUNTS

Distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A shall be made in accordance with the Plan terms as in effect on January 1, 2004, as attached below.

THE LILLY DIRECTORS' DEFERRAL PLAN
(As amended and restated through January 1, 2004)

Section 1. Establishment of the Plan and Shares Available.

1.1. Establishment of Plan. This Plan was established effective January 1, 1996, to permit Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. This amended and restated Plan is effective January 1, 2004.

1.2. Shares Available. Subject to adjustment as provided in Section 7.5, the aggregate number of shares of Eli Lilly and Company common stock that may be issued or transferred under this Plan after April 28, 2003, is 750,000. The shares may be authorized and unissued shares or treasury shares.

Section 2. Definitions.

The following terms shall have the definitions set forth in this Section 2:

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

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

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

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

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

2.6. Company. Eli Lilly and Company.

2.7. Company Credit. For any calendar year or part thereof, an amount computed, and credited annually to a Participant's Deferred Compensation Account at an annual rate that is equal to one hundred twenty percent (120%) of the applicable federal long-term rate, with compounding (as prescribed under Section 1274(d) of the Internal Revenue Code) that was in effect for the month of December immediately preceding the calendar year.

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

2.9. Deferred Stock Participant. A Director who is not, and for the preceding 12 months has not been, a salaried employee of the Company and who becomes a Participant in the Plan in accordance with Section 3 hereof.

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

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

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

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

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

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

2.16. Participant. A Director who is a Deferred Stock Participant, a Monthly Deferral Participant, or both.

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

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

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

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Thereafter, each person who becomes a Director, and who is not, and for the preceding 12 months has not been, a salaried employee of the Company, shall become a Deferred Stock Participant.

Section 4. Monthly Deferral Participants.

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

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

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

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

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

remain in effect, provided that the Participant may amend his or her election with regard to a future calendar year at any time.

Section 5. Form of Deferred Compensation Credits.

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

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

Section 6. Annual Allocations to Share Accounts.

6.1. Annual Allocation of Shares. As of the Annual Allocation Date of each calendar year, there shall be allocated to the Share Account (as described in Section 7.2 below) of each Deferred Stock Participant who is a Director on that date, as part of his or her compensation for service on the Board of Directors, seven hundred (700) Shares or such other number of Shares, not to exceed 3,000 shares, as may be specified from time to time by resolution of the Board of Directors.

Section 7. Individual Accounts.

The Company shall maintain Individual Accounts for Participants as follows:

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

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

For each month, Deferred Amounts allocated to a Share Account pursuant to subsection 5.2 hereof shall be credited to the Share Account as of the last Business Day of the month.

Shares and, if necessary, fractional Shares, shall be credited based upon the average of the high and low price of Shares on the New York Stock Exchange on the Valuation Date for that month.

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

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

7.5. Capital Adjustments. The number of Shares referred to in Sections 1.2 and 6 hereof and the number of Shares allocated to each Share Account shall be adjusted by the Committee, as it deems appropriate in its discretion, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

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

Section 8. Payment Provisions.

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

transferred. If Shares are not traded on the New York Stock Exchange on any day on which a payment of Shares is to be made under the Plan, then that payment shall be made on the next day on which Shares are traded on the New York Stock Exchange.

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

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

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

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

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

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

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

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

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

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

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

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

(iii) by cessation of deferrals under the Plan.

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

8.5. Payment of Cash in Lieu of Shares. If at any time the Committee shall determine that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Committee may, in its discretion, pay all or a portion of the Participant's Share Account in cash. In this case, the amount of cash shall be determined with reference to the average of the high and low trading price for Shares on the December 31

next preceding the date of payment, or if Shares are not traded on that day, the next preceding trading day.

Section 9. Ownership of Shares.

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

Section 10. Prohibition Against Transfer.

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

Section 11. General Provisions.

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

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

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

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

11.5. Withholding. The Company shall have the right to deduct from all payments hereunder any taxes required by law to be withheld from such payments. The recipients of such

payments shall bear all taxes on amounts paid under the Plan to the extent that no taxes are withheld thereon, irrespective of whether withholding is required.

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

11.7. Participant Who Becomes Employee. If a Participant becomes an employee of the Company but remains a Director, he or she will no longer be entitled to new deferrals under the Plan as a Deferred Stock Participant or Monthly Deferral Participant. However, the individual's Account balances will continue to be administered under the Plan (including eligibility for the Company Credit and Cash Dividends under Sections 7.3 and 7.4) until they are paid out in accordance with Section 8.

Section 12. Term, Amendment, Suspension, and Termination.

The Plan shall remain in effect until terminated by the Board of Directors. The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, subject to the following:

(i) no amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account;

(ii) the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year; and

(iii) to the extent required by New York Stock Exchange listing rules or applicable law, material amendments shall be submitted to the Company's shareholders for approval.

Section 13. Applicable Law.

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

Section 14. Effective Date.

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

ELI LILLY AND COMPANY

THE LILLY DEFERRED COMPENSATION PLAN
(as Amended and Restated Effective 1/1/2009)

Preamble

The Lilly Deferred Compensation Plan has been established by the Company for the purpose of providing an opportunity for selected employees to defer receipt of all or part of their Base Salary and/or Annual Bonus compensation and earn tax-deferred investment returns thereon. The Plan constitutes a plan of unfunded deferred compensation maintained for a select group of management or highly compensated employees for purposes of ERISA, and is intended to comply with the requirements of Section 409A. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

For the rules that apply to the distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A, see Appendix A.

Section 1. Definition of Terms

The following terms used in the Plan shall have the meanings set forth below:

(a) "Account" means the deferred compensation account maintained for each Participant under the Plan.

(b) "Annual Bonus" means the pre-tax amount of a Participant's annual bonus for a Plan Year, disregarding any deferrals, offsets or withholdings from such annual bonus, that is earned under the Eli Lilly and Company Bonus Plan, or any successor or similar annual bonus plan or arrangement of the Company in effect.

(c) "Base Salary" means the pre-tax amount of a Participant's base salary from the Company or a Subsidiary as in effect from time to time during a Plan Year, disregarding any deferrals, offsets or withholdings from such base salary.

(d) "Beneficiary" means the person or persons who are designated by the Participant or are otherwise entitled to receive benefits under the Plan in the event of the Participant's death, as provided in Section 6(c) hereof.

(e) "Board" means the Board of Directors of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended.

(g) "Company" means Eli Lilly and Company, an Indiana corporation.

(h) "Deferral Amount" means the amount of a Participant's Base Salary and/or Annual Bonus that is elected by a Participant for deferral under the Plan.

(i) "Election Form" means the written or electronic form or forms approved by the Plan Administrator and completed by the Participant specifying the terms and conditions of an election to defer Base Salary and/or Annual Bonus compensation under the Plan and setting forth the Participant's Beneficiary designation and the terms of distribution of the Participant's Account pursuant to Section 6.

(j) "Eligible Employee" means (i) any SEC Executive Officer of the Company, and (ii) any other employee of the Company or any Subsidiary who is among a "select group of management or highly compensated employees" for purposes of ERISA as may be selected by the Plan Administrator (or its designee) on an annual basis for participation in the Plan.

(k) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(l) "Participant" means an Eligible Employee who has been designated by the Plan Administrator to participate in the Plan and who elects to defer all or a portion of the employee's Base Salary and/or Annual Bonus compensation under Section 4 hereof.

(m) "Plan" means The Lilly Deferred Compensation Plan, as amended and restated herein.

(n) "Plan Administrator" means the Compensation Committee of the Board or such other committee designated by the Board consisting of at least two (2) members of the Board who are not employees of the Company or any Subsidiary. The Compensation Committee may at its discretion delegate any of its responsibilities to one or more individuals provided that such delegation is in accordance with applicable laws and provided further that the Compensation Committee may not delegate authority to make individual determinations under the Plan as to SEC Executive Officers of the Company.

(o) "Plan Year" means the calendar year from January 1 through December 31 with respect to which Base Salary and Annual Bonus compensation eligible for deferral under the Plan is earned.

(p) "SEC Executive Officer" means an officer or employee of the Company from time to time designated as an executive officer for purposes of the Company's annual securities filings pursuant to the Securities Exchange Act of 1934, as amended.

(q) "Section 409A" means section 409A of the Code and the Treasury regulations and other official guidance promulgated thereunder.

(r) "Separation from Service" means a "separation from service" within the meaning of Section 409A.

(s) "Subsidiary" means any corporation in which the Company has control, directly or indirectly, of more than fifty percent (50%**)** of the aggregate voting securities of the corporation.

(t) "Unforeseeable Emergency" means a severe financial hardship of a Participant resulting from an illness or accident of such Participant or Beneficiary, such Participant's spouse or a dependent (as defined in section 152(a) of the Code) of such Participant, loss of such Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of such Participant, each as determined in the manner consistent with Section 409A, and any other event or circumstance within the meaning of the term "unforeseeable emergency" under Section 409A.

Section 2. Plan Administrator

(a) Authority. The Plan Administrator shall have full authority to administer the Plan in accordance with its terms and to exercise all responsibilities and authorities as provided herein, including the discretionary authorities to designate the Eligible Employees who may participate in the Plan, to determine the terms and conditions of deferrals of Base Salary and Annual Bonus compensation under the Plan, to determine the terms and conditions of crediting to and distributing from Accounts under the terms of the Plan, and to adopt such rules and regulations for administering the Plan as it may deem necessary or appropriate. The Plan Administrator has the discretionary authority to interpret and construe all provisions of the Plan, to remedy possible ambiguities, inconsistencies, or omissions under the Plan, and to resolve all questions of fact arising under the Plan. The decisions of the Plan Administrator shall be final, binding and conclusive on all parties. No member of the Board, the Plan Administrator nor any officers of the Company shall have any liability for any action or determination taken under the Plan.

(b) Delegation; Expenses. The appropriate officer(s) of the Company as designated by the Plan Administrator are authorized to act on behalf of the Plan Administrator for the day-to-day administration of the Plan, subject to the authority of the Plan Administrator. The Plan Administrator may also specifically delegate to the appropriate officer(s) the authority to designate the Eligible Employees (other than SEC Executive Officers) who may participate in the Plan. Expenses of the administration of the Plan may be borne by the Company or may be deducted from Participants' Accounts at the sole discretion of the Plan Administrator.

Section 3. Eligibility and Participation

(a) Eligible Employees. Each Eligible Employee may become a Participant in the Plan with respect to Base Salary and/or Annual Bonus compensation earned during a Plan Year, subject to and in accordance with the terms and limitations of the Plan. Selection for participation by the Plan Administrator with respect to compensation earned for a Plan Year does not confer upon the Eligible Employee the right to participate in the Plan with respect to compensation earned during a future Plan Year. The Plan Administrator may require an Eligible

Employee to comply with such terms and conditions as the Plan Administrator may specify in order for the Eligible Employee to participate in the Plan.

(b) Participants. Subject to Section 3(a) above, each Eligible Employee who makes an election to defer compensation under Section 4 hereof shall become a Participant in the Plan, and shall remain a Participant until receiving the distribution of the Participant's entire Account balance in accordance with Section 6 hereof. All Eligible Employees shall be eligible to defer their Annual Bonus under the Plan. Only SEC Executive Officers for the applicable plan year shall be eligible to defer their Base Salary under the Plan.

Section 4. Elections to Participate

(a) Deferral Elections. An Eligible Employee designated by the Plan Administrator to be a Participant in the Plan may file an Election Form with the Plan Administrator on or before the date specified in accordance with Section 4(c) hereof. The Election Form shall permit the Participant to specify the Deferral Amount subject to a minimum Deferral Amount of five thousand dollars ($5,000) for the deferral of each of Base Salary and Annual Bonus, as applicable, or such amounts as may be specified by the Plan Administrator in its sole discretion. The Election Form shall also set forth the terms of distribution of the Participant's Account in accordance with Section 6 hereof and the Participant's Beneficiary designation. All elections to defer compensation under the Plan are irrevocable, and no changes to any Election Form delivered to the Plan Administrator shall be permitted, except as specifically provided under the terms of the Plan.

(b) Maximum Deferrals. An Eligible Employee may elect a Deferral Amount of up to 100% of the Eligible Employee's Annual Bonus for a Plan Year. An SEC Executive Officer shall also be permitted to elect a Deferral Amount of up to 100% of the SEC Executive Officer's Base Salary for a Plan Year; provided that the Plan Administrator shall have the right to limit the Deferral Amount with respect to the Participant's Annual Bonus or Base Salary, if applicable, of an SEC Executive Officer to ensure that the Company has sufficient funds to cover all applicable taxes and other necessary and appropriate deductions.

(c) Timing and Effect of Elections. Unless otherwise specified by the Plan Administrator in accordance with the requirements of Section 409A, deferral elections on an Election Form shall be made:

(i) In the case of Base Salary and any Annual Bonus not qualifying as "performance-based compensation" within the meaning of Section 409A, prior to the beginning of the Plan Year with respect to which the Base Salary and/or Annual Bonus is earned; and

(ii) In the case of Annual Bonus that the Plan Administrator determines is "performance-based compensation" within the meaning of Section 409A, no later than June 30th of the applicable Plan Year with respect to which the Annual Bonus is earned.

Deferral elections shall apply to Base Salary and Annual Bonus compensation for the Plan Year for which they are made. Participants will be required to make deferral elections for future Plan Years at such times to be specified by the Plan Administrator in accordance with the foregoing. If a Participant does not file an Election Form with the Plan Administrator on or before the deadline established by the Plan Administrator for deferral elections for a Plan Year, a Participant will be deemed not to have elected to defer Base Salary or Annual Bonus compensation for such Plan Year, as applicable. A Participant's election to defer Base Salary or Annual Bonus compensation with respect to a Plan Year shall not be affected by the Participant ceasing to be treated as an SEC Executive Officer or Eligible Employee following the time that such election is made.

Section 5. Accounts and Interest Credits

(a) Participant Accounts. An Account shall be maintained for each Participant under the Plan. A Participant's Account shall consist of book entries only and shall not constitute a separate cash fund or other asset held in trust or as security for the Company's obligation to pay the amount of the Account to the Participant. The balance of a Participant's Account shall be the sum of Deferral Amounts credited to the Participant's Account, adjusted for interest credits and reduced by the amount of applicable tax withholding, distributions and expenses. A Participant's Account may include sub-accounts as the Company considers necessary or advisable for purposes of maintaining a proper accounting of amounts credited or debited for a Participant under the Plan. A Participant shall receive or have on-line access to a statement of such Participant's Account no less frequently than once a year following the end of each Plan Year.

(b) Crediting of Deferral Amount. A Participant who has filed an Election Form with the Plan Administrator for the deferral of Base Salary and/or Annual Bonus compensation with respect to a Plan Year shall have the Deferral Amount deducted from the applicable compensation and credited to the Participant's Account under the Plan at the same time as the compensation would otherwise be paid to the Participant. The Deferral Amount so credited shall be reduced by applicable withholding, distributions and expenses.

(c) Interest Credits. The Accounts of Participants shall be credited with interest computed each Plan Year or portion thereof at a rate equal to 120% of the long-term applicable federal rate, with monthly compounding (as prescribed under section 1274(d) of the Code), as in effect for the month of December for the immediately preceding Plan Year. Such interest shall accrue on all Deferral Amounts and prior earnings thereon and be credited daily to a Participant's Account.

(d) Vesting of Accounts. All Deferral Amounts and interest credits thereon under a Participant's Account shall be fully vested at all times.

Section 6. Distribution of Accounts

(a) Distribution upon Separation from Service. A Participant shall specify on an Election Form the manner in which the Participant's deferred Base Salary and Annual Bonus compensation as applicable for a Plan Year (and earnings thereon) shall be distributed from the

Participant's Account under the Plan upon the Participant's Separation from Service. Any election by the Participant as to the distribution of such portion of the Account shall be irrevocable. A Participant may elect, to the extent permitted by the Plan Administrator and set forth on the Election Form, that such portion of the Account be distributed upon a Participant's Separation from Service either in:

(i) Lump Sum payment in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs; or

(ii) Annual Installment payments over a period of two (2) to ten (10) years commencing in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs, with subsequent installment payments to be made in each January within the applicable period.

If a Participant fails to make a timely payment election on the Election Form for a Plan Year, the Participant's Deferral Amount for such Plan Year (and earnings thereon) shall be distributed in a lump sum in accordance with Section 6(a)(i) hereof.

(b) Distribution of Account. The Company shall distribute amounts from the Participant's Account in the manner specified in this Section 6. If the payment option described in Section 6(a)(i) hereof is applicable, the amount of the lump sum shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the payment. If the payment option described in Section 6(a)(ii) hereof is applicable, the amount of each installment shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the installment payment divided by the number of installment payments that have not yet been made.

(c) Distribution upon Death. Notwithstanding any election made by a Participant or any other provision of this Section 6 to the contrary, if a Participant dies before full distribution of his Account balance, any remaining balance shall be distributed to the Participant's Beneficiary in a lump sum within 90 days following the date of the Participant's death. The amount of such lump sum distribution shall be calculated using the valuation of the Participant's Account as of the date preceding the date of distribution. Any payment required to be made to a Participant under the Plan that cannot be made due to the Participant's death shall be made to the Participant's Beneficiary, subject to applicable law. Each Participant shall have the right to designate one or more Beneficiaries, and to change a Beneficiary designation, from time to time by filing a written notice with the Plan Administrator. In the event that a Beneficiary does not survive the Participant and no successor Beneficiary is selected, or in the event no valid Beneficiary designation has been made, the Participant's Beneficiary shall be the Participant's estate.

(d) Unforeseeable Emergency. Upon the written request of a Participant, the Plan Administrator may permit the Participant to withdraw some or all of the Participant's Account for the purpose of enabling the Participant to meet the immediate needs created by an Unforeseeable Emergency. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but in any case, the amounts distributed with respect to an Unforeseeable Emergency shall not exceed the amounts necessary to satisfy such

Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan.

(e) Withholding Taxes. All distributions of a Participant's Account under the Plan shall be subject to income tax and other withholdings that the Plan Administrator deems necessary or appropriate, and the Plan Administrator may reduce the amount credited to any Participant's Account to the extent it deems necessary to satisfy tax withholding requirements. Participants or Beneficiaries receiving distributions under the Plan shall bear all taxes on amounts paid under the Plan to the extent that taxes are not withheld thereon, irrespective of whether withholding is required.

Section 7. Administrative Matters

(a) Claims Process.

(i) To be effective under this procedure, a claim for benefits by a Participant or Beneficiary must be made to the Plan Administrator or its designee in writing, unless the Plan Administrator or its designee waives such writing requirement.

(ii) If a claim is wholly or partially denied, the Plan Administrator or its designee shall furnish such claimant with written notice of the denial within 90 days after the original claim was filed, unless special circumstances require a longer period (not exceeding an additional 90 days) for adjudication and the claimant is notified in writing of such extension prior to the expiration of the initial 90-day period. A notice of denial shall set forth in a manner calculated to be understood by the claimant (1) the reasons for denial, (2) specific reference to pertinent Plan provisions on which the denial is based, (3) a description of any additional information needed to perfect the claim and an explanation of why such information is necessary, and (4) an explanation of the Plan's claims procedure.

(iii) The claimant shall have 90 days from receipt of the denial notice in which to make written application for review by the Plan Administrator or its designee. The claimant shall have the right (1) to receive upon request and free of charge, reasonable access to, and copies of all documents, records, and other information relevant to the claim for benefits, and (2) to submit written comments, documents, records, and other information relating to the claim.

(iv) The Plan Administrator or its designee shall issue a decision within 60 days after receipt of an application for review, unless special circumstances require an extension. In no event will the decision be delayed beyond 120 days after receipt of the application for review.

(v) A claimant for benefits whose application for review is totally or partially denied may make a final appeal to the Plan Administrator or designee within 90 days

from receipt of the second denial notice. The final request for review must be in writing. The same rights detailed in (iii) above will apply for this appeal.

(vi) The Plan Administrator shall issue a decision on the final appeal within 60 days after the receipt of an final appeal, unless special circumstances require an extension. In no event will the decision be delayed beyond 120 days after receipt of the final appeal.

The Plan Administrator may establish such additional rules and procedures for processing claims as it deems advisable. All interpretations, determinations, and decisions of the Plan Administrator or its designee under this claims procedure shall be final and conclusive.

(b) Incapacity. If the Plan Administrator determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness, accident or other physical and mental incapacity, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid consistent with the terms described herein for the benefit of such person to such person's spouse, parent, brother, sister, adult child or other party deemed by the Plan Administrator in its sole discretion to ensure proper care for such person.

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

Section 8. Unfunded Status

All Accounts and all rights of Participants to benefits under the Plan are unfunded obligations of the Company. Plan benefits shall be paid from the general assets of the Company, and Participants shall have the status of an unsecured general creditor of the Company with respect to all interests under the Plan. The Plan is a plan of unfunded deferred compensation for purposes of ERISA. Notwithstanding the foregoing, the Company may, but shall not be required to, establish a trust or other funding vehicle under the Plan that does not affect the Plan's status as a Plan of unfunded deferred compensation under ERISA.

Section 9. Nontransferability; Successors

No interest of any person in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person.

The obligations of the Company under the Plan will be binding upon the Company's successors, transferees and assigns.

Section 10. Limitation of Rights

Nothing in the Plan shall confer upon any Participant the right to continue to be employed by the Company or to serve in the capacity in which the Participant is employed by the Company. Nothing in the Plan shall be interpreted as creating a right of a Participant to receive any amount of Base Salary, Annual Bonus or other compensation or benefit from the Company.

Section 11. Enforceability

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

Section 12. Effective Date; Amendment and Termination

The Plan, as amended and restated, shall become effective for the 2009 Plan Year and for future Plan Years until terminated by the Board. The Board may amend or terminate the Plan at any time and in any manner; provided that no amendment or termination shall reduce the amount credited to a Participant's Account at the time of any such amendment or termination, and no amendment shall be effective that shall cause the Plan to fail to meet the requirements of Section 409A. Upon termination of the Plan in accordance with the requirements of Section 409A, (i) all future deferrals of compensation will cease, (ii) all Plan Accounts will continue to receive interest credits (or be invested) as permitted under the Plan, and (iii) all Plan Accounts will be distributed in accordance with the Participant's elections under the provisions of the Plan, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements of Section 409A.

ELI LILLY AND COMPANY

APPENDIX A

GRANDFATHERED AMOUNTS

Distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A shall be made in accordance with the Plan terms as in effect on April 19, 2004, as attached below.

The Lilly Deferred Compensation Plan

(As Amended and Restated as of April 19, 2004)

Section 1. Establishment of the Plan.

There is hereby established for the benefit of Participants an unfunded plan of voluntarily deferred compensation known as "The Lilly Deferred Compensation Plan."

Section 2. Definitions.

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

2.1. Base Salary. The term "Base Salary" means the base salary to which a management employee is entitled for services rendered to the Company as a management employee.

2.2. Base Salary Year. The term "Base Salary Year" means each calendar year in which Base Salary deferred under the Plan is earned by a Participant.

2.3. Beneficiary. The term "Beneficiary" means the beneficiary or beneficiaries (including any contingent beneficiary or beneficiaries) designated pursuant to subsection 6.2 hereof.

2.4. Board of Directors. The term “Board of Directors” means the Board of Directors of Eli Lilly and Company.

2.5. Bonus. The term “Bonus” means the payment to which an Eligible Employee is entitled pursuant to the Contingent Compensation Plan,the Senior Executive Bonus Plan or the Lilly Executive Bonus Plan (the EVA Bonus Plan) of the Company or any other similar compensation plan as may from time to time be designated by the Committee.

2.6. Bonus Year. The term “Bonus Year” means each calendar year in which a Bonus deferred under the Plan is earned by a Participant.

2.7. Committee. The term “Committee” means the committee designated in subsection 9.1 hereof to administer the Plan.

2.8. Company. The term “Company” means Eli Lilly and Company and its affiliates and subsidiaries.

2.9. Company Credit. The term “Company Credit” means an amount computed and credited each calendar year or part thereof to Participants’ accounts as described in Section 5 at a rate that is equal to one hundred twenty percent (120%) of the applicable federal long-term rate, with compounding (as prescribed under Section 1274(d) of the Internal Revenue Code) that was in effect for the month of December immediately preceding the calendar year.

2.10. Disability. The term “Disability” means a condition that the Committee determines (i) is attributable to sickness, injury, or disease and (ii) renders a Participant incapable of engaging in any activity for remuneration or profit commensurate with the Participant’s education, experience, and training.

2.11. Eligible Employee. The term “Eligible Employee” means a management employee of the Company who is designated by the Committee as eligible to defer a Bonus earned in the following year.

2.12. Lilly. The term “Lilly” means Eli Lilly and Company.

2.13. Participant. The term “Participant” means an Eligible Employee who has elected to defer all or part of a Bonus pursuant to the Plan in accordance with Section 3.1 hereof or an SEC Executive Officer who has elected to defer all or part of Base Salary pursuant to the Plan in accordance with Section 3.2 hereof.

2.14. Plan. The term “Plan” means “The Lilly Deferred Compensation Plan” as set forth herein and as it may be amended from time to time.

2.15. Retirement. The term “Retirement” means the first day of the month next following the Participant’s last day of work for the Company, but only if such first day of the month occurs on or after the first to occur of (i) the day on which the Participant attains age 65 or (ii) the day on which the Participant is eligible to commence receiving a monthly retirement benefit under a retirement plan or program maintained by the Company and covering the Participant.

2.16. SEC Executive Officers. The term “SEC Executive Officers” shall mean those officers and employees from time to time designated as Executive Officers for purposes of the proxy statement and Form 10-K.

Section 3. Participation.

3.1. Bonuses. Prior to the beginning of each Bonus Year, the Committee shall select those Eligible Employees who may elect to defer Bonuses pursuant to the Plan. Upon selection by the Committee and before the beginning of the applicable Bonus Year, an Eligible Employee may defer the receipt of a Bonus pursuant to the Plan by filing a written election with the Committee, in a form satisfactory to the Committee, that

(i) defers payment of a designated amount (of One Thousand Dollars ($1,000) or more) or percentage of the Bonus, if any, to be earned in the Bonus Year, and

(ii) specifies the payment option selected by the Participant pursuant to subsection 6.1 hereof.

The amount deferred may not exceed the amount of the Bonus. Except as provided in subsections 6.1 and 6.3 hereof, any election made pursuant to this Section 3 (including any election made pursuant to paragraphs (i) and (ii), above) with respect to a Bonus Year shall be irrevocable when made.

Selection of an Eligible Employee for deferral of a Bonus during one year does not confer upon the Eligible Employee a right to defer Bonuses for subsequent years. The Eligible Employees who shall be permitted to defer Bonuses pursuant to the Plan shall be selected annually by the Committee. If an Eligible Employee is also an SEC Executive Officer as of the beginning of the Bonus Year, the Eligible Employee may also defer the receipt of Base Salary as provided in Section 3.2.

3.2. Base Salary. Subject to the right of the Committee to limit deferrals described below, prior to the beginning of each Compensation Year, an SEC Executive Officer may defer the receipt of up to one hundred percent (100%) of Base Salary pursuant to the Plan by filing a written election with the Committee, in a form satisfactory to the Committee, that

(i) defers payment of a designated amount of One Thousand Dollars ($1,000) or more or a percentage of Base Salary, and

(ii) specifies the payment option selected by the Participation pursuant to subsection 6.1 hereof.

The amount deferred may not exceed the amount of Base Salary. Except as provided in subsections 6.1 and 6.3 hereof, any election made pursuant to this Section 3 (including any

election made pursuant to paragraphs (i) and (ii), above) with respect to a Bonus Year shall be irrevocable when made and shall not be affected by the Participant's ceasing to be an SEC Executive Officer after the beginning of the Bonus Year.

The Committee reserves the right to limit the amount of Deferrals of Base Salary to assure that the Company has sufficient funds to cover taxes, benefit payments, and other necessary and appropriate deductions.

Section 4. Individual Account.

The Treasurer of Lilly shall maintain an account in the name of each Participant. In the year following the Bonus Year or Base Salary Year, each Participant's account shall be credited, as of the first day of the month in which Bonuses or Base Salary are paid, with the amount that the Participant has elected to defer hereunder. Each Participant shall be given an annual statement, as of December 31 of each year, showing for each year (i) the amount of Bonuses or Base Salary deferred and (ii) the amount of the Company Credit to the Participant's account.

Section 5. Accrual of Company Credit.

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

Section 6. Payment.

6.1. Payment Options. The Participant shall select a payment election from the payment options described below. A Participant may elect that his final payment election control over all prior payment elections. The payment option selected by a Participant shall provide for payment to the Participant of the amount credited to the Participant's account in

(i) a lump sum in January of the second calendar year following the calendar year in which the Participant's employment terminates by reason of Retirement or Disability; or

(ii) annual installments over a period of two to ten years commencing in January of the second calendar year following the calendar year in which the Participant's employment terminates by reason of Retirement or Disability;

provided, that in no event shall a lump sum be paid or installment payments begin under any payment option before the first January that begins after any Bonus that has been deferred under the payment option has been determined. The Company shall pay the aggregate amounts deferred, together with a proportionate part of the aggregate Company Credit accrued to the date (or dates) of payment, in the manner and on the date(s) specified by the Participant. If a payment option described in paragraph (i), above, has been elected, the amount of the lump sum shall be equal to the amount credited to the Participant's account as of the December 31 next preceding the date of the payment. If the payment option described in paragraph (ii), above, has been elected, the amount of each installment shall be equal to the amount credited to the Participant's account as of the December 31 next preceding the date of the installment payment divided by the number of installment payments that have not yet been made. If the Participant fails to elect a payment option, the amount credited to the Participant's account shall be distributed in a lump sum in accordance with the payment option described in paragraph (i), above. If the amount credited to the Participant's account is less than $25,000 at any time following the year in which

the Participant's employment terminates by reason of Retirement of Disability, the Committee, in its sole discretion, may pay out the amount credited to the Participant's account in a lump sum.

6.2. Payment upon Death. Within a reasonable period of time following the death of a Participant, the balance in the Participant's account shall be paid in a lump sum to the Participant's Beneficiary. For purposes of this subsection 6.2, the balance in the Participant's account shall be determined as of the date of payment. A Participant may designate the Beneficiary, in writing, in a form acceptable to the Committee, and filed with the Committee before the Participant's death. A Participant may, before the Participant's death, revoke a prior designation of Beneficiary and may also designate a new Beneficiary without the consent of the previously designated Beneficiary, provided that such revocation and new designation (if any) are in writing, in a form acceptable to the Committee, and filed with the Committee before the Participant's death. If the Participant does not designate a Beneficiary, or if no designated Beneficiary survives the Participant, any amount not distributed to the Participant during the Participant's life shall be paid to the Participant's estate in a lump sum in accordance with this subsection 6.2.

6.3. Resignation or Dismissal. Within a reasonable time following termination of a Participant's employment by resignation or dismissal, the balance in the Participant's account shall be paid in a lump sum to the Participant. For purposes of this subsection 6.3, the balance in the Participant's account shall be determined as of a date determined by the Cormittee in its sole discretion.

6.4. Payment on Unforeseeable Emergency. The Administrator may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Account balance, notwithstanding an election under Section 6.1. above, at any time that it determines that such Participant has an unforeseeable emergency and then only to the extent reasonably necessary to meet the emergency. For purposes of this rule, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to

casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved —

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

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

(iii) By cessation of deferrals under the Plan.

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

6.5. Cash Payments. All payments under the Plan shall be made in cash.

Section 7. Prohibition Against Transfer.

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

Section 8. Participant's Rights Unsecured.

The Plan is unfunded. The right of any Participant to receive payments under the Plan shall be an unsecured claim against the general assets of the Company.

Section 9. Administration.

9.1. Committee. The Plan shall be administered by the Compensation and Management Development Committee of the Board of Directors,the members of which shall be selected by the Board of Directors from among its members. No member of the Committee may be a salaried employee of the Company.

9.2. Powers of the Committee. The Committee's powers shall include, but not be limited to, the power

(i) to select Eligible Employees for participation in the Plan,

(ii) to interpret the terms and provisions of the Plan and to determine any and all questions arising under the Plan, including, without limitation, the right to remedy possible ambiguities, inconsistencies, or omissions by a general rule or particular decision,

(iii) to adopt rules consistent with the Plan, and

(iv) to limit the deferrals of SEC Executive Officers to assure that the Company has sufficient funds to cover taxes, benefit payments, and other necessary or appropriate deductions.

9.3. Finality of Committee Determinations. Determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives.

9.4. Claims Procedures. Any person making a claim for benefits hereunder shall submit the claim in writing to the Committee. If the Committee denies the claim in whole or in part, it shall issue to the claimant a written notice explaining the reason for the denial and identifying any

additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within 60 days of receiving a written notice of denial, submit a written request for reconsideration to the Committee, together with a written explanation of the basis of the request. The Committee shall consider any such request and shall provide the claimant with a written decision together with a written explanation thereof. All interpretations, determinations, and decisions of the committee in respect of any claim shall be final and conclusive.

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

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

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

9.8. Legal Holidays. If any day on (or on or before) which action under the Plan must be taken falls on a Saturday, Sunday,or legal holiday, such action may be taken on (or on or before) the next succeeding day that is not a Saturday, Sunday,or legal holiday; provided, that this subsection 9.8 shall not permit any action that must be taken in one calendar year to be taken in any subsequent calendar year.

Section 10. No Employment Rights.

No provision of the Plan or any action taken hereunder by the Company, the Board of Directors, or the Committee shall give any person any right to be retained in the employ of the Company, and the right and power of the Company to dismiss or discharge any Participant is specifically reserved.

Section 11. Amendment, Suspension, and Termination.

The Board of Directors shall have the right to amend, suspend, or terminate the Plan at any time. The Committee shall also have the right to amend the Plan, except for subsection 9.1 hereof and this Section 11.

Section 12. Applicable Law.

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

Section 13. Effective Date.

This amendment and restatement of the Plan is effective as of January 1, 2004. Nothing herein shall invalidate or adversely affect any previous election, designation, deferral, or accrual in accordance with the terms of the Plan that were then in effect.

ELI LILLY AND COMPANY

2007 CHANGE IN CONTROL SEVERANCE PAY PLAN
FOR SELECT EMPLOYEES
As Amended Effective January 1, 2009

1. PURPOSE

This Eli Lilly and Company 2007 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. The Plan replaces the Change in Control Severance Pay Plan for Select Employees that was originally adopted by the Board on March 1, 1995, and became operative immediately upon the expiration of such plan with respect to a Change in Control occurring on or after March 1, 2007. The Plan as amended by action of the Board of Directors of the Company on October 20, 2008, shall become effective on January 1, 2009.

2. DEFINITIONS

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

(a) “Base Salary” means an Eligible Employee’s gross annualized rate of base salary at the time of any determination hereunder, 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.

(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 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.

(f) “Company” means Eli Lilly and Company, an Indiana corporation.

(g) “Covered Termination” has the meaning given in Section 6.

(h) “Eligible Employee” has the meaning given in Section 5.

(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) “Participating Employer” has the meaning given in Section 4.

(l) “Plan” means this Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees.

(m) “Retirement Age” means the date the Eligible Employee reaches age 65, unless the Company’s senior most officer responsible for the Human Resources department has approved a later date as the Retirement Age for the Eligible Employee.

(n) “Section 409A” shall mean Section 409A of the Code and the applicable rulings and regulations promulgated thereunder.

(o) “Separation from Service” shall mean a “separation from service” from a Participating Employer within the meaning of Section 409A.

(p) “Severance Period” means the two (2) year period immediately following a Covered Termination.

3. CHANGE IN CONTROL

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 15% or more of the shares of the Company’s capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board (or which would have such voting power but for the application of the Indiana Control Shares Statute) (“Voting Stock”); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control under this Section 3(a);

(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) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the Voting Stock of the Company or such surviving entity immediately after such Transaction;

(d) 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 or limited liability company 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 individuals 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 or severance benefits generally, it would be in the best interests of the Company to so exclude or limit such participation. In addition, unless otherwise specified by the Committee, the severance payments and benefits under this Plan shall offset the benefits otherwise payable to any such Eligible Employee under severance arrangements that exist by reason of applicable local law, practice or policy.

5. ELIGIBLE EMPLOYEES

All employees of the Participating Employers, including executive officers (as defined in Rule 3b-7 under the Exchange Act), who are classified by the Company as R8 or M5-M8 global job level or other groups or individuals as designated by the Committee (or any successor classifications) immediately prior to the Change in Control shall be eligible to participate in the Plan and shall be considered an Eligible Employee for all purposes hereunder. Any person who is an Eligible Employee in accordance with the foregoing shall continue to be an Eligible Employee notwithstanding any change in his/her position or classification following a Change in Control, subject to Section 6 hereof relating to certain terminations of employment that are not treated as a Covered Termination. The Committee shall notify each Eligible Employee of his/her participation in the Plan prior to the Change in Control; provided that any failure to so notify shall not effect the Eligible Employee's participation in the Plan.

6. COVERED TERMINATIONS

A. General. An Eligible Employee shall be treated as having suffered a "Covered Termination" hereunder if he/she incurs a Separation from Service within a period of two (2) years immediately following the date of a Change in Control; (i) by a Participating Employer other than for "Cause", or (ii) by the Eligible Employee for "Good Reason." For purposes of the foregoing, the two (2) year time period specified above within which a Separation from Service 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. For purposes of the Plan, a Separation from Service shall be effective as of the last date of the Eligible Employee's employment with the Participating Employer.

An Eligible Employee shall not be treated as having suffered a Covered Termination in the event of (1) death, (2) total disability (within the meaning of the Company's Extended Disability Plan), (3) transfer of employment among Participating Employers (unless such transfer results in a Separation from Service for "Good Reason"), (4) involuntary termination by the Participating Employer for "Cause", (5) voluntary termination by the Eligible Employee other than for Good Reason, (6) a

termination of employment for any reason by either the Participating Employer or the Eligible Employee that does not occur during the two (2) year time period specified above or (7) a termination of employment for any reason by either the Participating Employer or the Eligible Employee after the Eligible Employee reaches Retirement Age.

B. Termination For Cause. For purposes hereof, an Eligible Employee's Separation from Service by the Participating Employer shall be deemed to be 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;

(ii) any act of fraud, dishonesty or gross misconduct of the Eligible Employee resulting in significant economic harm to any Participating Employer or other significant harm to the business reputation of any Participating Employer; or

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

A termination for Cause shall be communicated to the Eligible Employee in writing by the
Participating Employer and shall specify the provisions of the Plan and factual matters relied upon in making the Cause determination.

C. Termination for Good Reason. For purposes hereof, an Eligible Employee's Separation from Service by the Eligible Employee shall be deemed to be for "Good Reason" if 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 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, retiree 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, stock units, performance shares or similar 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;

(vi) relocation of the Eligible Employee by more than fifty (50) miles from his/her regularly assigned workplace existing immediately prior to the date of the Change in Control; or

(vii) any failure by a successor entity to the Company (including any entity that succeeds to the business or assets of the Company) in connection with a Change in Control to assume by operation of law or otherwise the obligations of the Company under the Plan, or any attempted amendment, termination or repudiation of the Plan by such successor entity, other than pursuant to the provisions of Section 15.

For purposes of the foregoing, but without limitation of the Eligible Employee's right to otherwise terminate employment for Good Reason, if the Eligible Employee is in charge of a principal business unit, division or function of the Company immediately prior to a Change in Control, Good Reason shall not be deemed to exist based solely on the fact that the Eligible Employee is not in charge of such principal business unit, division or function of the combined entity following the Change in Control, unless as a result thereof, the Eligible Employee suffers a material diminution in the nature or status of the Eligible Employee's position, title, reporting relationship, duties, responsibilities or authority or suffers some other Good Reason event.

A termination for Good Reason shall be communicated to the Participating Employer in writing by the Eligible Employee within thirty (30) days following his/her knowledge of the circumstances constituting Good Reason, and shall specify the provisions of the Plan and the factual matters relied upon in making the Good Reason determination. The Participating Employer shall have the opportunity to cure the circumstances constituting Good Reason within 15 days following receipt of such written notice from the Eligible Employee, and if such circumstances are fully cured, such circumstances shall cease to constitute the basis for a Good Reason termination hereunder.

7. SEVERANCE PAYMENT

A. Amount of Severance Payment. The amount of the severance payment to be paid by the Company to an Eligible Employee who is treated as having suffered a Covered Termination hereunder shall equal two (2) times the sum of:

(i) the Eligible Employee's Base Salary at the time of Covered Termination (calculated without regard to any reduction in 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 annual cash incentive bonus for the year of Covered Termination or (b) the amount of the Eligible Employee's annual cash incentive bonus paid or payable, for the most recently completed calendar year prior to the Change in Control.

B. Payment of Severance. The severance payment to be made hereunder shall be paid to the Eligible Employee in a single lump-sum cash payment, less any required tax withholding, on the date that is thirty (30) calendar days following the date of the Eligible Employee's Covered Termination, conditioned upon the Eligible Employee having complied, prior to that date with the requirements of Section 10 hereof regarding a release of claims. Notwithstanding the foregoing, if the Eligible Employee is treated as a "specified employee" (within the meaning of Section 409A) as of the date of any payment under this Plan upon such Separation from Service, then, to the extent required by Section 409A, the commencement of any payment shall be delayed until the first business day following the date that is six (6) months following the date of such Separation from Service.

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 continue to participate, on the same basis as active employees of the Participating Employer, for the duration of the Severance Period in the Participating Employer's medical and dental plans, group life insurance plans, company-provided death benefit, supplemental life insurance and long-term disability plans for which he/she was eligible at the time of Covered Termination (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control), as though his/her Separation from Service 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 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 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). If and to the extent that any benefit under this Section 8.A or under Section 8.B. is not eligible for exemption from Section 409A pursuant to Treasury Regulation § 1.409A-1(b)(9)(v) (or any successor regulation) or otherwise, the Company shall, pursuant to Section 18 hereof, take such actions as it deems necessary to comply with the requirements of Treasury Regulation § 1.409A-3(i)(1)(iv) (or any successor regulation), including, without limitation, by providing that (i) the amount of the benefit under this Section 8.A or under Section 8.B. in any calendar year shall not affect the amount of the benefit thereunder for any other calendar year, (ii) any reimbursement of expenses under this Section 8.A or under Section 8.B. be made not later than the last day of the calendar year following the year in which the Eligible Employee incurred such expenses, and (iii) in no event shall any right to reimbursement or receipt of in-kind benefits under this Section 8.A. or under Section 8.B. be subject to liquidation or exchange for another benefit.

B. Retiree Welfare Benefits. For purposes of determining eligibility, but not for the purpose of determining the amount of any benefit, for the retiree medical and dental plans applicable to Eligible Employee (the "Retiree Welfare Plans"), the Eligible Employee shall receive additional credit for two years for purposes of both age and service requirements under the Retiree Welfare Plans, but not beyond the Retirement Age of the Eligible Employee. If an Eligible Employee shall be eligible for participation in the Retiree Welfare Plans at the time of Covered Termination (including by reason of this Section 8.B.), then (i) for the Severance Period, he/she shall be entitled to continue to participate in either the Retiree Welfare Plans or the Welfare Continuation Coverage pursuant to Section 8.A. hereof, whichever provides greater benefits to the Eligible Employee on a coverage by coverage basis, and (ii) following the Severance Period, he/she shall be entitled to continue to participate in the retiree welfare benefit program on the same basis and subject to the same terms and conditions as provided to retired employees of the Participating Employer generally, or if no such program is provided, the program of the successor entity following the Change in Control, if any.

C. 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 (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control), including all such tax-qualified and supplemental plans, by taking into account under such plans (i) two additional years for the 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 two years, 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 the terms and conditions of the Lilly Excess Benefit Plan — Retirement, or any successor plan. Notwithstanding the foregoing, the Eligible Employee will only receive additional age, service and compensation credit hereunder until his/her Retirement Age.

D. 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, (ii) the Eligible Employee shall be entitled to exercise any stock options or similar equity-based incentive rights until the expiration of three years following the date of the Covered Termination (or until such later date as may be applicable under the terms of the option or other right upon termination of employment), subject to the maximum full term of the option but without regard to any earlier termination otherwise applicable in the event of termination of employment, and (iii) any performance shares, stock units 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, with any payment to be made in accordance with the terms of the applicable award agreements in accordance with the requirements for compliance with Section 409A. 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, with any payment to be made in accordance with the terms of the applicable award agreements in accordance with the requirements for compliance with Section 409A. The provisions of this Section 8.D 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.

E. 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 Base Salary through the date of Covered Termination; (ii) payment within fifteen (15) calendar days of Covered Termination of any accrued but unpaid annual cash bonus for the most recently completed calendar year prior to the Covered Termination; (iii) payment within fifteen (15) calendar days of Covered Termination of the accrued annual cash 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 annual cash bonus for the period of such year through the date of termination; and (iv) all benefits and rights accrued under the employee benefit plans, fringe benefit programs and payroll practices of a Participating Employer in accordance with their terms (including, without limitation, employee pension, employee welfare, incentive bonus and stock incentive plans).

F. 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 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. Payment for any such outplacement service services or relocation expense shall be made on the business day that is six (6) months following the date of the Covered Termination.

G. 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, provided that such insurance policies are commercially available from carriers of recognized standing, 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.

H. Retention Bonuses and Loans. Immediately upon a Covered Termination, there shall automatically be forgiven any repayment obligation of the Eligible Employee to the Participating Employer that arises under any retention bonus agreement, forgivable loan or similar arrangement that provides for the lapse of the Eligible Employee's repayment obligation over time based on continued employment or other conditions (but not under any other loan obligations of the Eligible Employee that do not include forgiveness provisions).

9. EXCISE TAX REIMBURSEMENT

(a) In the event it shall be determined that any payment, right or distribution by the Company or any other person or entity to or for the benefit of an Eligible Employee pursuant to the terms of this Plan or otherwise, 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") is a "parachute payment" within the meaning of Section 280G of the Code on account of the aggregate value of the Payments due to the Eligible Employee being equal to or greater than three times the "base amount," as defined in Section 280G(b)(3) of the Code, (the "Parachute Threshold") so that the Eligible Employee would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), concurrent with the making of such Payment, then (i) in the event the aggregate value of the Payments exceeds the Parachute Threshold by less than 3%, one or more Payments shall be reduced so that the aggregate value of the Payments is $1.00 less than the Parachute Threshold Amount, reducing first any Payments under Section 8.D hereof, then taxable Payments and thereafter any other non-taxable Payments, or (ii) in the event that the aggregate value of the Payments exceeds the Parachute Threshold by 3% or more, 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 Payments and any federal, state or local income tax and Excise Tax on the Gross-Up Payment shall equal the amount of such Payments. 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. The rights of the Eligible Employee to a Gross-Up Payment under this Section 9 shall apply without regard to whether the Eligible Employee has incurred a Covered Termination and shall apply to all payments whether or not in connection with a Covered Termination.

(b) All determinations required to be made under this Section 9, including whether any Payment is a "parachute payment" and whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm designated by the Company which is not the auditor of the Company or another party involved in the Change in Control (the "Accounting Firm") and shall be based upon "substantial authority" (within the meaning of Section 6662 of the Code). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Eligible Employee within 15 business days

of the receipt of notice from the Company or an Eligible Employee that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Eligible Employee within five business days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Eligible Employee.

10. RELEASE OF CLAIMS

All payments and benefits that may be made to an Eligible Employee upon a Covered Termination under the Plan shall be contingent upon the Eligible Employee entering into and not revoking a general release of employment law claims against the Company and the Participating Employer in substantially the form attached hereto as Exhibit A, subject to such modifications as may be determined by the Committee in good faith to take into account changes in employment laws or differences in employment laws in other jurisdictions. The Company will provide the general release to the Eligible Employee within five business days of the Covered Termination.

11. 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. Except as provided in Section 10, 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.

12. 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.

13. 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.

14. CLAIMS AND DISPUTES

Within fifteen (15) calendar days following 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 sixty (60) 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 14 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.

15. TERM AND AMENDMENT

The Plan became effective as on July 1, 2004, but only became operative with respect to a Change in Control occurring on or after March 1, 2007, the date as of which the Plan as previously in effect was terminated by action of the Board. The Plan as amended by action of the Board of Directors of the Company on October 20, 2008 shall become effective with respect to a Change in Control occurring on or after January 1, 2009. The Plan shall continue to be effective until terminated in accordance with this Section 15. The Board shall have the right, by resolution or other written action, to terminate or amend the Plan; provided, however, that the Plan may only be terminated or amended prior to a Change in Control, and then only (i) with respect to an amendment or termination that becomes effective upon the second (2nd) anniversary of notice being given thereof to Eligible Employees generally, or (ii) to the extent any 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. Notwithstanding the foregoing, in the event of a Change in Control, the Plan shall continue in effect, and no termination or amendment of the Plan shall occur, until the satisfaction of all severance payments and benefits to which Eligible Employees are or may become entitled to under the Plan. Upon the occurrence of a Change in Control during the term of the Plan, the Plan shall not be operative with respect to any subsequent Change in Control.

16. 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. Any successor to the Company shall be required to assume the Plan in writing and honor the obligations of the Company and the Participating Employers hereunder. 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.

17. 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.

18. SECTION 409A COMPLIANCE

To the extent applicable, it is intended that the Plan and all payments hereunder comply with the requirements of Section 409A, and the Plan shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A. In the event that any provision of the Plan is determined by the Committee to not comply with the applicable requirements of Section 409A, the Committee shall have the authority to take such actions and to make such changes to the Plan as the Committee deems necessary to comply with such requirements. In no event whatsoever shall the Company be liable for any tax, interest or penalties that may be imposed on the Eligible Employee by or any damages for failing to comply with Section 409A. Notwithstanding the foregoing or anything elsewhere in the Plan to the contrary, if an Eligible Employee is treated as a “specified employee” as of the date of any payment under this Plan, then, to the extent required, the commencement of any payment under this Plan shall be delayed until the date that is six (6) months following the date of the Eligible Employee’s Separation from Service.

EXHIBIT A

SEVERANCE AGREEMENT AND RELEASE OF CLAIMS

Definitions. I intend all words used in this Severance Agreement and Release of Claims ("Agreement") to have their plain meanings in ordinary English. Specific terms that I use in this Agreement have the following meanings:

A. I, me, and my include both me and anyone who has or obtains any legal rights or claims through me.

B. Lilly means Eli Lilly and Company and any company related to Eli Lilly and Company in the present or past, including without limitation, its or their predecessors, successors, parents, subsidiaries, affiliates, joint venture partners, and divisions.

C. Company means Lilly; the present and past officers, directors, committees, agents, shareholders, and employees of Lilly; any employee benefit plan sponsored or maintained by Lilly; any company providing insurance to Lilly in the present or past; the present and past fiduciaries and administrators of any employee benefit plan sponsored or maintained by Lilly (other than multi-employer plans); and anyone who acted on behalf of Lilly or on instructions from Lilly.

D. Actual Termination Date means _____.

E. Severance Benefit means the severance payment and severance benefits described in Sections 7 and 8 of the Plan.

F. Plan means The 2007 Change in Control Severance Pay Plan For Select Employees, as in effect for a change in control on or after March 1, 2007, as amended from time to time.

G. My Claims mean, except as specifically excluded in the last paragraph of this section following item G.8. below, all of my rights that I now have to any personal relief of any kind from the Company, including without limitation:

1. all claims arising out of or relating to my employment with Lilly, the terms and conditions of that employment, or the termination of that employment, and the continuing effect, thereof;

2. all claims arising out of or relating to actual or alleged statements, actions, or omissions of the Company;

3. all claims for any alleged unlawful discrimination, harassment, retaliation or reprisal, or other alleged unlawful practices based on religion, natural origin, ancestry, marital status, sex, sexual orientation, age, race, color, disability or any other characteristic or category protected by law arising under any federal, state, or local statute, ordinance, or regulation, including without limitation claims under the Indiana Civil Rights Act, Title VII of the Civil Righ0074s Act of 1964, the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., the

Americans with Disabilities Act, 42 U.S.C. §1981, the Employee Retirement Income Security Act, the Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act, the Equal Pay Act, The California Fair Employment and Housing Act, The California Family Rights Act, the California Labor Code, the California Civil Code, the California Business & Professions Code, the California Constitution and workers' compensation non-interference or non-retaliation statutes;

4. all claims for alleged wrongful discharge; breach of contract; breach of implied contract; failure to keep any promise; breach of a covenant of good faith and fair dealing; breach of fiduciary duty; estoppel; my activities, if any, as an actual or alleged "whistleblower"; defamation; infliction of emotional distress; fraud; misrepresentation; negligence; harassment; retaliation or reprisal; constructive discharge; assault; battery; false imprisonment; invasion of privacy; interference with contractual or business relationships; any other wrongful employment practices; and violation of any other principle of common law;

5. all claims for compensation or monetary damages of any kind, including without limitation, salary, wages, bonuses, commissions, sales incentive payments, equity-based compensation, vacation pay, and expense reimbursements;

6. all claims for reinstatement or other personal equitable relief, back pay, front pay, compensatory damages, damages for alleged personal injury, liquidated damages, and punitive damages;

7. all claims under any employee benefit plan sponsored or maintained by the Company (except as otherwise provided in this Agreement); and

8. all claims for attorneys' fees, costs, and interest.

However, My Claims does not include any claims for vested benefits payable under the terms of a plan qualified under Section 401(a) of the Internal Revenue Code of 1986, any claims for continuation coverage under the federal law known as COBRA, any claims that are or may be asserted in the case of *Schaefer-Larose, et al. v. Eli Lilly and Company*, and any other claims that the law does not allow to be waived or any claims that may arise after the date on which I sign this Agreement. My Claims includes any claim to personal relief from any Equal Employment Opportunity Commission ("EEOC") or state or local administrative charge I have filed or may file against the Company as described below under the heading "**Representations and Waiver of Personal Relief as to Administrative Charges**."

Agreement to Release My Claims. I will receive a Severance Benefit from Lilly as set forth in the Plan if I sign and, if I am age 40 or older at the time I sign the Agreement, do not revoke this Agreement as provided below. I understand and acknowledge that I will not be entitled to receive the Severance Benefit if I do not sign this Agreement or, if I am age 40 or older at the time I sign the Agreement and I timely revoke this Agreement. In exchange for the Severance Benefit, I give up all of My Claims to the fullest extent permitted by law, and I agree to abide by this Agreement in all respects. I will not bring any lawsuits against the Company or make any demands against the Company for compensation or damages relating to My Claims. The Severance Benefit that I am receiving under the Plan is a fair compromise for my undertakings in this Agreement.

This release includes any claims that are being asserted or in the future are, or ever could be, asserted or considered within the scope of the case of *Welch et al. vs. Eli Lilly and Company,* Civil Action No. 1:06-CV-0641, United States District Court for the Southern District of Indiana (the "Welch Action"). The Welch Action is a lawsuit that was filed by current and former African-American Lilly employees alleging that they were discriminated against on the basis of their race. Lilly denies these allegations. The plaintiffs in the Welch Action have expressed their intention to seek class treatment. I understand that I may be a member of the putative class. By signing this Agreement, I understand that I am giving up any right to receive any personal relief as a result of the Welch Action.

Waiver of California Civil Code Section 1542. I have read and understand the following language contained in Section 1542 of the California Civil Code:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

I expressly waive all rights, if any, that I may have under this statute with respect to the matters described in the "Agreement to Release My Claims" paragraph of this Agreement.

Indemnification Agreement. I agree to indemnify Lilly to the fullest extent permitted by law from all claims, costs and expenses, including all attorneys' fees, arising out of any misrepresentation made by me in this Agreement. In the event I initiate, pursue or maintain any lawsuit (other than a suit under the Age Discrimination in Employment Act) against Lilly based on any claim, complaint, action, injury or right of action for which I have released and agreed not to sue Lilly in this Agreement, I agree, to the fullest extent permitted by law, to pay all costs and attorneys' fees incurred by Lilly in defending such lawsuit. Nothing in this paragraph shall limit my charge-filing rights as described below in the section titled "**Representations and Waiver of Personal Relief as to Administrative Charges**," and I shall have no obligation to pay Lilly for costs or attorney's fees incurred by Lilly in defending against any EEOC or state or local administrative agency charge filed by me against Lilly as long as I waive and release any and all entitlement to any form of personal relief arising from any such charge as described below.

Agreement to Cooperate in Investigations and Litigation. I agree that I will, at any future time before or after my Actual Termination Date, be available upon reasonable notice from Lilly, with or without subpoena, to be interviewed, review documents or things, give depositions, testify, or engage in other reasonable activities, with respect to matters concerning which I have or may have knowledge as a result of or in connection with my employment by Lilly. In performing my obligations under this paragraph to testify or otherwise provide information, I will honestly, truthfully, forthrightly, and completely provide the information requested. I will comply with this Agreement upon notice from Lilly that Lilly or its attorneys believe that my compliance would be helpful in the resolution of an investigation or the prosecution or defense of litigation.

Additional Agreements and Understandings. Even though Lilly will provide a Severance Benefit to me under the Plan for me to settle and release My Claims and to otherwise abide by this Agreement, the Company denies that it violated any law or committed any wrongful act.

Representations and Waiver of Personal Relief as to Administrative Charges.

I understand and agree that although by signing this Agreement and accepting the Severance

Benefit I do not waive my right to file an Equal Employment Opportunity Commission ("EEOC") charge against Lilly, or to file a charge with any comparable state or local administrative agency, or to cooperate in an EEOC or agency investigation of any such charge, I do waive and release, to the fullest extent permitted by law, any and all entitlement to any form of personal relief arising from any such charge I have filed or may file in the future against Lilly related to my employment with Lilly. I understand that this waiver and release of personal relief would not affect the EEOC's or state or local administrative agency's ability to investigate such a charge or to pursue relief on behalf of other individuals. If I have filed such a charge prior to my signing of this Agreement, I agree that I will, within two (2) business days of signing this Agreement, prepare, sign, and deliver to the EEOC or state or local administrative agency with which the charge is pending a letter that states as follows:

> This letter is in regard to charge number _____ ("Charge") which I have filed with this agency. This is to advise you that I have entered into an agreement with my employer, Eli Lilly and Company, under which, in exchange for sufficient consideration, I have fully waived and released all claims to any personal relief, including any form of monetary relief, arising out of any claims related to my employment with Lilly through the date of my signing of the Agreement. This waiver and release includes any and all claims for personal relief related to the above-referenced Charge. I have also, again in exchange for sufficient consideration, fully waived and released all right to file a lawsuit against Lilly in any court of law asserting claims arising out of my employment with Lilly, up through and including the date of my signing of the Agreement, other than a suit to enforce the Agreement or to challenge its validity or enforceability. These waivers and releases are effective to the fullest extent permitted by applicable law. I understand that this Agreement does not affect this agency's ability to investigate the above-referenced Charge or to pursue relief on behalf of other individuals.
>
> **I entered into this Agreement with Lilly voluntarily and without coercion and with sufficient opportunity to consult an attorney for advice. Thank you for your assistance.**

I further agree to provide to Lilly a copy of the letter as signed and delivered.

Return of Company Property. I agree to cooperate fully with Lilly in effecting a smooth transfer of responsibilities and to return to Lilly by my Actual Termination Date all identification and credit cards, keys, telephones, computers and other equipment, and other things owned by Lilly, and all documents, materials, records or other things belonging to Lilly or containing Lilly's property that I have not yet returned.

Right to Consult with an Attorney. I understand and acknowledge that as required by law, I am hereby being advised by the Company to consult with an attorney prior to signing this Agreement.

Period to Consider this Agreement. I acknowledge that a copy of this Agreement was provided to me on _____. I understand that I have the right to take up to forty-five days to consider whether I wish to sign this Agreement. I understand that Lilly will accept this Agreement and provide to me the Severance Benefit in accordance with the terms of the Plan if I (a) sign, date and deliver to Lilly this Agreement at any time during the period beginning on the date I received the Agreement and ending at the close of business on the forty-fifth day following my receipt of the Agreement**,** and (b) do not revoke this Agreement as provided below. If I sign this Agreement before the end of the period allotted to me for

doing so, it will be my voluntary decision to do so because I have decided that I do not need any additional time to decide whether to sign this Agreement.

My Right to Revoke this Agreement. I understand that if I am age 40 or older at the time I sign this Agreement, I may revoke this Agreement at any time within seven (7) calendar days after I sign and date it, not counting the day on which I sign and date it. If I am age 40 or older at the time I sign this Agreement, this Agreement will not become effective or enforceable unless and until the seven (7)-day revocation period has expired without my revoking it. If I am under age 40 at the time I sign this Agreement, the Agreement will become effective at the time I sign, date and deliver this Agreement to Lilly.

Procedure for Accepting or Revoking this Agreement. To accept the terms of this Agreement, I must deliver the Agreement, after I have signed and dated it, to Lilly by hand or by certified U.S. mail within the period of time described above in the paragraph on "Period to Consider this Agreement." If I am age 40 or older at the time I sign the Agreement and wish to revoke my acceptance, I must deliver a written, signed statement that I revoke my acceptance to Lilly by hand or by certified U.S. mail within the seven (7)-day revocation period. All deliveries must be made to Lilly at the following address:

Team Leader, Compensation Administration
Eli Lilly and Company
Lilly Corporate Center
Indianapolis, IN 46285

If I choose to deliver my acceptance or, if applicable, the revocation of my acceptance by mail, it must be:

(1) postmarked within the period stated above;

(2) properly addressed to Lilly at the address stated above; and

(3) sent by certified mail, first-class postage prepaid.

Interpretation of this Agreement. This Agreement should be interpreted as broadly as possible to achieve my intention to resolve all of My Claims against the Company and to otherwise fulfill my obligations under this Agreement. If this Agreement is held by a court to be inadequate to release a particular claim encompassed within My Claims, this Agreement is still in full force and effect and enforceable with respect to all the remainder of My Claims.

My Representations. I am legally able and entitled to receive the Severance Benefit being provided to me under the Plan and this Agreement. No child support order, garnishment order, or other order requiring that money owed to me by Lilly be paid to any other person is now in effect.

Governing Law. This Agreement shall be governed and administered and construed in accordance with the laws of the State of Indiana.

I have read this Agreement carefully. I understand all of its terms. In signing and dating this Agreement, I have not relied on any statements or explanations made by the Company except as specifically set forth in this Agreement. I am voluntarily releasing My Claims against the Company and undertaking my other obligations under this Agreement. I intend this Agreement to be legally binding.

Dated: _____ Name: _____ Printed: _____

ELI LILLY AND COMPANY

2007 CHANGE IN CONTROL SEVERANCE PAY PLAN
FOR SELECT EMPLOYEES
As Amended Effective October 20, 2010

1. PURPOSE

This Eli Lilly and Company 2007 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. The Plan replaces the Change in Control Severance Pay Plan for Select Employees that was originally adopted by the Board on March 1, 1995, and became operative immediately upon the expiration of such plan with respect to a Change in Control occurring on or after March 1, 2007. The Plan as amended by action of the Board of Directors of the Company on October 20, 2008, shall become effective on October 20, 2010.

2. DEFINITIONS

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

(a) “Base Salary” means an Eligible Employee’s gross annualized rate of base salary at the time of any determination hereunder, 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.

(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 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.

(f) “Company” means Eli Lilly and Company, an Indiana corporation.

(g) “Covered Termination” has the meaning given in Section 6.

(h) “Eligible Employee” has the meaning given in Section 5.

(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) “Participating Employer” has the meaning given in Section 4.

(l) “Plan” means this Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees.

(m) “Retirement Age” means the date the Eligible Employee reaches age 65, unless the Company’s senior most officer responsible for the Human Resources department has approved a later date as the Retirement Age for the Eligible Employee.

(n) “Section 409A” shall mean Section 409A of the Code and the applicable rulings and regulations promulgated thereunder.

(o) “Separation from Service” shall mean a “separation from service” from a Participating Employer within the meaning of Section 409A.

(p) “Severance Period” means the two (2) year period immediately following a Covered Termination.

3. CHANGE IN CONTROL

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”); provided, however, that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control under this Section 3(a);

(b) the first day on which less than one-half 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) consummation of a merger, share exchange, or consolidation of the Company (a "Transaction"), other than a Transaction which would result in the Voting Stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the Voting Stock of the Company or such surviving entity immediately after such Transaction;

(d) 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 or limited liability company 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 individuals 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 or severance benefits generally, it would be in the best interests of the Company to so exclude or limit such participation. In addition, unless otherwise specified by the Committee, the severance payments and benefits under this Plan shall offset the benefits otherwise payable to any such Eligible Employee under severance arrangements that exist by reason of applicable local law, practice or policy.

5. ELIGIBLE EMPLOYEES

All employees of the Participating Employers, including executive officers (as defined in Rule 3b-7 under the Exchange Act), who are classified by the Company as R8 or M5-M8 global job level or other groups or individuals as designated by the Committee (or any successor classifications) immediately prior to the Change in Control shall be eligible to participate in the Plan and shall be considered an Eligible Employee for all purposes hereunder. Any person who is an Eligible Employee in accordance with the foregoing shall continue to be an Eligible Employee notwithstanding any change in his/her position or classification following a Change in Control, subject to Section 6 hereof relating to certain terminations of employment that are not treated as a Covered Termination. The Committee shall notify each Eligible Employee of his/her participation in the Plan prior to the Change in Control; provided that any failure to so notify shall not effect the Eligible Employee's participation in the Plan.

6. COVERED TERMINATIONS

A. General. An Eligible Employee shall be treated as having suffered a "Covered Termination" hereunder if he/she incurs a Separation from Service within a period of two (2) years immediately following the date of a Change in Control, (i) by a Participating Employer other than for "Cause", or (ii) by the Eligible Employee for "Good Reason.". For purposes of the foregoing, the two (2) year time period specified above within which a Separation from Service 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. For purposes of the Plan, a Separation from Service shall be effective as of the last date of the Eligible Employee's employment with the Participating Employer.

An Eligible Employee shall not be treated as having suffered a Covered Termination in the event of (1) death, (2) total disability (within the meaning of the Company's Extended Disability Plan), (3) transfer of employment among Participating Employers (unless such transfer results in a Separation from Service for "Good Reason"), (4) involuntary termination by the Participating Employer for "Cause", (5) voluntary termination by the Eligible Employee other than for Good Reason, (6) a termination of employment for any reason by either the Participating Employer or the Eligible Employee that does not occur during the two (2) year time period specified above or (7) a

termination of employment for any reason by either the Participating Employer or the Eligible Employee after the Eligible Employee reaches Retirement Age.

B. Termination For Cause. For purposes hereof, an Eligible Employee's Separation from Service by the Participating Employer shall be deemed to be 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;

(ii) any act of fraud, dishonesty or gross misconduct of the Eligible Employee resulting in significant economic harm to any Participating Employer or other significant harm to the business reputation of any Participating Employer; or

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

A termination for Cause shall be communicated to the Eligible Employee in writing by the Participating Employer and shall specify the provisions of the Plan and factual matters relied upon in making the Cause determination.

C. Termination for Good Reason. For purposes hereof, an Eligible Employee's Separation from Service by the Eligible Employee shall be deemed to be for "Good Reason" if 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 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, retiree 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, stock units, performance shares or similar 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;

(vi) relocation of the Eligible Employee by more than fifty (50) miles from his/her regularly assigned workplace existing immediately prior to the date of the Change in Control; or

(vii) any failure by a successor entity to the Company (including any entity that succeeds to the business or assets of the Company) in connection with a Change in Control to assume by operation of law or otherwise the obligations of the Company under the Plan, or any attempted amendment, termination or repudiation of the Plan by such successor entity, other than pursuant to the provisions of Section 15.

For purposes of the foregoing, but without limitation of the Eligible Employee's right to otherwise terminate employment for Good Reason, if the Eligible Employee is in charge of a principal business unit, division or function of the Company immediately prior to a Change in Control, Good Reason shall not be deemed to exist based solely on the fact that the Eligible Employee is not in charge of such principal business unit, division or function of the combined entity following the Change in Control, unless as a result thereof, the Eligible Employee suffers a material diminution in the nature or status of the Eligible Employee's position, title, reporting relationship, duties, responsibilities or authority or suffers some other Good Reason event.

A termination for Good Reason shall be communicated to the Participating Employer in writing by the Eligible Employee within thirty (30) days following his/her knowledge of the circumstances constituting Good Reason, and shall specify the provisions of the Plan and the factual matters relied upon in making the Good Reason determination. The Participating Employer shall have the opportunity to cure the circumstances constituting Good Reason within 15 days following receipt of such written notice from the Eligible Employee, and if such circumstances are fully cured, such circumstances shall cease to constitute the basis for a Good Reason termination hereunder.

7. SEVERANCE PAYMENT

A. Amount of Severance Payment. The amount of the severance payment to be paid by the Company to an Eligible Employee who is treated as having suffered a Covered Termination hereunder shall equal two (2) times the sum of:

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

(ii) the Eligible Employee's target annual cash incentive bonus for the year of Covered Termination or if there is no target-based annual cash incentive bonus, then the annual cash bonus paid or payable, for the most recently completed calendar year prior to the Change in Control.

B. Payment of Severance. The severance payment to be made hereunder shall be paid to the Eligible Employee in a single lump-sum cash payment, less any required tax withholding, on the date that is thirty (30) calendar days following the date of the Eligible Employee's Covered

Termination, conditioned upon the Eligible Employee having complied, prior to that date with the requirements of Section 10 hereof regarding a release of claims. Notwithstanding the foregoing, if the Eligible Employee is treated as a "specified employee" (within the meaning of Section 409A) as of the date of any payment under this Plan upon such Separation from Service, then, to the extent required by Section 409A, the commencement of any payment shall be delayed until the first business day following the date that is six (6) months following the date of such Separation from Service.

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 continue to participate, on the same basis as active employees of the Participating Employer, for eighteen (18) months immediately following a Covered Termination ("Continuation Period") in the Participating Employer's medical and dental plans (but not to include flexible spending plans), group life insurance plans, company-provided death benefit, supplemental life insurance and long-term disability plans for which he/she was eligible at the time of Covered Termination (or, if it would provide benefits or other terms more favorable to the Eligible Employee, at the time of the Change in Control), as though his/her Separation from Service 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 Continuation 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 Continuation 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). Notwithstanding the foregoing, if the Eligible Employee becomes eligible to participate in welfare benefit coverages from a subsequent employer of the same type as provided under one or more of the Welfare Continuation Coverages, then the applicable Welfare Continuation Coverages provided by this Section 8.A, on a coverage by coverage basis, shall be terminated. If and to the extent that any benefit under this Section 8.A or under Section 8.B. is not eligible for exemption from Section 409A pursuant to Treasury Regulation § 1.409A-1(b)(9)(v) (or any successor regulation) or otherwise, the Company shall, pursuant to Section 18 hereof, take such actions as it deems necessary to comply with the requirements of Treasury Regulation § 1.409A-3(i)(1)(iv) (or any successor regulation), including, without limitation, by providing that (i) the amount of the benefit under this Section 8.A or under Section 8.B. in any calendar year shall not affect the amount of the benefit thereunder for any other calendar year, (ii) any reimbursement of expenses under this Section 8.A or under Section 8.B. be made not later than the last day of the calendar year following the year in which the Eligible Employee incurred such expenses, and (iii) in no event shall any right to reimbursement or receipt of in-kind benefits under this Section 8.A. or under Section 8.B. be subject to liquidation or exchange for another benefit.

B. Retiree Welfare Benefits. For purposes of determining eligibility, but not for the purpose of determining the amount of any benefit, for the retiree medical and dental plans applicable to Eligible Employee (the "Retiree Welfare Plans"), the Eligible Employee shall receive additional credit for two years for purposes of both age and service requirements under the Retiree Welfare Plans, but not beyond the Retirement Age of the Eligible Employee. If an Eligible Employee shall be eligible for participation in the Retiree Welfare Plans at the time of Covered Termination (including by reason of this Section 8.B.), then (i) for the Continuation Period, he/she shall be entitled to continue to participate in the Welfare Continuation Coverage pursuant to Section 8.A. hereof, and (ii) following the Continuation Period, he/she shall be entitled to continue to participate in the retiree welfare benefit program on the same basis and subject to the same terms and conditions as provided to retired employees of the Participating Employer generally, or if no such program is provided, the program of the successor entity following the Change in Control, if any.

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, (ii) the Eligible Employee shall be entitled to exercise any stock options or similar equity-based incentive rights until the expiration of three years following the date of the Covered Termination (or until such later date as may be applicable under the terms of the option or other right upon termination of employment), subject to the maximum full term of the option but without regard to any earlier termination otherwise applicable in the event of termination of employment, and (iii) any performance shares, stock units 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, with any payment to be made in accordance with the terms of the applicable award agreements in accordance with the requirements for compliance with Section 409A. 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, with any payment to be made in accordance with the terms of the applicable award agreements in accordance with the requirements for compliance with Section 409A. 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 Base Salary through the date of Covered Termination; (ii) payment within thirty (30) calendar days of Covered Termination of any accrued but unpaid annual cash bonus for the most recently completed calendar year prior to the Covered Termination; (iii) payment within thirty (30) calendar days of Covered Termination of the accrued annual cash 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 annual

cash bonus for the period of such year through the date of termination; and (iv) all benefits and rights accrued under the employee benefit plans, fringe benefit programs and payroll practices of a Participating Employer 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 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. Payment for any such outplacement service services or relocation expense shall be made on the business day that is six (6) months following the date of the Covered Termination.

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, provided that such insurance policies are commercially available from carriers of recognized standing, 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

(a) In the event it shall be determined that any payment, right or distribution by the Company or any other person or entity to or for the benefit of an Eligible Employee pursuant to the terms of this Plan or otherwise, 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") is a "parachute payment" within the meaning of Section 280G of the Code on account of the aggregate value of the Payments due to the Eligible Employee being equal to or greater than three times the "base amount," as defined in Section 280G(b)(3) of the Code, (the "Parachute Threshold") so that the Eligible Employee would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), concurrent with the making of such Payment, then (i) in the event the aggregate value of the Payments exceeds the Parachute Threshold by less than 5%, one or more Payments shall be reduced so that the aggregate value of the Payments is $1.00 less than the Parachute Threshold Amount, reducing first any

Payments under Section 8.C hereof, then taxable Payments and thereafter any other non-taxable Payments, or (ii) in the event that the aggregate value of the Payments exceeds the Parachute Threshold by 5% or more, 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 Payments and any federal, state or local income tax and Excise Tax on the Gross-Up Payment shall equal the amount of such Payments. 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. The rights of the Eligible Employee to a Gross-Up Payment under this Section 9 shall apply without regard to whether the Eligible Employee has incurred a Covered Termination and shall apply to all payments whether or not in connection with a Covered Termination.

(b) All determinations required to be made under this Section 9, including whether any Payment is a "parachute payment" and whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm designated by the Company which is not the auditor of the Company or another party involved in the Change in Control (the "Accounting Firm") and shall be based upon "substantial authority" (within the meaning of Section 6662 of the Code). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Eligible Employee within 15 business days of the receipt of notice from the Company or an Eligible Employee that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Eligible Employee within five business days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Eligible Employee.

10. RELEASE OF CLAIMS

All payments and benefits that may be made to an Eligible Employee upon a Covered Termination under the Plan shall be contingent upon the Eligible Employee entering into and not revoking a general release of employment law claims against the Company and the Participating Employer in substantially the form attached hereto as Exhibit A, subject to such modifications as may be determined by the Committee in good faith to take into account changes in employment laws or differences in employment laws in other jurisdictions. The Company will provide the general release to the Eligible Employee within five business days of the Covered Termination.

11. 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. Except as provided in Section 10, 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.

12. 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.

13. 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.

14. CLAIMS AND DISPUTES

Within thirty (30) calendar days following 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 thirty (30) 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 sixty (60) 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 14 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.

15. TERM AND AMENDMENT

The Plan became effective as on July 1, 2004, but only became operative with respect to a Change in Control occurring on or after March 1, 2007, the date as of which the Plan as previously in effect was terminated by action of the Board. The Plan as amended by action of the Board of Directors of the Company on October 20, 2008 shall become effective with respect to a Change in Control occurring on or after October 20, 2010. The Plan shall continue to be

effective until terminated in accordance with this Section 15. The Board shall have the right, by resolution or other written action, to terminate or amend the Plan; provided, however, that the Plan may only be terminated or amended prior to a Change in Control, and then only (i) with respect to an amendment or termination that becomes effective upon the second (2nd) anniversary of notice being given thereof to Eligible Employees generally, or (ii) to the extent any 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. Notwithstanding the foregoing, in the event of a Change in Control, the Plan shall continue in effect, and no termination or amendment of the Plan shall occur, until the satisfaction of all severance payments and benefits to which Eligible Employees are or may become entitled to under the Plan. Upon the occurrence of a Change in Control during the term of the Plan, the Plan shall not be operative with respect to any subsequent Change in Control.

16. 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. Any successor to the Company shall be required to assume the Plan in writing and honor the obligations of the Company and the Participating Employers hereunder. 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.

17. 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.

18. SECTION 409A COMPLIANCE

To the extent applicable, it is intended that the Plan and all payments hereunder comply with the requirements of Section 409A, and the Plan shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A. In the event that any provision of the Plan is determined by the Committee to not comply with the applicable requirements of Section 409A, the Committee shall have the authority to take such actions and to make such changes to the Plan as the Committee deems necessary to comply with such requirements. In no event whatsoever shall the Company be liable for any tax, interest or penalties that may be imposed on the Eligible Employee by or any damages for failing to comply with Section 409A. Notwithstanding the foregoing or anything elsewhere in the Plan to the contrary, if an Eligible Employee is treated as a "specified employee" as of the date of any payment under this Plan, then, to the extent required, the commencement of any payment under this Plan shall be delayed until the date that is six (6) months following the date of the Eligible Employee's Separation from Service.

EXHIBIT A

SEVERANCE AGREEMENT AND RELEASE OF CLAIMS

Definitions. I intend all words used in this Severance Agreement and Release of Claims ("Agreement") to have their plain meanings in ordinary English. Specific terms that I use in this Agreement have the following meanings:

A. I, me, and my include both me and anyone who has or obtains any legal rights or claims through me.

B. Lilly means Eli Lilly and Company and any company related to Eli Lilly and Company in the present or past, including without limitation, its or their predecessors, successors, parents, subsidiaries, affiliates, joint venture partners, and divisions.

C. Company means Lilly; the present and past officers, directors, committees, agents, shareholders, and employees of Lilly; any employee benefit plan sponsored or maintained by Lilly; any company providing insurance to Lilly in the present or past; the present and past fiduciaries and administrators of any employee benefit plan sponsored or maintained by Lilly (other than multi-employer plans); and anyone who acted on behalf of Lilly or on instructions from Lilly.

D. Actual Termination Date means _____.

E. Severance Benefit means the severance payment and severance benefits described in Sections 7 and 8 of the Plan.

F. Plan means The 2007 Change in Control Severance Pay Plan For Select Employees, as in effect for a change in control on or after March 1, 2007, as amended from time to time.

G. My Claims mean, except as specifically excluded in the last paragraph of this section following item G.8. below, all of my rights that I now have to any personal relief of any kind from the Company, including without limitation:

1. all claims arising out of or relating to my employment with Lilly, the terms and conditions of that employment, or the termination of that employment, and the continuing effect, thereof;

2. all claims arising out of or relating to actual or alleged statements, actions, or omissions of the Company;

3. all claims for any alleged unlawful discrimination, harassment, retaliation or reprisal, or other alleged unlawful practices based on religion, natural origin, ancestry, marital status, sex, sexual orientation, age, race, color, disability or any other characteristic or category protected by law arising under any federal, state, or local statute, ordinance, or regulation, including without limitation claims under the Indiana Civil Rights Act, Title VII of the Civil Righ0074s Act of 1964, the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., the Americans with Disabilities Act, 42 U.S.C. §1981, the Employee Retirement

Income Security Act, the Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act, the Equal Pay Act, The California Fair Employment and Housing Act, The California Family Rights Act, the California Labor Code, the California Civil Code, the California Business & Professions Code, the California Constitution and workers' compensation non-interference or non-retaliation statutes;

4. all claims for alleged wrongful discharge; breach of contract; breach of implied contract; failure to keep any promise; breach of a covenant of good faith and fair dealing; breach of fiduciary duty; estoppel; my activities, if any, as an actual or alleged "whistleblower"; defamation; infliction of emotional distress; fraud; misrepresentation; negligence; harassment; retaliation or reprisal; constructive discharge; assault; battery; false imprisonment; invasion of privacy; interference with contractual or business relationships; any other wrongful employment practices; and violation of any other principle of common law;

5. all claims for compensation or monetary damages of any kind, including without limitation, salary, wages, bonuses, commissions, sales incentive payments, equity-based compensation, vacation pay, and expense reimbursements;

6. all claims for reinstatement or other personal equitable relief, back pay, front pay, compensatory damages, damages for alleged personal injury, liquidated damages, and punitive damages;

7. all claims under any employee benefit plan sponsored or maintained by the Company (except as otherwise provided in this Agreement); and

8. all claims for attorneys' fees, costs, and interest.

However, My Claims does not include any claims for vested benefits payable under the terms of a plan qualified under Section 401(a) of the Internal Revenue Code of 1986, any claims for continuation coverage under the federal law known as COBRA, any claims that are or may be asserted in the case of *Schaefer-Larose, et al. v. Eli Lilly and Company*, and any other claims that the law does not allow to be waived or any claims that may arise after the date on which I sign this Agreement. My Claims includes any claim to personal relief from any Equal Employment Opportunity Commission ("EEOC") or state or local administrative charge I have filed or may file against the Company as described below under the heading "**Representations and Waiver of Personal Relief as to Administrative Charges**."

Agreement to Release My Claims. I will receive a Severance Benefit from Lilly as set forth in the Plan if I sign and, if I am age 40 or older at the time I sign the Agreement, do not revoke this Agreement as provided below. I understand and acknowledge that I will not be entitled to receive the Severance Benefit if I do not sign this Agreement or, if I am age 40 or older at the time I sign the Agreement and I timely revoke this Agreement. In exchange for the Severance Benefit, I give up all of My Claims to the fullest extent permitted by law, and I agree to abide by this Agreement in all respects. I will not bring any lawsuits against the Company or make any demands against the Company for compensation or damages relating to My Claims. The Severance Benefit that I am receiving under the Plan is a fair compromise for my undertakings in this Agreement.

This release includes any claims that are being asserted or in the future are, or ever could be, asserted or

considered within the scope of the case of *Welch et al. vs. Eli Lilly and Company*, Civil Action No. 1:06-CV-0641, United States District Court for the Southern District of Indiana (the "Welch Action"). The Welch Action is a lawsuit that was filed by current and former African-American Lilly employees alleging that they were discriminated against on the basis of their race. Lilly denies these allegations. The plaintiffs in the Welch Action have expressed their intention to seek class treatment. I understand that I may be a member of the putative class. By signing this Agreement, I understand that I am giving up any right to receive any personal relief as a result of the Welch Action.

Waiver of California Civil Code Section 1542. I have read and understand the following language contained in Section 1542 of the California Civil Code:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

I expressly waive all rights, if any, that I may have under this statute with respect to the matters described in the "Agreement to Release My Claims" paragraph of this Agreement.

Indemnification Agreement. I agree to indemnify Lilly to the fullest extent permitted by law from all claims, costs and expenses, including all attorneys' fees, arising out of any misrepresentation made by me in this Agreement. In the event I initiate, pursue or maintain any lawsuit (other than a suit under the Age Discrimination in Employment Act) against Lilly based on any claim, complaint, action, injury or right of action for which I have released and agreed not to sue Lilly in this Agreement, I agree, to the fullest extent permitted by law, to pay all costs and attorneys' fees incurred by Lilly in defending such lawsuit. Nothing in this paragraph shall limit my charge-filing rights as described below in the section titled "**Representations and Waiver of Personal Relief as to Administrative Charges**," and I shall have no obligation to pay Lilly for costs or attorney's fees incurred by Lilly in defending against any EEOC or state or local administrative agency charge filed by me against Lilly as long as I waive and release any and all entitlement to any form of personal relief arising from any such charge as described below.

Agreement to Cooperate in Investigations and Litigation. I agree that I will, at any future time before or after my Actual Termination Date, be available upon reasonable notice from Lilly, with or without subpoena, to be interviewed, review documents or things, give depositions, testify, or engage in other reasonable activities, with respect to matters concerning which I have or may have knowledge as a result of or in connection with my employment by Lilly. In performing my obligations under this paragraph to testify or otherwise provide information, I will honestly, truthfully, forthrightly, and completely provide the information requested. I will comply with this Agreement upon notice from Lilly that Lilly or its attorneys believe that my compliance would be helpful in the resolution of an investigation or the prosecution or defense of litigation.

Additional Agreements and Understandings. Even though Lilly will provide a Severance Benefit to me under the Plan for me to settle and release My Claims and to otherwise abide by this Agreement, the Company denies that it violated any law or committed any wrongful act.

Representations and Waiver of Personal Relief as to Administrative Charges.

I understand and agree that although by signing this Agreement and accepting the Severance Benefit I do not waive my right to file an Equal Employment Opportunity Commission ("EEOC")

charge against Lilly, or to file a charge with any comparable state or local administrative agency, or to cooperate in an EEOC or agency investigation of any such charge, I do waive and release, to the fullest extent permitted by law, any and all entitlement to any form of personal relief arising from any such charge I have filed or may file in the future against Lilly related to my employment with Lilly. I understand that this waiver and release of personal relief would not affect the EEOC's or state or local administrative agency's ability to investigate such a charge or to pursue relief on behalf of other individuals. If I have filed such a charge prior to my signing of this Agreement, I agree that I will, within two (2) business days of signing this Agreement, prepare, sign, and deliver to the EEOC or state or local administrative agency with which the charge is pending a letter that states as follows:

> This letter is in regard to charge number _____ ("Charge") which I have filed with this agency. This is to advise you that I have entered into an agreement with my employer, Eli Lilly and Company, under which, in exchange for sufficient consideration, I have fully waived and released all claims to any personal relief, including any form of monetary relief, arising out of any claims related to my employment with Lilly through the date of my signing of the Agreement. This waiver and release includes any and all claims for personal relief related to the above-referenced Charge. I have also, again in exchange for sufficient consideration, fully waived and released all right to file a lawsuit against Lilly in any court of law asserting claims arising out of my employment with Lilly, up through and including the date of my signing of the Agreement, other than a suit to enforce the Agreement or to challenge its validity or enforceability. These waivers and releases are effective to the fullest extent permitted by applicable law. I understand that this Agreement does not affect this agency's ability to investigate the above-referenced Charge or to pursue relief on behalf of other individuals.
>
> **I entered into this Agreement with Lilly voluntarily and without coercion and with sufficient opportunity to consult an attorney for advice. Thank you for your assistance.**

I further agree to provide to Lilly a copy of the letter as signed and delivered.

Return of Company Property. I agree to cooperate fully with Lilly in effecting a smooth transfer of responsibilities and to return to Lilly by my Actual Termination Date all identification and credit cards, keys, telephones, computers and other equipment, and other things owned by Lilly, and all documents, materials, records or other things belonging to Lilly or containing Lilly's property that I have not yet returned.

Right to Consult with an Attorney. I understand and acknowledge that as required by law, I am hereby being advised by the Company to consult with an attorney prior to signing this Agreement.

Period to Consider this Agreement. I acknowledge that a copy of this Agreement was provided to me on _____. I understand that I have the right to take up to forty-five days to consider whether I wish to sign this Agreement. I understand that Lilly will accept this Agreement and provide to me the Severance Benefit in accordance with the terms of the Plan if I (a) sign, date and deliver to Lilly this Agreement at any time during the period beginning on the date I received the Agreement and ending at the close of business on the forty-fifth day following my receipt of the Agreement**,** and (b) do not revoke this Agreement as provided below. If I sign this Agreement before the end of the period allotted to me for doing so, it will be my voluntary decision to do so because I have decided that I do not need any

additional time to decide whether to sign this Agreement.

My Right to Revoke this Agreement. I understand that if I am age 40 or older at the time I sign this Agreement, I may revoke this Agreement at any time within seven (7) calendar days after I sign and date it, not counting the day on which I sign and date it. If I am age 40 or older at the time I sign this Agreement, this Agreement will not become effective or enforceable unless and until the seven (7)-day revocation period has expired without my revoking it. If I am under age 40 at the time I sign this Agreement, the Agreement will become effective at the time I sign, date and deliver this Agreement to Lilly.

Procedure for Accepting or Revoking this Agreement. To accept the terms of this Agreement, I must deliver the Agreement, after I have signed and dated it, to Lilly by hand or by certified U.S. mail within the period of time described above in the paragraph on "Period to Consider this Agreement." If I am age 40 or older at the time I sign the Agreement and wish to revoke my acceptance, I must deliver a written, signed statement that I revoke my acceptance to Lilly by hand or by certified U.S. mail within the seven (7)-day revocation period. All deliveries must be made to Lilly at the following address:

Team Leader, Compensation Administration
Eli Lilly and Company
Lilly Corporate Center
Indianapolis, IN 46285

If I choose to deliver my acceptance or, if applicable, the revocation of my acceptance by mail, it must be:

(1) postmarked within the period stated above;

(2) properly addressed to Lilly at the address stated above; and

(3) sent by certified mail, first-class postage prepaid.

Interpretation of this Agreement. This Agreement should be interpreted as broadly as possible to achieve my intention to resolve all of My Claims against the Company and to otherwise fulfill my obligations under this Agreement. If this Agreement is held by a court to be inadequate to release a particular claim encompassed within My Claims, this Agreement is still in full force and effect and enforceable with respect to all the remainder of My Claims.

My Representations. I am legally able and entitled to receive the Severance Benefit being provided to me under the Plan and this Agreement. No child support order, garnishment order, or other order requiring that money owed to me by Lilly be paid to any other person is now in effect.

Governing Law. This Agreement shall be governed and administered and construed in accordance with the laws of the State of Indiana.

I have read this Agreement carefully. I understand all of its terms. In signing and dating this Agreement, I have not relied on any statements or explanations made by the Company except as specifically set forth in this Agreement. I am voluntarily releasing My Claims against the Company and undertaking my other obligations under this Agreement. I intend this Agreement to be legally binding.

Dated: _____ Name: _____ Printed: _____

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars and shares in millions except per-share data)			
BASIC				
Net income (loss)	$ (465.6)	$ 926.3	$1,557.5	$2,098.6
Average number of common shares outstanding	1,092.2	1,089.1	1,091.9	1,088.8
Contingently issuable shares	1.8	1.0	2.0	1.0
Adjusted average shares	1,094.0	1,090.1	1,093.9	1,089.8
Basic earnings (loss) per share	$ (.43)	$ .85	$ 1.42	$ 1.93
DILUTED				
Net income (loss)	$ (465.6)	$ 926.3	$1,557.5	$2,098.6
Average number of common shares outstanding	1,092.2	1,089.1	1,091.9	1,088.8
Incremental shares — stock options and contingently issuable shares	1.8	1.1	2.0	1.3
Adjusted average shares	1,094.0	1,090.2	1,093.9	1,090.1
Diluted earnings (loss) per share	$ (.43)	$ .85	$ 1.42	$ 1.93

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, 2008	Years Ended December 31, 2007	2006	2005	2004	2003
Consolidated pretax income before cumulative effect of a change in accounting principle	$2,029.8	$3,876.8	$3,418.0	$2,717.5	$2,941.9	$3,261.7
Interest[1]	185.4	322.5	344.8	245.7	162.9	121.9
Less interest capitalized during the period	(39.0)	(94.2)	(106.7)	(140.5)	(111.3)	(60.9)
Earnings	$2,176.2	$4,105.1	$3,656.1	$2,822.7	$2,993.5	$3,322.7
Fixed charges	$ 185.4	$ 322.5	$ 344.8	$ 245.7	$ 162.9	$ 121.9
Ratio of earnings to fixed charges	11.7	12.7	10.6	11.5	18.4	27.3

1 Interest is based upon interest expense reported as such in the consolidated income statement and does not include any interest related to unrecognized tax benefits, which is included in income tax expense.

EXHIBIT 31.1 Rule 13a-14(a) Certification of John C. Lechleiter, Ph.D., President and Chief Executive Officer

CERTIFICATIONS

I, John C. Lechleiter, Ph.D., president and chief executive officer, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

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

Date: November 3, 2008

By: s/ John C. Lechleiter
John C. Lechleiter, Ph.D.
President and Chief Executive Officer

EXHIBIT 31.2 Rule 13a-14(a) Certification of Derica W. Rice, Senior Vice President and Chief Financial Officer

CERTIFICATIONS

I, Derica W. Rice, senior vice president and chief financial officer, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

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

Date: November 3, 2008

By: s/ Derica W. Rice
Derica W. Rice
Senior Vice President
and Chief Financial Officer

EXHIBIT 32. Section 1350 Certification

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date November 3, 2008

s/ John C. Lechleiter
John C. Lechleiter, Ph.D.
President and Chief Executive Officer

Date November 3, 2008

s/ Derica W. Rice
Derica W. Rice
Senior Vice President
and Chief Financial Officer