SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2007

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 or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer o Non-accelerated filer 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 April 20, 2007:

Class	Number of Shares Outstanding
Common	1,134,043,183

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions except per-share data)	
Net sales	$4,226.1	$3,714.7
Cost of sales	922.5	806.5
Research and development	834.2	740.8
Marketing and administrative	1,336.8	1,142.9
Acquired in-process research and development	328.5	—
Asset impairments, restructuring, and other special charges	123.0	—
Other income – net	(38.3)	(32.2)
	3,506.7	2,658.0
Income before income taxes	719.4	1,056.7
Income taxes	210.7	221.9
Net income	$ 508.7	$ 834.8
Earnings per share – basic	$ .47	$ .77
Earnings per share – diluted	$ .47	$ .77
Dividends paid per share	$ .425	$ .40

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED BALANCE SHEETS
ELI LILLY AND COMPANY AND SUBSIDIARIES

	March 31, 2007 (Unaudited)	December 31, 2006
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,491.4	$ 3,109.3
Short-term investments	872.5	781.7
Accounts receivable, net of allowances of $88.8 (2007) and $82.5 (2006)	2,253.8	2,298.6
Other receivables	452.8	395.8
Inventories	2,277.8	2,270.3
Deferred income taxes	507.1	519.2
Prepaid expenses	390.6	319.5
TOTAL CURRENT ASSETS	9,246.0	9,694.4
OTHER ASSETS		
Prepaid pension	1,074.6	1,091.5
Investments	945.4	1,001.9
Goodwill and other intangibles – net	2,415.3	130.0
Sundry	1,842.9	1,885.3
	6,278.2	4,108.7
PROPERTY AND EQUIPMENT		
Land, buildings, equipment, and construction-in-progress	14,090.6	13,716.7
Less allowances for depreciation	(5,881.5)	(5,564.4)
	8,209.1	8,152.3
	$23,733.3	$21,955.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 734.0	$ 219.4
Accounts payable	606.0	789.4
Employee compensation	359.2	607.7
Dividends payable	—	463.3
Income taxes payable	285.5	640.6
Other current liabilities	2,167.6	2,365.1
TOTAL CURRENT LIABILITIES	4,152.3	5,085.5
Long-term debt	4,624.2	3,494.4
Accrued retirement benefit	1,509.8	1,586.9
Long-term income taxes payable	1,014.2	—
Deferred income taxes	57.4	62.2
Other noncurrent liabilities	841.5	745.7
	8,047.1	5,889.2
SHAREHOLDERS' EQUITY		
Common stock	709.3	707.9
Additional paid-in capital	3,589.3	3,571.9
Retained earnings	11,427.2	10,926.7
Employee benefit trust	(2,635.0)	(2,635.0)
Deferred costs-ESOP	(99.5)	(100.7)
Accumulated other comprehensive loss	(1,357.0)	(1,388.7)
	11,634.3	11,082.1
Less cost of common stock in treasury	100.4	101.4
	11,533.9	10,980.7
	$23,733.3	$21,955.4

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 508.7	$ 834.8
Adjustments to reconcile net income to cash flows from operating activities:		
Changes in operating assets and liabilities, net of acquisition of ICOS Corporation	(35.6)	(947.1)
Depreciation and amortization	245.1	204.9
Stock-based compensation expense	72.7	100.2
Change in deferred taxes	(289.6)	99.8
Acquired in-process research and development, net of tax	319.6	—
Asset impairments, restructuring, and other special charges, net of tax	84.9	—
Other, net	(14.0)	(38.1)
NET CASH PROVIDED BY OPERATING ACTIVITIES	891.8	254.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment	(239.4)	(160.7)
Net change in short-term investments	(15.4)	(20.2)
Purchase of noncurrent investments	(210.2)	(630.7)
Proceeds from sales and maturities of noncurrent investments	267.1	554.8
Cash paid for ICOS Corporation, net of cash acquired	(2,225.6)	—
Purchase of in-process research and development	(25.0)	—
Other, net	(6.8)	85.1
NET CASH USED IN INVESTING ACTIVITIES	(2,455.3)	(171.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(462.9)	(433.5)
Proceeds from issuance of long-term debt	2,500.0	—
Repayment of long-term debt	(1,097.2)	(97.7)
Purchase of common stock	—	(122.1)
Issuances of common stock under stock plans	7.6	7.8
Net change in short-term borrowings	(3.9)	3.8
Other, net	—	1.4
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	943.6	(640.3)
Effect of exchange rate changes on cash and cash equivalents	2.0	9.1
NET DECREASE IN CASH AND CASH EQUIVALENTS	(617.9)	(548.4)
Cash and cash equivalents at January 1	3,109.3	3,006.7
CASH AND CASH EQUIVALENTS AT MARCH 31	$ 2,491.4	$2,458.3

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Net income	$508.7	$834.8
Other comprehensive income[1]	31.7	130.2
Comprehensive income	$540.4	$965.0

1 The significant components of other comprehensive income were a gain of $73.5 million from foreign currency translation adjustments for the three months ended March 31, 2007, compared with a gain of $50.8 million from foreign currency translation adjustments and a gain of $66.8 million from cash flow hedges for the three months ended March 31, 2006.

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 for the first quarters of 2007 and 2006 was $38.2 million and $34.2 million, respectively.

SALES BY PRODUCT CATEGORY

Worldwide sales by product category were as follows:

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Net sales – to unaffiliated customers:		
Neurosciences	$1,797.5	$1,507.1
Endocrinology	1,265.7	1,228.6
Oncology	564.7	469.1
Cardiovascular[1]	321.3	198.5
Animal health	215.1	198.3
Anti-infectives	58.0	87.9
Other pharmaceutical	3.8	25.2
Net sales	$4,226.1	$3,714.7

1 2007 Cialis sales are included in Cardiovascular and 2006 Cialis sales have been reclassified from Other pharmaceutical to be consistent with the 2007 presentation.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

We have prepared the accompanying unaudited consolidated condensed financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with 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 for the year ended December 31, 2006.

CONTINGENCIES

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):

- Dr. Reddy's Laboratories, Ltd. (Reddy), Teva Pharmaceuticals, and Zenith Goldline Pharmaceuticals, Inc., which was subsequently acquired by Teva Pharmaceuticals (together, Teva), each submitted Abbreviated New Drug Applications (ANDAs) seeking permission to market generic versions of Zyprexa® prior to the expiration of our relevant U.S. patent (expiring in 2011) and alleging that this patent was invalid or not enforceable. We filed lawsuits against these companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the patent is valid, enforceable and being infringed. The district court ruled in our favor on all counts on April 14, 2005, and on December 26, 2006, that ruling was upheld by the Court of Appeals for the Federal Circuit. Reddy's and Teva's combined petition for rehearing at the Federal Circuit was denied. Reddy and Teva may seek review of the Federal Circuit's decision by the U.S. Supreme Court. We are confident that Reddy's and Teva's claims are without merit and we expect to prevail. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- 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 has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a lawsuit against Teva in the U.S. District Court for the Southern District of Indiana, seeking a ruling that our relevant U.S. patents are valid, enforceable, and being infringed by Teva. No trial date has been set in either case. We believe that Barr's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- Sicor Pharmaceuticals, Inc. (Sicor), Mayne Pharma (USA) Inc. (Mayne), and Sun Pharmaceutical Industries Inc. (Sun) each submitted ANDAs seeking permission to market generic versions of Gemzar® prior to the expiration of our relevant U.S. patents (expiring in 2010 and 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), Mayne (October 2006), and Sun (December 2006), seeking a ruling that these patents are valid and are being infringed. Each generic company moved to dismiss our lawsuit, arguing that the Indiana court lacks jurisdiction. On April 17, 2007, the court denied Sicor's motion. The two remaining motions to dismiss have not been decided. We expect to prevail in litigation involving our Gemzar patents and believe that claims made by these generic companies that our patents are not valid are without merit. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In 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. In June 2005, the United States Patent and Trademark Office commenced a re-examination of the patent in order to consider certain issues raised by us relating to the validity of the patent. 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. We are seeking to have the jury verdict overturned by the trial court judge, and if unsuccessful, will appeal the decision to the Court of Appeals for the Federal Circuit. In addition, a separate bench trial with the U.S. District Court of Massachusetts was held the week of August 7, 2006, on our contention that the patent is unenforceable and impermissibly covers natural processes. No decision has been rendered. 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

In March 2004, the Office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it had commenced a civil 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 October 2005, the U.S. Attorney's Office 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 Lilly's Medicaid best price reporting related to the product sales covered by the rebate agreements. We are cooperating with the U.S. Attorney in these investigations, including providing a broad range of documents and information relating to the investigations. 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. Beginning in August 2006, we have received civil investigative demands or subpoenas from the attorneys general of a number of states. Most of these requests are now part of a multistate investigative effort being coordinated by an executive committee of attorneys general. We are aware that approximately 30 states are participating in this joint effort, and we anticipate that additional states will join the investigation. These attorneys general are seeking a broad range of Zyprexa documents, including documents relating to sales, marketing and promotional practices, and remuneration of health care providers. 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. We cannot predict or 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).

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 28,500 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. That settlement is being administered by special settlement masters appointed by Judge Weinstein.
- 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 recorded in other current liabilities in our December 31, 2006 consolidated balance sheet and will be paid during 2007.

The U.S. Zyprexa product liability claims not subject to these agreements include approximately 400 lawsuits in the U.S. covering approximately 1,300 plaintiffs and an additional 350 claims of which we are aware. In addition, we have been served with a lawsuit seeking class certification in which the members of the purported class are seeking refunds and medical monitoring. 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.

We are prepared to continue our vigorous defense of Zyprexa in all remaining cases. We currently anticipate that trials in one or more cases in the Eastern District of New York will begin in the second quarter of 2007.

We have insurance coverage for a portion of our Zyprexa product liability claims exposure. The third-party insurance carriers have raised defenses to their liability under the policies and are seeking to rescind the policies. The dispute is now the subject of litigation in the federal court in Indianapolis against certain of the carriers and in arbitration in Bermuda against other carriers. While we believe our position has merit, there can be no assurance that we will prevail.

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.

In the second quarter of 2005, we recorded a net pretax charge of $1.07 billion for product liability matters. The charge took into account our estimated recoveries from our insurance coverage related to these matters. The charge covered the following:

- The cost of the June 2005 Zyprexa settlements described above; and
- Reserves for product liability exposures and defense costs regarding the then-known and expected product liability claims to the extent we could formulate a reasonable estimate of the probable number and cost of the claims. A substantial majority of those exposures and costs were related to then-known and expected Zyprexa claims.

As a result of the January 2007 settlements discussed above, we incurred a pretax charge of $494.9 million in the fourth quarter of 2006. The charge covered the following:

- The cost of the January 2007 Zyprexa settlements; and
- Reserves for product liability exposures and defense costs regarding the then-known and expected Zyprexa product liability 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. 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, Mississippi, Montana, New Mexico, Pennsylvania, and West Virginia in the courts of the respective states.

In 2005, two lawsuits were filed in the Eastern District of New York 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 Eastern District of New York in 2006 on similar grounds. 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.

We cannot predict 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.

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 largely self-insured for future product liability losses. In addition, as noted above, 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 reached a settlement with our liability insurance carriers providing for coverage for certain environmental liabilities.

The litigation accruals and environmental liabilities and the related estimated insurance recoverables have been reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets.

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.

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).

STOCK-BASED COMPENSATION

The fair value of stock-based compensation is required to be recognized in net income. In 2007, our stock-based compensation expense consists primarily of performance awards (PAs), shareholder value awards (SVAs), and stock options. In 2006, our stock-based compensation expense consisted primarily of PAs and stock options. We recognized pretax stock-based compensation cost in the amount of $72.7 million and $100.2 million in the first quarter of 2007 and 2006, respectively.

In 2007 we implemented an SVA program which replaced our stock option program. 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.

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 March 31, 2007, the total remaining unrecognized compensation cost associated with our equity programs is $255.7 million and the weighted-average remaining requisite service period is 17 months.

RETIREMENT BENEFITS

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

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2007	2006	2007	2006
	(Dollars in millions)			
Components of net periodic benefit cost				
Service cost	$ 65.5	$ 69.3	$ 19.1	$ 19.7
Interest cost	86.0	80.7	25.3	24.4
Expected return on plan assets	(134.2)	(119.5)	(26.3)	(22.0)
Amortization of prior service cost	1.3	1.4	(3.9)	(3.9)
Recognized actuarial loss	31.3	30.3	23.4	25.2
Net periodic benefit cost	$ 49.9	$ 62.2	$ 37.6	$ 43.4

In 2007, 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 $85 million of additional discretionary funding in 2007 to our defined benefit plans. We also expect to contribute approximately $90 million of discretionary funding to our postretirement health benefit plans during 2007. As of March 31, 2007, $90.3 million of the total $255 million expected 2007 contributions has been contributed.

OTHER INCOME — NET

Other income – net, comprised the following:

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Interest expense	$ 53.0	$ 65.0
Interest income	(57.0)	(59.7)
Joint venture income	(11.0)	(19.8)
Other	(23.3)	(17.7)
	$(38.3)	$(32.2)

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.

SHAREHOLDERS' EQUITY

As of March 31, 2007, we have purchased $2.58 billion of our previously announced $3.0 billion share repurchase program. During the first quarter of 2007, we did not acquire any shares pursuant to this program, nor do we expect any share repurchases under this program for the remainder of 2007.

IMPLEMENTATION OF NEW FINANCIAL ACCOUNTING PRONOUNCEMENTS

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, we recognized an increase of $8.6 million in the liability for unrecognized tax benefits, and an offsetting reduction to the January 1, 2007 balance of retained earnings. We also reclassified $921.4 million of income taxes payable from current to non-current liabilities. The total amount of gross unrecognized tax benefits at January 1, 2007 was $1.34 billion and the total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate, was $1.27 billion at January 1, 2007.

We file income tax returns in the United States (U.S.) federal jurisdiction and various state, local, and foreign 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 2001. We are currently under examination by the Internal Revenue Service for tax years 2001-2004.

We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense. At January 1, 2007, our accruals for the payment of interest and penalties totaled approximately $171.8 million, substantially all of which relates to interest.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not anticipate the implementation of this Statement will be material to our financial position and results of operations.

In February 2007, The FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's fiscal years beginning after November 15, 2007. We do not anticipate the implementation of this Statement will be material to our financial position and results of operations.

ACQUISITIONS

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 sales of Cialis for the treatment of erectile dysfunction. The acquisition brings the full value of Cialis to us and enables 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.

In accordance with SFAS 141, Business Combinations, the acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed from ICOS at the date of acquisition 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 $628.4 million. No portion of this goodwill is expected to be deductible for tax purposes. ICOS' results of operations are included in our consolidated financial statements from the date of acquisition.

We have preliminarily 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 requires management to make significant estimates and assumptions. We hired independent third parties to assist in the valuation of assets that were difficult to value. Although we do not anticipate any significant adjustments, to the extent that our estimates used in the purchase accounting allocation need to be adjusted, we will do so upon making that determination but not later than one year from the date of acquisition.

	Estimated Fair Value at January 29, 2007 (Dollars in millions)
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	628.4
Other assets and liabilities — net	(19.5)
Deferred taxes	(581.0)
Long-term debt assumed	(275.6)
Total estimated purchase price	$2,317.5

1 The intangible asset will be amortized over Cialis' remaining expected patent lives in each country, which range from 2015 to 2017.

The acquired in-process research and development (IPR&D) represents compounds currently under development that have not yet achieved regulatory approval for marketing. The estimated fair value of these intangible assets was derived using a valuation from an independent third party. New indications for and formulations of the Cialis compound currently in clinical testing represent 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 have been written off by a charge to income immediately subsequent to the acquisition because the

compounds do not have any alternative future use. This charge is 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.

Hypnion, Inc. Acquisition

On April 3, 2007, we acquired all of the outstanding stock of Hypnion, Inc. (Hypnion), a privately held neuroscience drug discovery company focused on sleep disorders for $315.0 million. The acquisition provides Lilly 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. While the allocation of the purchase price has not been finalized, we anticipate a charge of approximately $300 million to acquired IPR&D. We will include the IPR&D as an expense in the second quarter of 2007 and it will not be deductible for tax purposes.

Product Acquisition

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 uses. As with many development phase compounds, launch of the product, if approved, was not expected in the near term. Our charge for acquired IPR&D related to this arrangement was $25.0 million, is included as expense in the first quarter of 2007, and is deductible for tax purposes.

ASSET IMPAIRMENTS, RESTRUCTURING, AND OTHER SPECIAL CHARGES

In connection with previously announced strategic decisions, we recorded asset impairment, restructuring, and other special charges of $123.0 million. These charges primarily relate to a voluntary severance program at one of our U.S. plants and other costs related to this action as well as the decision to stop construction of a planned insulin manufacturing plant in the U.S. Also included are charges related to our previous decision to close two research and development facilities and one production facility outside the U.S. The component of this charge related to the non-cash asset impairment was $68.5 million (pretax), and was necessary to adjust the carrying value of the assets to fair value. We expect to complete these restructuring activities by December 31, 2007.

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

OPERATING RESULTS

Executive Overview

I. Financial Results

Our worldwide sales for the quarter increased 14 percent, to $4.23 billion, driven primarily by the collective growth of Cymbalta®, Zyprexa, and the inclusion of Cialis sales since our January 29, 2007 acquisition of ICOS Corporation. Net income and earnings per share decreased 39 percent to $508.7 million and $.47, respectively. Net income comparisons between the first quarter of 2007 and the first quarter of 2006 are affected by the following significant items, which occurred in 2007 and are reflected in our financial results:

- We incurred in-process research and development 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.
- 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.

II. Business Development, and Recent Product and Late-Stage Pipeline Developments

- On January 29, 2007 Lilly completed the acquisition of ICOS Corporation at a cost of approximately $2.3 billion. The acquisition brings the full value of Cialis to Lilly and enables the company to realize operational efficiencies in the further development, marketing, and selling of this product.
- In early January of 2007, Lilly licensed from OSI Pharmaceuticals its glucokinase activator (GKA) program for the treatment of type 2 diabetes, including the lead compound PSN010. Lilly received an exclusive license to develop and market any compounds derived from the GKA program.
- In February, Lilly announced that the U.S. Food and Drug Administration (FDA) had approved Cymbalta for the treatment of generalized anxiety disorder (GAD).
- In February, Lilly announced the launch of the first insulin pen with memory, HumaPen® MEMOIR™, to help simplify the daily management of diabetes. In addition, the company has launched HumaPen® Luxura™ HD®, an insulin pen enabling half-unit dosing.
- In early March, Lilly announced the acquisition of Hypnion, Inc., a privately held neuroscience drug discovery company focused on sleep disorders. The deal expands Lilly's presence in the area of sleep disorder research and provides ownership of HY10275, a novel Phase II insomnia compound with a dual mechanism of action aimed at promoting better sleep onset and sleep maintenance. The acquisition was completed on April 3, 2007 for $315.0 million, and will result in a second quarter 2007 in-process research and development charge of approximately $0.30 per share.
- In March, the U.S. FDA rejected Lilly's appeal of an approvable letter for Arxxant™ for diabetic retinopathy and reiterated its request for further data that would require an additional three-year study. Lilly subsequently withdrew its Arxxant application in Europe and is currently considering the next steps for the molecule.
- In March, Lilly received an approvable letter from the U.S. FDA for a treatment-resistant-depression (TRD) indication for Symbyax®. Lilly is currently working with the FDA regarding label negotiations and postmarketing commitments, and is hopeful to have an action on the approvable letter in the second half of 2007.
- In late March, Lilly announced that the European Medicines Agency (EMEA) granted enzastaurin orphan drug designation for the treatment of diffuse large B-cell lymphoma (DLBCL).

III. Legal, Regulatory, and Other Matters

In December 2006, the U.S. Court of Appeals for the Federal Circuit affirmed a district court ruling upholding the validity of our Zyprexa patent. We are very confident we will maintain our U.S. patent protection on Zyprexa until 2011.

We have reached agreements with claimants' attorneys involved in U.S. Zyprexa product liability litigation to settle a total of approximately 28,500 claims against us relating to the medication. Approximately 1,650 claims remain. As a result of our product liability exposures, the substantial majority of which were related to Zyprexa, we recorded net pretax charges of $1.07 billion in the second quarter of 2005 and $494.9 million in the fourth quarter of 2006.

In March 2004, we were notified by the U.S. Attorney's office for the Eastern District of Pennsylvania that it had commenced a civil investigation relating to our U.S. marketing and promotional practices.

We have received requests for information about Zyprexa from the offices of Representative Henry Waxman, Chair of the House Committee on Oversight and Government Reform, and Senator Charles Grassley, ranking member of the Senate Finance Committee, and we are cooperating with their requests.

In the United States, implementation of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which provides a prescription drug benefit under the Medicare program, took effect January 1, 2006. Various measures have been discussed and/or passed in both the U.S. House of Representatives and U.S. Senate that would legalize the importation of prescription drugs and either allow or require the Secretary of Health and Human Services to negotiate drug prices directly with pharmaceutical manufacturers. We expect pricing pressure at the federal level to continue. In addition, although the successful implementation of the MMA may have relieved some state budget pressures, it is unlikely to result in reduced pricing pressures at the state level.

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

Sales increased 14 percent, to $4.23 billion, driven primarily by the collective growth of Cymbalta, Zyprexa, and the inclusion of Cialis since our January 29, 2007 acquisition of ICOS. Sales in the U.S. increased by $275.7 million, or 14 percent, for the first quarter of 2007 compared with the first quarter of 2006. Sales outside the U.S. increased $235.9 million, or 14 percent, for the first quarter of 2007. Worldwide sales volume increased 7 percent, selling prices increased sales 5 percent, and exchange rates increased sales by 2 percent.

The following table summarizes our net sales activity for the three-month periods ended March 31, 2007 and 2006:

Product	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006	Percent Change from 2006
	U.S.[1]	Outside U.S.	Total	Total	
	(Dollars in millions)				
Zyprexa	$ 523.3	$ 584.7	$1,108.0	$ 1,007.4	10
Cymbalta	386.3	55.5	441.8	233.3	89
Gemzar	162.7	214.2	376.9	338.8	11
Humalog	210.3	129.2	339.5	304.5	11
Evista	172.1	91.7	263.8	241.6	9
Humulin	85.2	140.6	225.8	218.5	3
Animal health products	92.7	122.4	215.1	198.3	8
Cialis[2]	64.0	129.1	193.1	55.4	NM
Alimta	104.1	83.7	187.8	130.1	44
Forteo	107.4	46.0	153.4	127.1	21
Strattera®	117.7	22.2	139.9	152.2	(8)
Humatrope	56.1	51.8	107.9	96.6	12
Other pharmaceutical products	229.1	244.0	473.1	610.9	(23)
Total net sales	$2,311.0	$ 1,915.1	$4,226.1	$ 3,714.7	14

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

2 Prior to the acquisition of ICOS, the Cialis sales shown in the table above represent results only in the territories in which we marketed Cialis exclusively. The remaining sales 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.

Product Highlights

In the first quarter of 2007, U.S. sales of Zyprexa, a treatment for schizophrenia, bipolar mania, and bipolar maintenance, increased 6 percent compared with the first quarter of 2006, due primarily to higher prices, offset partially by lower demand. Zyprexa sales in international markets increased 14 percent, driven by volume increases and the impact of foreign exchange rates.

Results from our primary diabetes care products are as follows:

- U.S. sales of Humalog, our insulin analog, increased 11 percent during the first three months of 2007 driven by increased prices. Humalog sales outside the U.S. increased 12 percent during the first quarter driven by increased volume and a favorable impact of exchange rates, offset partially by decreased prices.
- U.S. sales of Humulin, a biosynthetic human insulin, decreased 3 percent for the first three months of 2007, driven by the decline in demand due to continued competitive pressures, offset partially by higher prices. Humulin sales outside the U.S. increased 8 percent during the first three months of 2007 due to increased volume and a favorable impact of exchange rates, offset partially by decreased prices.
- Sales of Byetta, the first in a new class of medicines known as incretin mimetics for type 2 diabetes that we market with Amylin Pharmaceuticals (Amylin), were $146.5 million during the first three months of 2007. We report as revenue our 50 percent share of Byetta's gross margins and our sales of Byetta pen delivery devices to our partner, Amylin, which totaled $71.5 million during the first quarter of 2007 as compared to $35.8 million during the first quarter of 2006.
- U.S. revenues of Actos, an oral agent for the treatment of type 2 diabetes, were $40.8 million, a decrease of 73 percent in the first three months of 2007. Actos is manufactured by Takeda Chemical Industries, Ltd. Our U.S. marketing rights with respect to Actos expired in September 2006; however, we will continue receiving royalties from Takeda

Pharmaceuticals North America at a declining rate through September 2009. The arrangement outside the U.S. continues. Sales outside the U.S. increased 21 percent, to $45.4 million, due primarily to increased volume in addition to a favorable impact of foreign exchange rates.

U.S. sales of Cymbalta, a treatment of major depressive disorder, diabetic peripheral neuropathic pain, and generalized anxiety disorder, increased 88 percent during the first quarter of 2007, as compared to the same period last year, due to strong demand. Cymbalta sales growth outside the U.S. reflect international launches.

U.S. sales of Gemzar, a product approved to fight various cancers, increased 9 percent during the first quarter of 2007 due to higher prices and wholesaler buying patterns. Outside the U.S., Gemzar sales increased 13 percent as a result of higher volume and the impact of foreign exchange rates.

Total worldwide sales of Cialis, a treatment for erectile dysfunction, were $265.8 million, including $72.7 million of sales in the Lilly ICOS joint-venture territories for the period prior to the acquisition of ICOS. Worldwide sales grew 19 percent compared with first-quarter 2006, reflecting strong global demand. U.S. sales increased 18 percent during the first quarter of 2007 as compared to first-quarter 2006, due to increased volume and prices. Sales outside the U.S. increased 20 percent, due to increased volume, increased prices, and the favorable impact of foreign exchange rates. Prior to the ICOS acquisition, Cialis sales in our territories were reported in revenue, while our 50 percent share of the joint-venture territory sales, net of expenses and taxes, was reported in other income – net.

U.S. sales of Evista, a product for the prevention and treatment of osteoporosis, increased 15 percent during the first quarter of 2007 driven by higher prices. Evista sales outside the U.S. decreased 1 percent due to decreased volume and price, offset partially by a favorable impact of foreign exchange rates.

U.S. sales of Alimta, a treatment for malignant pleural mesothelioma and second-line treatment of non-small cell lung cancer, increased 34 percent during the first quarter of 2007, due to increased demand and wholesaler buying patterns. Sales outside the U.S. increased 60 percent, due to increased demand.

In the first quarter of 2007, Lilly completed a study of Alimta® versus Gemzar, when both are used in combination with cisplatin as a first-line treatment for non-small cell lung cancer (NSCLC). The study met its primary endpoint of non-inferiority relative to overall survival. Based on this data, Lilly plans to submit Alimta for first-line NSCLC to the European Medicines Agency (EMEA) in 2007.

U.S. sales of Forteo, a treatment for severe osteoporosis, increased 23 percent during the first quarter of 2007. U.S. sales benefited from access to medical coverage through the Medicare Part D program, decreased utilization of our U.S. patient assistance program, and increased demand. U.S. sales growth was partially offset by wholesaler buying patterns. Sales outside the U.S. grew 15 percent, due to increased volume and the favorable impact of foreign exchange rates.

U.S. sales of Strattera, a treatment of attention-deficit hyperactivity disorder (ADHD) in children, adolescents, and adults, decreased 13 percent during the first quarter of 2007, compared with the same period in 2006. The decline in sales in the first quarter was attributable to a decline in demand, partially offset by increased prices. Sales outside the U.S. increased 31 percent, driven primarily by increased volume in addition to a favorable impact of foreign exchange rates, offset partially by decreased prices.

Gross Margin, Costs, and Expenses

For the first quarter of 2007, gross margins as a percent of net sales declined 0.1 percentage points, to 78.2 percent. This decline was primarily due to the amortization of Cialis product intangible assets acquired in the ICOS acquisition and lower production volume, offset in part by higher product prices and manufacturing expenses growing at a slower rate than sales.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 15 percent for the first quarter of 2007 compared with the first quarter of 2006. Research and development expenses were $834.2 million, or 20 percent of net sales. Compared with the first quarter of 2006, research and development expenses increased 13 percent. In addition to the acquisition of ICOS, this increase was due to costs associated with the consequences of the FDA's decision on Arxxant and the withdrawal of the Arxxant application in Europe, as well as increases in discovery research and late-stage clinical trial costs. Marketing and administrative expenses rose 17 percent to $1.34 billion, largely due to the impact of the ICOS acquisition, increased marketing and selling expenses in support of key products (primarily Cymbalta and the diabetes care franchise), and increases in litigation-related costs.

Other income – net increased $6.1 million, to $38.3 million, and consists of interest expense, interest income, the after-tax operating results of the Lilly ICOS joint venture prior to the ICOS acquisition, and all other miscellaneous income and expense items.

- Interest expense for first-quarter 2007 decreased $12.0 million, to $53.0 million, due to lower debt balances during the first quarter of 2007 as compared to the first quarter of 2006.
- Interest income for first-quarter 2007 decreased $2.7 million, to $57.0 million, due to lower cash balances during the first quarter of 2007 as compared to the first quarter of 2006.
- The Lilly ICOS joint-venture income prior to the 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 items increased $5.6 million to $23.3 million, primarily as a result of income from the outlicensing of development stage products and partnered products in development.

Income tax expense decreased 5 percent, to $210.7 million. The effective tax rate was 29 percent, up from 21 percent in the first quarter of 2006, primarily because the in-process research and development charge associated with the acquisition of ICOS was not deductible.

FINANCIAL CONDITION

As of March 31, 2007, cash, cash equivalents, and short-term investments totaled $3.36 billion compared with $3.89 billion at December 31, 2006. Cash flows from operations of $891.8 million and net proceeds from the issuance of long-term debt of $1.40 billion was more than offset by the net cash paid for ICOS of $2.23 billion and dividends paid of $462.9 million.

Total debt at March 31, 2007, was $5.36 billion, an increase of $1.64 billion from December 31, 2006. In the first quarter of 2007, we issued approximately $2.5 billion of debt to finance our acquisition of ICOS, including the acquisition of ICOS stock and refinancing of ICOS debt, and repaid $1.10 billion of long-term debt. Our current debt ratings from Standard & Poor's and Moody's remain at AA and Aa3, respectively.

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 product liability litigation, dividends, and taxes in 2007. We believe that amounts available through our existing commercial paper program should be adequate to fund maturities of short-term borrowings, if necessary. We currently have $1.20 billion of unused committed bank credit facilities, which backs our commercial paper program. Various risks and uncertainties, including those discussed in the Financial Expectations for 2007 section, may affect our operating results and cash generated from operations.

LEGAL AND REGULATORY MATTERS

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):

- Dr. Reddy's Laboratories, Ltd. (Reddy), Teva Pharmaceuticals, and Zenith Goldline Pharmaceuticals, Inc., which was subsequently acquired by Teva Pharmaceuticals (together, Teva), each submitted Abbreviated New Drug Applications (ANDAs) seeking permission to market generic versions of Zyprexa prior to the expiration of our relevant U.S. patent (expiring in 2011) and alleging that this patent was invalid or not enforceable. We filed lawsuits against these companies in the U.S. District Court for the Southern District of Indiana, seeking a ruling that the patent is valid, enforceable and being infringed. The district court ruled in our favor on all counts on April 14, 2005, and on December 26, 2006, that ruling was upheld by the Court of Appeals for the Federal Circuit. Reddy's and Teva's combined petition for rehearing at the Federal Circuit was denied. Reddy and Teva may seek review of the Federal Circuit's decision by the U.S. Supreme Court. We are confident that Reddy's and Teva's claims are without merit and we expect to prevail. An unfavorable outcome would have a material adverse impact on our consolidated results of operations, liquidity, and financial position.
- 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 has also submitted an ANDA seeking permission to market a generic version of Evista. In June 2006, we filed a lawsuit against Teva in the U.S. District Court for the Southern District of Indiana, seeking a ruling that our relevant U.S. patents are valid, enforceable, and being infringed by Teva. No trial date has been set in either case. We believe that Barr's and Teva's claims are without merit and we expect to prevail. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact

on our consolidated results of operations, liquidity, and financial position.

- Sicor Pharmaceuticals, Inc. (Sicor), Mayne Pharma (USA) Inc. (Mayne), and Sun Pharmaceutical Industries Inc. (Sun) each submitted ANDAs seeking permission to market generic versions of Gemzar prior to the expiration of our relevant U.S. patents (expiring in 2010 and 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), Mayne (October 2006), and Sun (December 2006), seeking a ruling that these patents are valid and are being infringed. Each generic company moved to dismiss our lawsuit, arguing that the Indiana court lacks jurisdiction. On April 17, 2007, the court denied Sicor's motion. The two remaining motions to dismiss have not been decided. We expect to prevail in litigation involving our Gemzar patents and believe that claims made by these generic companies that our patents are not valid are without merit. However, it is not possible to predict or determine the outcome of this litigation, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In 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. In June 2005, the United States Patent and Trademark Office commenced a re-examination of the patent in order to consider certain issues raised by us relating to the validity of the patent. 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. We are seeking to have the jury verdict overturned by the trial court judge, and if unsuccessful, will appeal the decision to the Court of Appeals for the Federal Circuit. In addition, a separate bench trial with the U.S. District Court of Massachusetts was held the week of August 7, 2006, on our contention that the patent is unenforceable and impermissibly covers natural processes. No decision has been rendered. 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

In March 2004, the Office of the U.S. Attorney for the Eastern District of Pennsylvania advised us that it had commenced a civil 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 October 2005, the U.S. Attorney's Office 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 Lilly's Medicaid best price reporting related to the product sales covered by the rebate agreements. We are cooperating with the U.S. Attorney in these investigations, including providing a broad range of documents and information relating to the investigations. 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. Beginning in August 2006, we have received civil investigative demands or subpoenas from the attorneys general of a number of states. Most of these requests are now part of a multistate investigative effort being coordinated by an executive committee of attorneys general. We are aware that approximately 30 states are participating in this joint effort, and we anticipate that additional states will join the investigation. These attorneys general are seeking a broad range of Zyprexa documents, including documents relating to sales, marketing and promotional practices, and remuneration of health care providers. 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. We cannot predict or 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).

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 28,500 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. That settlement is being administered by special settlement masters appointed by Judge Weinstein.
- 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 recorded in other current liabilities in our December 31, 2006 consolidated balance sheet and will be paid during 2007.

The U.S. Zyprexa product liability claims not subject to these agreements include approximately 400 lawsuits in the U.S. covering approximately 1,300 plaintiffs and an additional 350 claims of which we are aware. In addition, we have been served with a lawsuit seeking class certification in which the members of the purported class are seeking refunds and medical monitoring. 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.

We are prepared to continue our vigorous defense of Zyprexa in all remaining cases. We currently anticipate that trials in one or more cases in the Eastern District of New York will begin in the second quarter of 2007.

We have insurance coverage for a portion of our Zyprexa product liability claims exposure. The third-party insurance carriers have raised defenses to their liability under the policies and are seeking to rescind the policies. The dispute is now the subject of litigation in the federal court in Indianapolis against certain of the carriers and in arbitration in Bermuda against other carriers. While we believe our position has merit, there can be no assurance that we will prevail.

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.

In the second quarter of 2005, we recorded a net pretax charge of $1.07 billion for product liability matters. The charge took into account our estimated recoveries from our insurance coverage related to these matters. The charge covered the following:

- The cost of the June 2005 Zyprexa settlements described above; and
- Reserves for product liability exposures and defense costs regarding the then-known and expected product liability claims to the extent we could formulate a reasonable estimate of the probable number and cost of the claims. A substantial majority of those exposures and costs were related to then-known and expected Zyprexa claims.

As a result of the January 2007 settlements discussed above, we incurred a pretax charge of $494.9 million in the fourth quarter of 2006. The charge covered the following:

- The cost of the January 2007 Zyprexa settlements; and
- Reserves for product liability exposures and defense costs regarding the then-known and expected Zyprexa product liability 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. 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, Mississippi, Montana, New Mexico, Pennsylvania, and West Virginia in the courts of the respective states.

In 2005, two lawsuits were filed in the Eastern District of New York 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 Eastern District of New York in 2006 on similar grounds. 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.

We cannot predict 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.

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 largely self-insured for future product liability losses. In addition, as noted above, 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 reached a settlement with our liability insurance carriers providing for coverage for certain environmental liabilities.

The litigation accruals and environmental liabilities and the related estimated insurance recoverables have been reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets.

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.

FINANCIAL EXPECTATIONS FOR 2007

We expect 2007 sales to grow in the low double digits, an increase from previous guidance of high single digits to low double digits. We expect second quarter earnings per share of $.50 to $.52. For the full year of 2007, we expect earnings per share to be in the range of $2.63 to $2.73. The estimated ranges for both the second quarter and the year include an estimate of $.30 per share for the charge related to the in-process research and development associated with the Hypnion acquisition. As the allocation of the purchase price is still in process, the actual charge may differ from this estimate. Gross margins as a percent of net sales are expected to improve slightly compared with 2006. In addition, we expect operating expenses (the aggregate of research and development and marketing and administrative expenses) to grow in the low double digits, driven primarily by the inclusion of all Cialis operating expenses subsequent to the acquisition and increased marketing and selling expenses in support of Cymbalta, Zyprexa, and the diabetes care franchise, as well as ongoing investment in research and development. We also expect other income — net to contribute less than $100 million, a reduction from 2006 due to the removal of the Lilly ICOS joint venture after-tax profit. Other income — net will primarily include net interest income and income from the partnering and out-licensing of molecules. In terms of cash flow, we continue to expect a continuation of strong cash flow trends in 2007, with capital expenditures of approximately $1.1 billion.

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 2006 Form 10-K, "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 Sidney Taurel, chairman and chief executive officer, and Derica W. Rice, senior vice president and chief financial officer, evaluated our disclosure controls and procedures as of March 31, 2007, and concluded that they are effective.

(b) Changes in Internal Controls. During the first quarter of 2007, 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 patent litigation involving Zyprexa, Evista, and Gemzar
- The civil investigation by the U.S. Attorney for the Eastern District of Pennsylvania relating to our U.S. sales, marketing, and promotional practices
- The Zyprexa product liability and related litigation, including claims brought on behalf of healthcare payors
- The legal proceedings we have filed against several of our product liability insurance carriers with respect to our coverage for the Zyprexa product liability claims

That information is incorporated into this Item by reference.

Other Patent Litigation

During 2005, two generic pharmaceutical manufacturers, Apotex Inc. (Apotex) and Novopharm Ltd. (Novopharm) (a wholly-owned subsidiary of Teva), challenged the validity of our Zyprexa compound and method-of-use patent (expiring in 2011) in Canada. The generic companies allege that our patent is invalid, obtained by fraud, or irrelevant. In April 2007, the Canadian Federal Court ruled that Apotex's allegations that our compound patent was invalid were not justified. If Apotex appeals the ruling, the appeal hearing could be held as early as the fourth quarter of 2007. We currently anticipate a decision by September 2007 in the Novopharm case. In May 2004, Egis-Gyogyszergyar (Egis), and in May 2006, Neolabs Ltd. (Neolabs), both generic pharmaceutical manufacturers, challenged the validity of our Zyprexa compound and method-of-use patents (expiring in 2011) in Germany. The Egis and Neolabs suits were joined and heard together. We currently anticipate a decision from the German Patent Court in the second or third quarter of 2007. We have received challenges to Zyprexa patents in a number of other countries as well, including several European countries. We are vigorously contesting the various legal challenges to our Zyprexa patents. We cannot predict or determine the outcome of this litigation.

Other Product Liability Litigation

We refer to Part I, Item 3, of our Form 10-K annual report for 2006 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 65 suits involving approximately 115 claimants. In the thimerosal litigation, we have been named as a defendant in approximately 355 suits with approximately 930 claimants.

Shareholder Litigation

Two putative class action lawsuits have been filed in the United States District Court for the Eastern District of New York against the company and various current and former directors, officers and employees under the federal securities laws (*Smith et al. v. Eli*

Lilly and Company et al., filed March 28, 2007, and *Valentine v. Eli Lilly and Company et al.,* filed April 5, 2007). The company has not been formally served with either lawsuit. In both lawsuits, plaintiffs request certification of a class of purchasers of Lilly stock from March 28, 2002, through December 22, 2006. The complaints allege that the defendants made false and misleading statements regarding Zyprexa in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and seek unspecified compensatory damages and the costs of suit, including attorneys' fees. We believe these claims are without merit and intend to defend against them vigorously.

In April 2007, the company received a demand from two shareholders that the board of directors cause the company to take legal action against current and former directors and others for allegedly causing damage to the company with respect to the allegedly improper marketing of Evista, Prozac, and Zyprexa. The board has taken the matter under advisement.

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 March 31, 2007:

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)
January 2007	2	$53.13	—	$419.2
February 2007	61	54.12	—	419.2
March 2007	1	53.81	—	419.2
Total	64		—	

The amounts presented in columns (a) and (b) above represent purchases of common stock related to employee stock option exercises. 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 March 31, 2007, we have purchased $2.58 billion related to this program. During the first quarter of 2007, no shares were repurchased pursuant to this program and we do not expect to purchase any shares under this program during the remainder of 2007.

Item 4. Submission of Matters to a Vote of Security Holders

We held our annual meeting of shareholders on April 16, 2007. The following is a summary of the matters voted on at the meeting:

(a) The four nominees for director were elected to serve three-year terms ending in 2010, as follows:

Nominee	For	Withhold Vote
Sir Windried Bischoff	986,676,085	19,859,982
J. Michael Cook	987,741,196	18,794,871
Franklyn G. Prendergast, M.D., Ph.D.	937,008,719	69,527,348
Kathi P. Seifert	982,357,669	24,178,398

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

For:	987,959,903
Against:	12,289,425
Abstain:	6,286,739

(c) By the following vote, the shareholders did not approve the proposal to amend the company's articles of incorporation to provide for annual election of directors. Approval required the vote of 80 percent of the approximately 1.1 billion shares outstanding as of the record date:

For:	852,402,279
Against:	147,113,030
Abstain:	7,020,758

(d) By the following vote, the shareholders reapproved the material terms of performance goals for the 2002 Lilly Stock Plan:

For:	827,453,058
Against:	170,521,430
Abstain:	8,561,579

(e) By the following vote, the shareholders did not approve the shareholder proposal requesting the board issue a report to shareholders on extending the company's Animal Care and Use Policy to contract labs:

For:	28,681,405
Against:	717,871,074
Abstain:	134,024,126
Broker Nonvote:	125,959,462

(f) By the following vote, the shareholders did not approve the shareholder proposal regarding international outsourcing of animal research:

For:	31,199,149
Against:	715,003,226
Abstain:	134,374,230
Broker Nonvote:	125,959,462

(g) By the following vote, the shareholders did not approve the shareholder proposal regarding separating the roles of chairman and chief executive officer:

For:	278,299,245
Against:	593,128,586
Abstain:	9,148,774
Broker Nonvote:	125,959,462

(h) By the following vote, the shareholders did not approve the shareholder proposal regarding amending the company's articles of incorporation to allow shareholders to amend the bylaws:

For:	425,791,519
Against:	446,275,680
Abstain:	8,509,406
Broker Nonvote:	125,959,462

(i) By the following vote, the shareholders approved a shareholder proposal regarding adopting a simple majority vote standard:

For:	545,828,383
Against:	326,381,323
Abstain:	8,366,899
Broker Nonvote:	125,959,462

Item 6. Exhibits

The following documents are filed as exhibits to this Report:

EXHIBIT 10.1	The 2002 Lilly Stock Plan, as amended
EXHIBIT 10.2	Form of Shareholder Value Award
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 Sidney Taurel, Chairman of the Board 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 May 3, 2007

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

Date May 3, 2007

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

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Exhibit 10.1

2002
LILLY STOCK PLAN
As amended through April 16, 2007

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"), and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The 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 of Stock Options 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 Stock Options ("Grantees") from among the Nonemployee Directors and determine the number of shares subject to any particular Stock Option.

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) 80,000,000 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, are not purchased or awarded under a Stock Option or Performance Award due to termination, lapse, or forfeiture, or which 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.

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), 7(e), 9(d), and 10(c). The Committee shall also adjust equitably outstanding Grants made before the event with respect to the number of shares subject to the Grant, the Option Price of Stock Options, the base price of Stock Appreciation Rights, and stock-related performance goals under Performance Awards or Stock Unit Awards (such as earnings per share or stock price related goals).

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"). 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 2,500,000 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 60,000,000 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 either in shares of Lilly Stock ("Stock Performance Awards") or in dollar amounts ("Dollar Performance Awards"). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Committee, in shares of Lilly Stock ("Performance Shares"), or in cash or in any combination thereof, if the financial performance of the Company or any subsidiary, division, or other unit of the Company ("Business Unit") selected by the Committee meets certain financial goals established by the Committee for the Award Period. The following provisions are applicable to Performance Awards:

(a) *Award Period.* The Committee shall determine and include in the Grant the period of time (which shall be four or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. Award Periods for different Grants may overlap. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed, 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, and restructuring and special charges (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 or the amount of payment to be made under a Performance Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 6(f)).

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

(d) *Revisions for Significant Events.* At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if 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.* (i) No individual may receive Performance Award payments in respect of Stock Performance Awards in excess of 100,000 shares of Lilly Stock in any calendar year or payments in respect of Dollar Performance Awards in excess of $8,000,000 in any calendar year. For purposes of determining the maximum payment under this subsection, payment in cash of all or part of a Stock Performance Award will be deemed an issuance of the number of shares with respect to which such cash payment is made. No individual may receive both a Stock Performance Award and a Dollar Performance Award for the same Award Period.

(ii) Not more than 18,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Performance Awards.

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.

(e) *Total Number of Shares Granted.* Not more than 3,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Restricted Stock Grants and Stock Unit Awards, considered together.

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.

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 settlement or exercisability of a Stock Appreciation Right at any time. 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 2,500,000 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, subject to applicable tax withholding requirements.

(c) *Total Number of Shares Granted.* Not more than 3,000,000 shares of Lilly Stock may be issued or transferred under the 2002 Plan in the form of Restricted Stock Grants and Stock Unit Awards, considered together.

(d) *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 Sections 4(a), 6(f)(ii), 7(e), or 10(c); or (iv) increase the maximum limitations on the number of shares subject to Grants imposed under Sections 5(f), 5(g), 6(f)(i), 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 14, 2012 or until earlier terminated 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 2007 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.* For purposes of the 2002 Plan, a Change in Control shall mean the happening of any of the following events:

(i) The acquisition by any "person," as that term is used in Sections 13(d) and 14(d) of the 1934 Act (other than (w) the Company, (x) any subsidiary of the Company, (y) any employee benefit plan or employee stock plan of the Company or a subsidiary of the Company or any trustee or fiduciary with respect to any such plan when acting in that capacity, or (z) Lilly Endowment, Inc.,) of "beneficial ownership," as defined in Rule 13d-3 under the 1934 Act, directly or indirectly, of 15 percent or more of the shares of the Company's capital stock the holders of which have general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of the Company (or which would have such voting power but for the application of the Indiana Control Share Statute) ("Voting Stock"); provided, however,

that an acquisition of Voting Stock directly from the Company shall not constitute a Change in Control;

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

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

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

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 non-qualified 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 2002 Plan.* The 2002 Plan is effective upon its approval by the Company's shareholders at the annual meeting to be held on April 15, 2002, or any adjournment of the meeting.

* * *

Exhibit 10.2

Your work. Your life. Your rewards.

TOTAL COMPENSATION

Eli Lilly and Company
Shareholder Value Award

This Shareholder Award has been granted for the period of January 1, 200[ ] through December 31, 200[ ] by Eli Lilly and Company, an Indiana corporation with its principal offices in Indianapolis, Indiana (Lilly), to [Grantee]

Performance Levels

	No Payout	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
Stock Price	<$[ ]	$ [ ] — $ [ ]	$ [ ] — $ [ ]	$ [ ] – $ [ ]	$ [ ] – $ [ ]	$ [ ] – $ [ ]	<$[ ]
% of Target	0%	40%	60%	80%	100%	120%	140%

Lilly

Answers That Matter.

Eli Lilly and Company Shareholder Value Award

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A. Recitals

Under the 2002 LILLY STOCK PLAN (“2002 Plan”), the Compensation Committee (“Committee”) has determined the form of this Shareholder Value Award and selected the Grantee, an Eligible Employee of the Company, to receive a Shareholder Value Award for the Award Period January 1, 200[ ], through December 31, 200[ ]. The applicable terms of the 2002 Plan are incorporated in this Shareholder Value Award by reference, including the definitions of terms contained in the 2002 Plan. This award is granted under Section 6 of the 2002 Plan, “Performance Awards”, and shall be considered a form of Performance Award for purposes of interpretation and administration of the award under the 2002 Plan.

B. Shareholder Value Award

Lilly grants to the Grantee the right to acquire Lilly Stock by issuance or transfer to the Grantee of the Performance Shares to which he or she is entitled under this Shareholder Value Award upon the terms and conditions following:

Section 1. Statement of Award Period

The Award Period shall begin January 1, 200[ ] and end December 31, 200[ ].

Section 2. Number of Shares

The number of Performance Shares for the Award Period shall be determined by the Performance Share value as approved by the Grantee’s supervisor and a FAS123(R) accepted financial model. Target shares are set at Level 4. The remaining columns of the table on the first page of this Shareholder Value Award are multiples of the target shares as set forth in the % Target row and correspond to the applicable stock price, subject to adjustment as provided below in this Section or in Section 8. Grantees may view their Shareholder Value Award by logging on to the Merrill Lynch website at http://benefits.ml.com after March 31 of each grant year.

The number of Performance Shares for the Award Period and the final stock price as defined below in Section 3 will be adjusted by the Committee under Section 4(b) of the 2002 Plan upon the occurrence, prior to the effective date of the issuance or transfer of shares for payment, of any subdivision or combination of shares of Lilly Stock, or a stock dividend, capital reorganization, recapitalization, or consolidation or merger with Lilly as the surviving corporation, or if additional shares or new or different shares or other securities of Lilly or any other issuer are distributed with respect to the shares of Lilly Stock through a spin-off, exchange offer, or other extraordinary distribution occurring prior to the effective date of the issuance or transfer of shares for payment. A fractional share resulting from such adjustment shall in the discretion of the Committee either be paid in cash or rounded.

Section 3. Computation of Final Stock Price

The Final Stock Price shall be computed in accordance with the following procedures:

a. The closing price for Lilly Stock on the New York Stock Exchange for each trading day during the last two calendar months of the Award Period will be collected and recorded.

b. The stock price used to determine the payout level will be the average of the closing stock prices collected in subsection (a) above rounded to the nearest cent.

Section 4. Determination and Announcement of Award

After the Final Stock Price for the Award Period is announced, the Final Stock Price and the resulting number of Performance Shares for Grantee (determined in accordance with Sections 2 and 8), together with the Committee's election between cash and shares of Lilly Stock under Section 5, shall be communicated to Grantee.

Section 5. Committee Election to Pay Cash

At any time prior to award payout, the Committee may, if it so elects, determine to pay part or all of any Shareholder Value Award in cash in lieu of issuing or transferring Performance Shares. The amount of cash shall be based upon the fair market value of Lilly Stock on a valuation date to be determined by the Committee.

Section 6. Issuance or Transfer of Performance Shares and Payment of Cash Award

Subject to the condition relating to withholding taxes stated in Section 12, Lilly shall issue or transfer to the Grantee any Performance Shares to be issued or transferred under Section 5 and pay to the Grantee any cash determined to be payable under that section not later than the sixtieth day after the expiration of the Award Period stated in Section 1. Grantee shall have no rights as a shareholder of Lilly with respect to the shares of Lilly Stock until the shares are issued or transferred on the books of Lilly.

Section 7. Consideration for Continued Employment Requirement

This Shareholder Value Award is made in consideration of services rendered by the Grantee to the Company during the entire Award Period. If the status of the Grantee as an Eligible Employee, as defined in the 2002 Plan, terminates before the end of the Award Period except as outlined in Section 8 (c), then all rights of the Grantee under this Shareholder Value Award shall terminate with respect to the Award Period. The Company shall incur no liability to Grantee under this Shareholder Value Award by terminating Grantee's status as an Eligible Employee whether by action with respect to Grantee individually, either with or without cause, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation, or otherwise.

Section 8. Adjustments for Certain Employment Status Changes

The number of Performance Shares described in Section 2 is based on the assumption that the Grantee is an employee in good standing throughout the entire Award Period. Unless otherwise required by law, the number of Performance Shares shall be adjusted for changes in employment status during the Award Period as follows:

a. Leaves of Absence. The number of Performance Shares shall be reduced proportionally for any portion of the total days in the Award Period during which the Grantee is on an approved unpaid leave of absence longer than ninety (90) days.

b. Demotions and Disciplinary Actions. The senior most vice president of Lilly responsible for human resources may, in his or her discretion, reduce the number of Performance Shares, prorated according to time, for any portion of the Award Period during which the Grantee has been (i) demoted to a job classification below those considered by the Committee to be eligible for Shareholder Value Awards, or (ii) subject to disciplinary action by the Company. In the case of disciplinary action during the Award Period, the senior most vice president responsible for human resources may also, in his or her discretion, withhold payment of this Shareholder Value Award entirely.

c. Retirement, death, disability or termination due to a plant closing or reduction in workforce. In the event the Grantee's employment is terminated due to retirement as a retiree, death, disability, plant closing or reduction in workforce (as defined below), the number of Performance Shares shall be reduced proportionally for the portion of the total days during the Award Period in which the Grantee was not an active employee. A retiree is a person who is (i) a retired employee under the Lilly Retirement Plan; (ii) a retired employee under the retirement plan or program of a Lilly subsidiary; or (iii) a retired employee under a retirement program specifically approved by the Committee. Plant closing means the closing of a plant site or other corporate location that directly results in termination of employment. Reduction in workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment. The senior most vice president over human resources of Lilly will be responsible for approving, in his or her discretion, what is classified as disability, a plant closing, or a reduction in workforce.

Section 9. Notices, Payments and Electronic Delivery

Any notice to be given by the Grantee or Successor Grantee shall be in writing, and any notice and payment shall be deemed to have been given or made only upon receipt by the Treasurer of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285. Any notice or communication by Lilly in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any Successor Grantee, at the address specified in writing to Lilly by the Successor Grantee. In addition, Lilly may, in its sole discretion, decide to deliver any documents related to the Shareholder Value Award grant or future Shareholder Value Awards that may be awarded under the 2002 Plan by electronic means or request the Grantee's consent to participate in the 2002 Plan by electronic means. By accepting this grant of Shareholder Value Awards, the Grantee

hereby consents to receive such documents by electronic delivery and agrees to participate in the 2002 Plan through an on-line or electronic system established and maintained by Lilly or another third party designated by Lilly.

Section 10. Waiver

The waiver by Lilly of any provision of this instrument at any time or for any purpose shall not operate as a waiver of that provision or any other provision of this instrument at any subsequent time or for any other purpose.

Section 11. Revocation or Modification

This Shareholder Value Award shall be irrevocable except that Lilly shall have the right to revoke or modify this Shareholder Value Award under Section 13(e) of the 2002 Plan.

Section 12. Withholding Tax

Regardless of any action Lilly and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state and local taxes), social insurance, payroll tax, payment on account or other tax-related withholding ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items legally due by the Grantee is and remains the Grantee's responsibility and that Lilly and the Employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Shareholder Value Awards, including the grant of the Shareholder Value Awards, the transfer and issuance of any Performance Shares or the receipt of any cash payment and the subsequent sale of any Performance Shares acquired; and (ii) do not commit to structure the terms of the grant or any aspect of the Shareholder Value Awards to reduce or eliminate the Grantee's liability for Tax Related Items.

Prior to the issuance of any Performance Shares or the receipt of a cash payment, the Grantee shall pay, or make adequate arrangements satisfactory to Lilly and/or the Employer to satisfy all withholding and payment on account obligations of Lilly and/or the Employer. In this regard, the Grantee authorizes Lilly and/or the Employer to withhold all applicable Tax Related Items legally payable by the Grantee from the Grantee's wages or other cash compensation payable to the Grantee by Lilly and/or the Employer or from any cash payment received upon expiration of the Award Period in accordance with Section 6. Alternatively, or in addition, if permissible under local law, the Grantee authorizes Lilly and/or the Employer, at their discretion to (i) sell or arrange for the sale of Performance Shares to be issued upon the expiration of the Award Period to satisfy the withholding or payment on account obligation (at the Grantee's behalf and at the Grantee's direction pursuant to this authorization), and/or (ii) withhold in Performance Shares, provided that Lilly and/or the Employer shall withhold only the amount of Performance Shares necessary to satisfy the minimum withholding amount (or such other amount that will not trigger unfavorable accounting). The Grantee shall pay to Lilly and/or the Employer any amount of Tax Related Items that Lilly and/or the Employer may be required to withhold as a result of the Grantee's receipt of Shareholder Value Awards, the issuance of Performance Shares upon the expiration of the Award Period or the receipt of a cash payment that cannot be satisfied by the means previously described. Lilly may refuse to deliver Performance Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described herein.

Section 13. No Compensation Deferrals

Neither the 2002 Plan nor this instrument is intended to provide for an elective deferral of compensation that would be subject to Section 409A of the U.S. Internal Revenue Code of 1986, as amended ("Section 409A"). Lilly reserves the right, to the extent Lilly deems necessary or advisable in its sole discretion, to unilaterally amend or modify the 2002 Plan and/or this instrument to ensure that no awards (including without limitation, the Shareholder Value Awards) become subject to the requirements of Section 409A, provided however that Lilly makes no representation that the Shareholder Value Awards are not subject to Section 409A nor makes any undertaking to preclude Section 409A from applying to the Shareholder Value Awards.

Section 14. Non-Transfer of Shareholder Value Award

No right in or under this Shareholder Value Award is transferable except by operation of law to a duly appointed guardian of the estate of Grantee or upon the death of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of Sections 7 and 8.

Section 15. Severability and Section Headings

If one or more of the provisions of this instrument shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this instrument to be construed so as to foster the intent of this Shareholder Value Award and the 2002 Plan.

The section headings in this instrument are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

Section 16. Determinations by Committee

Determinations by the Committee (or in the case of Section 8, the senior most vice president of Lilly responsible for human resources) pursuant to any provision of the 2002 Plan, pursuant to rules, regulations and procedures adopted by the Committee or pursuant to this instrument, including without limitation the determination of the amount and method of computation of the Stock Price, whether to make an exception to the rule of Section 7, or adjustments under Section 2 or Section 3, shall be final and binding on the Grantee and any Successor Grantee.

Section 17. Change in Control

The provisions of Section 12(a)(iii) of the 2002 Plan apply to this Shareholder Value Award with the following modifications:

a. The only Change in Control event that shall result in a payment under Section 12(a)(iii) of the 2002 Plan shall be consummation of a Transaction as defined in Section 12(b)(iii) of the 2002 Plan pursuant to which Lilly is not the surviving entity.

b. Upon the consummation of such Transaction, the Grantee will be paid an amount equal to the product of (a) the Grantee's award opportunity for the Shareholder Value Award based on the value of Lilly Stock established for the consideration to be paid to holders of Lilly Stock in the Transaction, and (b) a fraction, the numerator of which is the number of days that have elapsed since the beginning of the Award Period to the date of the consummation of the Transaction and the denominator of which is the total number of days in the Award Period. The payment will be deemed to have been made immediately prior to the consummation of the Transaction in order to allow the Performance Shares paid to be deemed outstanding and eligible to receive the consideration being paid to Lilly shareholders in the Transaction.

Section 18. Acknowledgement of Nature of 2002 Stock Plan & Shareholder Value Award

In accepting this Shareholder Value Award, the Grantee acknowledges that:

a. the 2002 Plan is established voluntarily by Lilly, it is discretionary in nature and may be modified, amended, suspended or terminated by Lilly at any time, as provided in the 2002 Plan;

b. the Shareholder Value Award is voluntary and occasional and does not create any contractual or other right to receive future Shareholder Value Awards, or benefits in lieu of Shareholder Value Awards even if Shareholder Value Awards have been awarded repeatedly in the past;

c. all decisions with respect to future awards, if any, will be at the sole discretion of Lilly;

d. the Grantee's participation in the 2002 Plan is voluntary;

e. Shareholder Value Awards are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to Lilly and are outside the scope of the Grantee's employment contract, if any;

f. Shareholder Value Awards are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

g. neither the Shareholder Value Awards nor any provision of this instrument, the 2002 Plan or the policies adopted pursuant to the 2002 Plan confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of Lilly or any subsidiary of Lilly, Shareholder Value Awards shall not be interpreted to form an employment contract or relationship with Lilly or any subsidiary of Lilly;

h. the future value of the underlying Performance Shares is unknown and cannot be predicted with certainty;

i. if the Grantee receives Performance Shares, the value of such Performance Shares acquired upon expiration of the Award Period may increase or decrease in value;

j. no claim or entitlement to compensation or damages arises from termination of Shareholder Value Awards, and no claim or entitlement to compensation or damages shall arise from any diminution in value of the Shareholder Value Awards or Performance Shares received upon expiration of the Award Period resulting from termination of the Grantee's employment by Lilly or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and the Grantee irrevocably releases Lilly and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting this grant of Shareholder Value Awards, the Grantee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

k. in the event of termination of the Grantee's employment (whether or not in breach of local labor laws), the Grantee's right to receive Performance Shares upon expiration of the Award Period will terminate effective as of the date that the Grantee is no longer actively employed (unless one of the adjustments in Section 8 applies) and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of employment (whether or not in breach of local labor laws), the Grantee's right to receive Performance Shares pursuant to the Shareholder Value Awards after termination of employment, if any, will be measured by the date of termination of the Grantee's active employment and will not be extended by any notice period mandated under local law; the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively employed for purposes of the Shareholder Value Awards;

l. Lilly is not providing any tax, legal or financial advice, nor is Lilly making any recommendations regarding the Grantee's participation in the 2002 Plan, or the Grantee's acquisition or sale of the underlying Performance Shares; and

m. the Grantee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the 2002 Plan before taking any action related to the 2002 Plan.

Section 19. Data Privacy Notice and Consent

The Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's personal data as described in this Shareholder Value Award by and among, as applicable, the Employer, Lilly, its subsidiaries and its affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the 2002 Plan.

The Grantee understands that Lilly may hold certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in Lilly, details of all Shareholder Value Awards or any other entitlement to shares awarded, canceled, vested, unvested or outstanding in the Grantee's favor, for the purpose of implementing, administering and managing the 2002 Plan ("Data"). The

Grantee understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the 2002 Plan, that these recipients may be located in the Grantee's country, or elsewhere, and that the recipient's country may have different data privacy laws and protections than the Grantee's country. The Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Grantee's participation in the 2002 Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares received upon expiration of the Award Period may be deposited. The Grantee understands that Data will be held only as long as is necessary to implement, administer and manage the Grantee's participation in the 2002 Plan. The Grantee understands that the Grantee may, at any time, request an equity award transaction statement, request any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. The Grantee understands that refusal or withdrawal of consent may affect the Grantee's ability to participate in the 2002 Plan. For more information on the consequences of the Grantee's refusal to consent or withdrawal of consent, the Grantee understands that the Grantee may contact the Grantee's local human resources representative.

Section 20. Effective Date

The effective date of this instrument shall be the date of grant.

Section 21. Governing Law

The validity and construction of this Shareholder Value Award shall be governed by the laws of the State of Indiana, U.S.A. without regard laws that might cause other law to govern under applicable principles of conflicts of law. For purposes of litigating any dispute that arises under this Shareholder Value Award, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana**,** and no other courts, where this Shareholder Value Award grant is made and/or to be performed.

Section 22. Language

If The Grantee has received this instrument or any other document related to the 2002 Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

IN WITNESS WHEREOF, Lilly has caused this Performance Award to be executed and granted in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY

By 
Sidney Taurel
Chairman of the Board and
Chief Executive Officer

Lilly
Answers That Matter.

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

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Three Months Ended March 31,	
	2007	2006
BASIC		
Net income	$ 508.7	$ 834.8
Average number of common shares outstanding	1,088.4	1,085.2
Contingently issuable shares	1.3	.8
Adjusted average shares	1,089.7	1,086.0
Basic earnings per share	$ .47	$ .77
DILUTED		
Net income	$ 508.7	$ 834.8
Average number of common shares outstanding	1,088.4	1,085.2
Incremental shares – stock options and contingently issuable shares	1.5	1.8
Adjusted average shares	1,089.9	1,087.0
Diluted earnings per share	$ .47	$ .77

Dollars and shares in millions except per-share data.

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

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Three Months Ended March 31,	Years Ended December 31,				
	2007	2006	2005	2004	2003	2002
Consolidated pretax income before cumulative effect of a change in accounting principle	$ 719.4	$3,418.0	$2,717.5	$2,941.9	$3,261.7	$3,457.7
Interest	78.3	344.8	245.7	162.9	121.9	140.0
Less interest capitalized during the period	(25.3)	(106.7)	(140.5)	(111.3)	(60.9)	(60.3)
Earnings	$ 772.4	$3,656.1	$2,822.7	$2,993.5	$3,322.7	$3,537.4
Fixed charges	$ 78.3	$ 344.8	$ 245.7	$ 162.9	$ 121.9	$ 140.0
Ratio of earnings to fixed charges	9.9	10.6	11.5	18.4	27.3	25.3

EXHIBIT 31.1 Rule 13a-14(a) Certification of Sidney Taurel, Chairman of the Board and Chief Executive Officer

CERTIFICATIONS

I, Sidney Taurel, chairman of the board 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: May 3, 2007

By: /s/ Sidney Taurel
Sidney Taurel
Chairman of the Board
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: May 3, 2007

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 March 31, 2007 (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 May 3, 2007

/s/ Sidney Taurel
Sidney Taurel
Chairman of the Board and Chief Executive Officer

Date May 3, 2007

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