United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2013

Commission file number 001-06351

Eli Lilly and Company

An Indiana corporation I.R.S. employer identification no. 35-0470950

Lilly Corporate Center, Indianapolis, Indiana 46285

(317) 276-2000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock (no par value)	New York Stock Exchange
6.57% Notes Due January 1, 2016	New York Stock Exchange
7 1/8% Notes Due June 1, 2025	New York Stock Exchange
6.77% Notes Due January 1, 2036	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes ☑ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 under the Exchange Act: Yes ☐ No ☑

Aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter (Common Stock): approximately $46,911,000,000

Number of shares of common stock outstanding as of February 14, 2014: 1,119,713,084

Portions of the Registrant's Proxy Statement to be filed on or about March 24, 2014 have been incorporated by reference into Part III of this report.

Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue,” or similar expressions.

In particular, information appearing under “Business,” “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the timing of anticipated regulatory approvals and launches of new products;
- market uptake of recently launched products;
- competitive developments affecting current products;
- the expiration of intellectual property protection for certain of our products;
- our ability to protect and enforce patents and other intellectual property;
- the impact of governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals, including U.S. health care reform;
- regulatory compliance problems or government investigations;
- regulatory actions regarding currently marketed products;
- unexpected safety or efficacy concerns associated with our products;
- issues with product supply stemming from manufacturing difficulties or disruptions;
- regulatory changes or other developments;
- changes in patent law or regulations related to data-package exclusivity;
- litigation involving current or future products as we are self-insured;
- unauthorized disclosure of trade secrets or other confidential data stored in our information systems and networks;
- changes in tax law;
- changes in inflation, interest rates, and foreign currency exchange rates;
- asset impairments and restructuring charges;
- changes in accounting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC);
- acquisitions and business development transactions; and
- the impact of exchange rates and global macroeconomic conditions.

Investors should not place undue reliance on forward-looking statements. You should carefully read the factors described in the “Risk Factors” section of this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report.

Part I

Item 1. Business

Eli Lilly and Company (the “company” or “registrant” or "Lilly") was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and market products in two business segments—human pharmaceutical products and animal health products.

The mission of our human pharmaceutical business is to make medicines that help people live longer, healthier, more active lives. Our strategy is to create value for all our stakeholders by accelerating the flow of innovative new medicines that provide improved outcomes for individual patients. Most of the products we sell today were discovered or developed by our own scientists, and our success depends to a great extent on our ability to continue to discover, develop, and bring to market innovative new medicines.

Our animal health business, operating through our Elanco division, develops, manufactures, and markets products for both food animals and companion animals.

We manufacture and distribute our products through facilities in the United States, Puerto Rico, and 11 other countries. Our products are sold in approximately 120 countries.

Human Pharmaceutical Products

Our human pharmaceutical products include:

Endocrinology products , including:

- *Humalog* ® , *Humalog Mix 75/25* ™ , and *Humalog Mix 50/50* ™ , insulin analogs for the treatment of diabetes
- *Humulin* ® , human insulin of recombinant DNA origin for the treatment of diabetes
- *Trajenta* ® , an oral medication for the treatment of type 2 diabetes
- *Jentadueto* ® , a combination tablet of Trajenta and metformin hydrochloride for use in the treatment of type 2 diabetes
- *Forteo* ® , for the treatment of osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women
- *Evista* ® , for the prevention and treatment of osteoporosis in postmenopausal women and for the reduction of the risk of invasive breast cancer in postmenopausal women with osteoporosis and postmenopausal women at high risk for invasive breast cancer
- *Humatrope* ® , for the treatment of human growth hormone deficiency and certain pediatric growth conditions
- *Axiron* ® , a topical solution of testosterone, applied by underarm applicator, for replacement therapy in men for certain conditions associated with a deficiency or absence of testosterone.

Neuroscience products , including:

- *Cymbalta* ® , for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and in the U.S. for the management of fibromyalgia and of chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis
- *Zyprexa* ® , for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance
- *Strattera* ® , for the treatment of attention-deficit hyperactivity disorder
- *Prozac* ® , for the treatment of major depressive disorder, obsessive-compulsive disorder, bulimia nervosa, and panic disorder

- *Amyvid* ®, a radioactive diagnostic agent approved in 2012 in the U.S. and 2013 in the European Union (EU) for positron emission tomography (PET) imaging of beta-amyloid neuritic plaques in the brains of adult patients with cognitive impairment who are being evaluated for Alzheimer's disease and other causes of cognitive decline.

Oncology products , including:

- *Alimta* ®, for the first-line treatment, in combination with another agent, of advanced non-small cell lung cancer (NSCLC) for patients with non-squamous cell histology; for the second-line treatment of advanced non-squamous NSCLC; as monotherapy for the maintenance treatment of advanced non-squamous NSCLC in patients whose disease has not progressed immediately following chemotherapy treatment; and in combination with another agent, for the treatment of malignant pleural mesothelioma
- *Erbitux* ®, indicated both as a single agent and with another chemotherapy agent for the treatment of certain types of colorectal cancers; and as a single agent or in combination with radiation therapy for the treatment of certain types of head and neck cancers
- *Gemzar* ®, for the treatment of pancreatic cancer; in combination with other agents, for the treatment of metastatic breast cancer, NSCLC, and advanced or recurrent ovarian cancer; and in the EU for the treatment of bladder cancer.

Cardiovascular products , including:

- *Cialis* ®, for the treatment of erectile dysfunction and benign prostatic hyperplasia (BPH)
- *Effient* ®, for the reduction of thrombotic cardiovascular events (including stent thrombosis) in patients with acute coronary syndrome who are managed with an artery-opening procedure known as percutaneous coronary intervention (PCI), including patients undergoing angioplasty, atherectomy, or stent placement
- *ReoPro* ®, for use as an adjunct to PCI for the prevention of cardiac ischemic complications
- *Adcirca* ®, for the treatment of pulmonary arterial hypertension.

Animal Health Products

Our products for food animals include:

- *Rumensin* ®, a cattle feed additive that improves feed efficiency and growth and also controls and prevents coccidiosis
- *Posilac* ®, a protein supplement to improve milk productivity in dairy cows
- *Paylean* ® and *Optaflexx* ®, leanness and performance enhancers for swine and cattle, respectively
- *Tylan* ®, an antibiotic used to control certain diseases in cattle, swine, and poultry
- *Micotil* ®, *Pulmotil* ®, and *Pulmotil AC* ™, antibiotics used to treat respiratory disease in cattle, swine, and poultry, respectively
- *Coban* ®, *Monteban* ®, and *Maxiban* ®, anticoccidial agents for use in poultry
- *Surmax* ™ (sold as *Maxus* ™ in some countries), a performance enhancer for swine and poultry.

Our products for companion animals include:

- *Trifexis* ®, a monthly chewable tablet for dogs that kills fleas, prevents flea infestations, prevents heartworm disease, and controls intestinal parasite infections
- *Comfortis* ®, a chewable tablet that kills fleas and prevents flea infestations on dogs.

Marketing

We sell most of our products worldwide. We adapt our marketing methods and product emphasis in various countries to meet local needs.

Human Pharmaceuticals—United States

In the U.S., we distribute human pharmaceutical products principally through independent wholesale distributors, with some sales directly to pharmacies. In 2013, 2012, and 2011, three wholesale distributors in the U.S.—AmerisourceBergen Corporation, McKesson Corporation, and Cardinal Health, Inc.—each accounted for between 10 percent and 19 percent of our consolidated total revenue. No other distributor accounted for more than 10 percent of consolidated total revenue in any of those years.

We promote our major human pharmaceutical products in the U.S. through sales representatives who call upon physicians and other health care professionals. We advertise in medical journals, distribute literature and samples of certain products to physicians, and exhibit at medical meetings. In addition, we advertise certain products directly to consumers in the U.S., and we maintain websites with information about our major products. We supplement our employee sales force with contract sales organizations as appropriate to leverage our own resources and the strengths of our partners in various markets.

We maintain special business groups to service wholesalers, pharmacy benefit managers, managed-care organizations (MCOs), government and long-term care institutions, hospitals, and certain retail pharmacies. We enter into arrangements with these organizations providing for discounts or rebates on Lilly products.

Human Pharmaceuticals—Outside the United States

Outside the U.S, we promote our human pharmaceutical products primarily through sales representatives. While the products marketed vary from country to country, endocrinology products constitute the largest single group in total revenue. Distribution patterns vary from country to country. In most countries, we maintain our own sales organizations, but in some smaller countries we market our products through independent distributors.

Human Pharmaceutical Marketing Collaborations

Certain of our human pharmaceutical products are marketed in arrangements with other pharmaceutical companies, including the following:

- We co-market Cymbalta in Japan with Shionogi & Co. Ltd.
- Evista is marketed in major European markets by Daiichi Sankyo Europe GmbH, a subsidiary of Daiichi Sankyo Co., Ltd. (Daiichi Sankyo).
- Erbitux is marketed in the U.S. and Canada by Bristol-Myers Squibb. We have the option to co-promote Erbitux in the U.S. and Canada. Outside the U.S. and Canada, Erbitux is commercialized by Merck KGaA. We receive royalties from Bristol-Myers Squibb and Merck KGaA.
- Effient is co-promoted with us by Daiichi Sankyo or affiliated companies in the U.S., major European markets, Brazil, Mexico, and certain other countries. We retain sole marketing rights in Canada, Australia, Russia, and certain other countries. Daiichi Sankyo retains sole marketing rights in Japan and certain other countries.
- Trajenta and Jentadueto are being jointly developed and commercialized with us by Boehringer Ingelheim pursuant to a collaboration agreement under which both parties contributed certain potential diabetes treatments in mid- and late-stage development to be jointly developed and commercialized by the parties.

Animal Health Products

Our Elanco animal health business unit employs field salespeople throughout the U.S. and has an extensive sales force outside the U.S. Elanco sells its products primarily to wholesale distributors. Elanco promotes its products primarily to producers and veterinarians for food animal products and to veterinarians for companion animal products. Elanco also advertises certain companion animal products directly to pet owners.

Competition

Our human pharmaceutical products compete globally with products of many other companies in highly competitive markets. Our animal health products compete globally with products of animal health care companies as well as pharmaceutical, chemical, and other companies that operate animal health businesses.

Important competitive factors for both human pharmaceutical and animal health products include effectiveness, safety, and ease of use; price and demonstrated cost-effectiveness; marketing effectiveness; and research and development of new products and processes. Most new products that we introduce must compete with other branded or generic products already on the market or products that are later developed by competitors. If competitors introduce new products or delivery systems with therapeutic or cost advantages, our products can be subject to decreased sales, progressive price reductions, or both.

We believe our long-term competitive success depends upon discovering and developing (either alone or in collaboration with others) or acquiring innovative, cost-effective human pharmaceutical and animal health products that provide improved outcomes and deliver value to payers, together with our ability to continuously improve the productivity of our operations in a highly competitive environment. There can be no assurance that our research and development efforts will result in commercially successful products, and it is possible that our products will become uncompetitive from time to time as a result of products developed by our competitors.

Generic Pharmaceuticals

One of the biggest competitive challenges we face is from generic pharmaceuticals. In the U.S. and the EU, the regulatory approval process for human pharmaceuticals (other than biological products (biologics)) exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy of the innovator product. Therefore, generic manufacturers generally invest far less than we do in research and development and can price their products much lower than our branded products. Accordingly, when a branded non-biologic human pharmaceutical loses its market exclusivity, it normally faces intense price competition from generic forms of the product. In many countries outside the U.S., intellectual property protection is weak and we must compete with generic or counterfeit versions of our products. Many of our animal health products also compete with generics.

Biosimilars

Some of our current products, including Humalog, Humulin, Erbitux, and ReoPro, and many of the new molecular entities in our research pipeline are biologics. Competition for Lilly's biologics may be affected by the approval of follow-on biologics, also known as biosimilars. A biosimilar is a biologic for which marketing approval would be granted based on less than a full safety and efficacy package due to the physical/structural similarity of the biosimilar to an already-approved biologic as well as reliance on the finding of safety and efficacy of the already-approved product. Globally, governments have or are developing regulatory pathways to approve biosimilars as alternatives to innovator-developed biologics, but the patent for the existing, branded product must expire in a given market before biosimilars may enter that market. The extent to which a biosimilar, once approved, will be substituted for the innovator biologic in a way that is similar to traditional generic substitution for non-biologic products, is not yet entirely clear, and will depend on a number of regulatory and marketplace factors that are still developing.

Managed Care Organizations

The growth of MCOs in the U.S. is also a major factor in the competitive marketplace for human pharmaceuticals. It is estimated that approximately two-thirds of the U.S. population now participates in some version of managed care. MCOs can include medical insurance companies, medical plan administrators, health-maintenance organizations, Medicare Part D prescription drug plans, alliances of hospitals and physicians and other physician organizations. MCOs have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance to us.

To successfully compete for business with MCOs, we must often demonstrate that our products offer not only medical benefits but also cost advantages as compared with other medicines or other forms of care. As noted above, generic drugs are exempt from costly and time-consuming clinical trials to demonstrate their safety and efficacy and, as such, typically have lower costs than brand-name drugs. MCOs that focus primarily on

the immediate cost of drugs often favor generics for this reason. Many governments also encourage the use of generics as alternatives to brand-name drugs in their healthcare programs. Laws in the U.S. generally allow, and in many cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be essentially equivalent to a brand-name drug. The substitution must be made unless the prescribing physician expressly forbids it.

MCOs typically maintain formularies specifying which drugs are covered under their plans. Exclusion of a drug from a formulary can lead to its sharply reduced usage in the MCO patient population. Consequently, pharmaceutical companies compete aggressively to have their products included. Where possible, companies compete for inclusion based upon unique features of their products, such as greater efficacy, fewer side effects, or greater patient ease of use. A lower overall cost of therapy is also an important factor. Products that demonstrate fewer therapeutic advantages must compete for inclusion based primarily on price. We have been generally, although not always, successful in having our major products included on MCO formularies.

Patents, Trademarks, and Other Intellectual Property Rights

Overview

Intellectual property protection is critical to our ability to successfully commercialize our life sciences innovations and invest in the search for new medicines. We own, have applied for, or are licensed under, a large number of patents in the U.S. and many other countries relating to products, product uses, formulations, and manufacturing processes. In addition, as discussed below, for some products we have additional effective intellectual property protection in the form of data protection under pharmaceutical regulatory laws.

The patent protection anticipated to be of most relevance to human pharmaceuticals is provided by national patents claiming the active ingredient (the compound patent), particularly those in major markets such as the U.S., various European countries, and Japan. These patents may be issued based upon the filing of international patent applications, usually filed under the Patent Cooperation Treaty (PCT). Patent applications covering the compounds are generally filed during the Discovery Research Phase of the drug discovery process, which is described in the “Research and Development” section of Item 1, “Business.” In general, national patents in each relevant country are available for a period of 20 years from the filing date of the PCT application, which is often years prior to the launch of a commercial product. Further patent term adjustments and restorations may extend the original patent term:

- Patent term adjustment is a statutory right available to all U.S. patent applicants to provide relief in the event that a patent is delayed during examination by the U.S. Patent and Trademark Office.
- Patent term restoration is a statutory right provided to U.S. patents that claim inventions subject to review by the U.S. Food and Drug Administration (FDA). A single patent for a human pharmaceutical product may be eligible for patent term restoration to make up for a portion of the time invested in clinical trials and the FDA review process. Patent term restoration is limited by a formula and cannot be calculated until product approval due to uncertainty about the duration of clinical trials and the time it takes the FDA to review an application. There is a five-year cap on any restoration, and no patent may be extended for more than 14 years beyond FDA approval. Some countries outside the U.S. also offer forms of patent term restoration. For example, Supplementary Protection Certificates are sometimes available to extend the life of a European patent up to an additional five years. Similarly, in Japan, Korea, and Australia, patent terms can be extended up to five years, depending on the length of regulatory review and other factors.

Loss of effective patent protection for human pharmaceuticals typically results in the loss of effective market exclusivity for the product, which can result in severe and rapid decline in sales of the product. However, in some cases the innovator company may be protected from approval of generic or other follow-on versions of a new medicine beyond the expiration of the compound patent through manufacturing trade secrets, later-expiring patents on methods of use or formulations, or data protection that may be available under pharmaceutical regulatory laws. The primary forms of data protection are as follows:

- Regulatory authorities in major markets generally grant data package protection for a period of years following new drug approvals in recognition of the substantial investment required to complete clinical trials. Data package protection prohibits other manufacturers from submitting regulatory applications for marketing approval based on the innovator company’s regulatory submission data for the drug.

The base period of data package protection is five years in the U.S. (12 years for new biologics as described below), ten years in the EU, and eight years in Japan. The period begins on the date of product approval and runs concurrently with the patent term for any relevant patent.

- Under the Biologics Price Competition and Innovation Act (enacted in the U.S. in 2010), the FDA has the authority to approve similar versions (biosimilars) of innovative biologics. A competitor seeking approval of a biosimilar must file an application to show its molecule is highly similar to an approved innovator biologic, address the challenges of biologics manufacturing, and include a certain amount of safety and efficacy data which the FDA will determine on a case-by-case basis. Under the data protection provisions of this law, the FDA cannot approve a biosimilar application until 12 years after initial marketing approval of the innovator biologic, subject to certain conditions.
- In the U.S., the FDA has the authority to grant additional data protection for approved drugs where the sponsor conducts specified testing in pediatric or adolescent populations. If granted, this “pediatric exclusivity” provides an additional six months, which are added to the term of data protection as well as to the term of any relevant patents, to the extent these protections have not already expired.
- Under the U.S. orphan drug law, a specific use of a drug or biological product can receive "orphan" designation if it is intended to treat a disease or condition affecting fewer than 200,000 people in the U.S., or affecting more than 200,000 people but not reasonably expected to recover its development and marketing costs through U.S. sales. Among other benefits, orphan designation entitles the particular use of the drug to seven years of market exclusivity, meaning that the FDA cannot (with limited exceptions) approve another marketing application for the same drug for the same indication until expiration of the seven-year period. Unlike pediatric exclusivity, the orphan exclusivity period is independent of and runs in parallel with any applicable patents.

Outside the major markets, the adequacy and effectiveness of intellectual property protection for human pharmaceuticals varies widely. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization (WTO), more than 140 countries have now agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to patent owners. Because of TRIPs transition provisions, dispute resolution mechanisms, substantive limitations, and ineffectual implementation, it is difficult to assess when and how much we will benefit commercially from this protection.

Certain of our Elanco animal health products are covered by patents or other forms of intellectual property protection. In general, upon loss of effective market exclusivity for our animal health products, we have not experienced the rapid and severe declines in revenues that are common in the human pharmaceutical segment.

There is no assurance that the patents we are seeking will be granted or that the patents we hold would be found valid and enforceable if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or marketing alternative products or formulations that compete with our patented products. In addition, competitors or other third parties sometimes may assert claims that our activities infringe patents or other intellectual property rights held by them, or allege a third-party right of ownership in our existing intellectual property.

Our Intellectual Property Portfolio

We consider intellectual property protection for certain products, processes, and uses—particularly those products discussed below—to be important to our operations. For many of our products, in addition to the compound patent, we hold other patents on manufacturing processes, formulations, or uses that may extend exclusivity beyond the expiration of the compound patent.

The most relevant U.S. patent protection or data protection for our larger or recently launched patent-protected marketed products is as follows:

- Alimta is protected by a compound patent (2016) plus pediatric exclusivity (2017), and a vitamin dosage regimen patent (2021) plus pediatric exclusivity (2022).

- Cialis is protected by compound and use patents (2017).
- Cymbalta was protected by a compound patent plus pediatric exclusivity until December 2013.
- Effient is protected by a compound patent (2017).
- Evista is protected by patents on the treatment and prevention of osteoporosis (March 2014).
- Humalog was protected by a compound patent until May 2013.
- Strattera is protected by a patent covering its use in treating attention deficit-hyperactivity disorder (2016) plus pediatric exclusivity (2017).
- Trajenta and Jentadueto are protected by a compound patent (2023), and Boehringer Ingelheim has applied for a patent extension to 2025 under the patent restoration laws.

Outside the U.S., important patent protection or data protection includes:

- Alimta in major European countries (compound patent 2015, vitamin dosage regimen patent 2021) and Japan (compound patent 2015, patent covering use to treat cancer concomitantly with vitamins 2021)
- Cialis in major European countries (compound patent 2017)
- Cymbalta in major European countries (data package protection second half of 2014) and Japan (data package protection 2018)
- Zyprexa in Japan (compound patent 2015).

U.S. patent protection or data protection for our new molecular entities that have been submitted for regulatory review is as follows (additional information about these molecules is provided in Item 7, "Management's Discussion and Analysis—Late-Stage Pipeline"):

- Dulaglutide - compound patent 2024 (not including possible patent extension)
- Empagliflozin - compound patent 2025 (not including possible patent extension)
- Ramucirumab - data package protection 12 years following approval
- Our new insulin glargine product has the same amino acid sequence as Sanofi-Aventis' Lantus ® and is not covered by any patent protection.

Worldwide, we sell all of our major products under trademarks that we consider in the aggregate to be important to our operations. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used, and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms.

Patent Licenses

Most of our major products were discovered in our own laboratories and are not subject to significant license agreements. Two of our largest products, Cialis and Alimta, are subject to patent assignments or licenses granted to us by others.

- The compound patent for Cialis is the subject of a license agreement with GlaxoSmithKline (Glaxo), which assigns to us exclusively all rights in the compound. The agreement calls for royalties of a single-digit percentage of net sales. The agreement is not subject to termination by Glaxo for any reason other than a material breach by Lilly of the royalty obligation, after a substantial cure period.
- The compound patent for Alimta is the subject of a license agreement with Princeton University, granting us an irrevocable exclusive worldwide license to the compound patents for the lives of the patents in the respective territories. The agreement calls for royalties of a single-digit percentage of net sales. The agreement is not subject to termination by Princeton for any reason other than a material breach by Lilly of the royalty obligation, after a substantial cure period. Alimta is also the subject of a worldwide, nonexclusive license to certain patents owned by Takeda Pharmaceutical Company Limited. The agreement calls for royalties of a single-digit percentage of net sales in

countries covered by a relevant patent. The agreement is subject to termination for material default and failure to cure by Lilly and in the event that Lilly becomes bankrupt or insolvent.

Patent Challenges

In the U.S., the Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch-Waxman Act, made a complex set of changes to both patent and new-drug-approval laws for human pharmaceuticals. Before the Hatch-Waxman Act, no drug could be approved without providing the FDA complete safety and efficacy studies, i.e., a complete New Drug Application (NDA). The Hatch-Waxman Act authorizes the FDA to approve generic versions of innovative human pharmaceuticals (other than biologics) without such information by filing an Abbreviated New Drug Application (ANDA). In an ANDA, the generic manufacturer must demonstrate only "bioequivalence" between the generic version and the NDA-approved drug—not safety and efficacy.

Absent a patent challenge, the FDA cannot approve an ANDA until after the innovator's patents expire. However, after the innovator has marketed its product for four years, a generic manufacturer may file an ANDA alleging that one or more of the patents listed in the innovator's NDA are invalid or not infringed. This allegation is commonly known as a "Paragraph IV certification." The innovator must then file suit against the generic manufacturer to protect its patents. The FDA is then prohibited from approving the generic company's application for a 30- to 42-month period (which can be shortened or extended by the trial court judge hearing the patent challenge). If one or more of the NDA-listed patents are challenged, the first filer(s) of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers.

Generic manufacturers use Paragraph IV certifications extensively to challenge patents on innovative human pharmaceuticals. In addition, generic companies have shown an increasing willingness to launch "at risk," i.e., after receiving ANDA approval but before final resolution of their patent challenge. We are currently in litigation with numerous generic manufacturers arising from their Paragraph IV certifications challenging the vitamin dosage regimen patent for Alimta. For more information on this litigation, see Item 8, "Financial Statements and Supplementary Data—Note 16, Contingencies."

Outside the United States, the legal doctrines and processes by which pharmaceutical patents can be challenged vary widely. In recent years, we have experienced an increase in patent challenges from generic manufacturers in many countries outside the U.S., and we expect this trend to continue. For more information on administrative challenges and litigation involving our Alimta vitamin dosage regimen patents in Europe, see Item 8, "Financial Statements and Supplementary Data—Note 16, Contingencies."

Government Regulation

Regulation of Our Operations

Our operations are regulated extensively by numerous national, state, and local agencies. The lengthy process of laboratory and clinical testing, data analysis, manufacturing development, and regulatory review necessary for governmental approvals is extremely costly and can significantly delay product introductions. Promotion, marketing, manufacturing, and distribution of human pharmaceutical and animal health products are extensively regulated in all major world markets. We are required to conduct extensive post-marketing surveillance of the safety of the products we sell. In addition, our operations are subject to complex federal, state, local, and foreign laws and regulations concerning the environment, occupational health and safety, and privacy. Animal health product regulations address the administration of the product in or on the animal, and in the case of food animal products, the impact on humans who consume the food as well as the impact on the environment at the production site. The laws and regulations affecting the manufacture and sale of current products and the discovery, development, and introduction of new products will continue to require substantial effort, expense, and capital investment.

Of particular importance is the FDA in the United States. Pursuant to the Federal Food, Drug, and Cosmetic Act, the FDA has jurisdiction over all of our human pharmaceutical products and certain animal health products in the U.S. and administers requirements covering the testing, safety, effectiveness, manufacturing, quality control, distribution, labeling, marketing, advertising, dissemination of information, and post-marketing surveillance of those products. The U.S. Department of Agriculture (USDA) and the U.S. Environmental Protection Agency also regulate some animal health products.

The FDA extensively regulates all aspects of manufacturing quality for human pharmaceuticals under its current Good Manufacturing Practices (cGMP) regulations. Outside the U.S., our products and operations are subject to similar regulatory requirements, notably by the European Medicines Agency (EMA) in the EU and the Ministry of Health, Labor and Welfare (MHLW) in Japan. Specific regulatory requirements vary from country to country. We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems in our manufacturing, product development, and process development operations to ensure sustained compliance with cGMP and similar regulations. However, in the event we fail to adhere to these requirements in the future, we could be subject to interruptions in production, fines and penalties, and delays in new product approvals. Certain of our products are manufactured by third parties, and their failure to comply with these regulations could adversely affect us through failure to supply product to us or delays in new product approvals.

The marketing, promotional, and pricing practices of human pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers and prescribers, are subject to various other U.S. federal and state laws, including the federal anti-kickback statute and the False Claims Act and state laws governing kickbacks, false claims, unfair trade practices, and consumer protection. These laws are administered by, among others, the Department of Justice (DOJ), the Office of Inspector General of the Department of Health and Human Services, the Federal Trade Commission, the Office of Personnel Management, and state attorneys general. Over the past several years, the FDA, the DOJ, and many of these other agencies have increased their enforcement activities with respect to pharmaceutical companies and increased the inter-agency coordination of enforcement activities. Several claims brought by these agencies against Lilly and other companies under these and other laws have resulted in corporate criminal sanctions and very substantial civil settlements. See Item 3, “Legal Proceedings,” for information regarding a Corporate Integrity Agreement entered into by Lilly in connection with the resolution of a U.S. federal marketing practices investigation and certain related state investigations involving Zyprexa.

The U.S. Foreign Corrupt Practices Act of 1977 (FCPA) prohibits certain individuals and entities, including U.S. publicly traded companies, from promising, offering, or giving anything of value to foreign officials with the corrupt intent of influencing the foreign official for the purpose of helping the company obtain or retain business or gain any improper advantage. The FCPA also imposes specific recordkeeping and internal controls requirements on U.S. publicly traded companies. As noted above, outside the U.S., our business is heavily regulated and therefore involves significant interaction with foreign officials. Additionally, in many countries outside the U.S., the health care providers who prescribe human pharmaceuticals are employed by the government and the purchasers of human pharmaceuticals are government entities; therefore, our interactions with these prescribers and purchasers are subject to regulation under the FCPA. The SEC and the DOJ have increased their FCPA enforcement activities with respect to pharmaceutical companies. See Item 3, “Legal Proceedings,” for information about a SEC/DOJ investigation under the FCPA involving our operations in several countries.

In addition to the U.S. application and enforcement of the FCPA, the various jurisdictions in which we operate and supply our products have laws and regulations aimed at preventing and penalizing corrupt and anticompetitive behavior. In recent years, several jurisdictions, including China, Brazil, and the U.K., have enhanced their laws and regulations in this area, increased their enforcement activities, and/or increased the level of cross-border coordination and information sharing.

It is possible that we could become subject to additional administrative and legal proceedings and actions, which could include claims for civil penalties (including treble damages under the False Claims Act), criminal sanctions, and administrative remedies, including exclusion from U.S. federal and other health care programs. It is possible that an adverse outcome in future actions could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

Regulations Affecting Human Pharmaceutical Pricing, Reimbursement, and Access

In the United States, government and government-funded healthcare programs often impose direct and indirect price controls. We are required to provide rebates to the federal government and respective state governments on their purchases of our human pharmaceuticals under state Medicaid and Medicaid Managed Care programs (minimum of 23.1 percent plus adjustments for price increases over time) and rebates to private payers who cover patients in certain types of health care facilities that serve low-income and uninsured patients (known as 340B facilities). No rebates are required at this time in the Medicare Part B

(physician and hospital outpatient) program where reimbursement is set on an "average selling price plus 4.3 percent" formula. Drug manufacturers are required to provide a discount of 50 percent of the cost of branded prescription drugs for Medicare Part D participants who are in the “doughnut hole” (the coverage gap in Medicare prescription drug coverage). Additionally, an annual fee is imposed on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs.

Rebates are also negotiated in the private sector. We give rebates to private payers who provide prescription drug benefits to seniors covered by Medicare and to private payers who provide prescription drug benefits to their customers. These rebates are affected by the introduction of competitive products and generics in the same class.

In most international markets, we operate in an environment of government-mandated cost-containment programs, which may include price controls, international reference pricing (to other countries’ prices), discounts and rebates, therapeutic reference pricing (to other, often generic, pharmaceutical choices), restrictions on physician prescription levels, and mandatory generic substitution.

Globally, public and private payers are increasingly restricting access to human pharmaceuticals based on the payers' assessments of comparative effectiveness and value. The U.S. has established the Patient Centered Outcomes Research Institute (PCORI), a federally-funded, private, non-profit corporation empowered to fund and disseminate comparative effectiveness research and build infrastructure for improved outcomes analysis. While PCORI has no authority to impose formulary changes directly in government-funded health programs, they are expected to drive an increase in CER studies which payers can use for formulary decisions and/or medical societies can use to inform medical guidelines development. Many countries outside of the U.S. use formal health technology assessment (HTA) processes to determine formulary placement and purchase price.

We cannot predict the extent to which our business may be affected by these or other potential future legislative or regulatory developments. However, in general we expect that state, federal, and international legislative and regulatory developments could have further negative effects on pricing and reimbursement for our human pharmaceutical products.

Research and Development

Our commitment to research and development dates back more than 100 years. Our research and development activities are responsible for the discovery and development of most of the products we offer today. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2013, we employed approximately 7,850 people in human pharmaceutical and animal health research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel. Our research and development expenses were $5.53 billion in 2013 , $5.28 billion in 2012 , and $5.02 billion in 2011 .

Our human pharmaceutical research and development focuses on five therapeutic categories: cancer; endocrine diseases, including diabetes and musculoskeletal disorders; central nervous system and related diseases; autoimmune diseases; and cardiovascular diseases. However, we remain opportunistic, selectively pursuing promising leads in other therapeutic areas. We are also investing in molecules with multi-pathway pharmacological efficacy to expand the potential of our therapeutic portfolio. We have a strong biotechnology research program, with approximately half of our clinical-stage pipeline, and more than half of our late-stage pipeline, currently consisting of biotechnology molecules. In addition to discovering and developing new molecular entities, we seek to expand the value of existing products through new uses, formulations, and therapeutic approaches that provide additional value to patients. Across all our therapeutic areas, we are increasingly focusing our efforts on tailored therapeutics, seeking to identify and use advanced diagnostic tools and other information to identify specific subgroups of patients for whom our medicines—or those of other companies—will be the best treatment option.

To supplement our internal efforts, we collaborate with others, including academic institutions and research-based pharmaceutical and biotechnology companies. We use the services of physicians, hospitals, medical schools, and other research organizations worldwide to conduct clinical trials to establish the safety and effectiveness of our human pharmaceutical products. We actively seek out external investments in research and technologies that hold the promise to complement and strengthen our own efforts. These investments

can take many forms, including licensing arrangements, co-development and co-marketing agreements, co-promotion arrangements, joint ventures, and acquisitions.

Our Elanco animal health innovation strategy is focused on identifying and developing promising technologies and potential products from internal and external sources to meet unmet veterinary needs. Our animal health scientists also leverage discoveries from our human health laboratories to develop products to enhance the health and wellbeing of livestock and pets.

Human pharmaceutical development is time-consuming, expensive, and risky. On average, only one out of many thousands of molecules discovered by researchers ultimately becomes an approved medicine. The process from discovery to regulatory approval can take 12 to 15 years or longer. Drug candidates can fail at any stage of the process, and even late-stage drug candidates sometimes fail to receive regulatory approval or achieve commercial success. After approval and launch of a product, we expend considerable resources on post-marketing surveillance and additional clinical studies to collect and understand the benefits and potential risks of medicines as they are used as therapeutics. The following describes in more detail the research and development process for human pharmaceutical products:

Phases of New Drug Development

- **Discovery Research Phase**

  The earliest phase of new drug research and development, the discovery phase, can take many years. Scientists identify, design, and synthesize promising molecules, screening tens of thousands of molecules for their effect on biological “targets” that appear to play an important role in one or more diseases. Targets can be part of the body, such as a protein, receptor, or gene; or foreign, such as a virus or bacteria. Some targets have been proven to affect disease processes, but often the target is unproven and may later prove to be irrelevant to the disease. Molecules that have the desired effect on the target and meet other design criteria become “lead” molecules and move to the next phase of development. The probability of any one such lead molecule becoming a commercial product is extremely low.

- **Early Development Phase**

  The early development phase involves refining lead molecules, understanding how to manufacture them efficiently, and completing initial testing for safety and efficacy. Safety testing is done first in laboratory tests and animals as necessary, to identify toxicity and other potential safety issues that would preclude use in humans. The first human tests (often referred to as Phase I) are normally conducted in small groups of healthy volunteers to assess safety and find the potential dosing range. After a safe dose has been established, the drug is administered to small populations of patients (Phase II) to look for initial signs of efficacy in treating the targeted disease and to continue to assess safety. In parallel, scientists work to identify safe, effective, and economical manufacturing processes. Long-term animal studies continue to test for potential safety issues. Of the molecules that enter the early development phase, typically less than 10 percent move on to the product phase. The early development phase normally takes several years to complete.

- **Product Phase**

  Product phase (Phase III) molecules have already demonstrated safety and, typically, shown initial evidence of efficacy. As a result, these molecules generally have a higher likelihood of success. The molecules are tested in much larger patient populations to demonstrate efficacy to a predetermined level of statistical significance and to continue to develop the safety profile. These trials are generally global in nature and are designed to generate the data necessary to submit the molecule to regulatory agencies for marketing approval. The potential new drug is generally compared with existing competitive therapies, placebo, or both. The resulting data is compiled and submitted to regulatory agencies around the world. Phase III testing varies by disease state, but can often last from three to four years.

- **Submission Phase**

  Once a molecule is submitted, the time to final marketing approval can vary from six months to several years, depending on variables such as the disease state, the strength and complexity of the data

presented, the novelty of the target or compound, and the time required for the agency(ies) to evaluate the submission. There is no guarantee that a potential medicine will receive marketing approval, or that decisions on marketing approvals or indications will be consistent across geographic areas.

We believe our investments in research, both internally and in collaboration with others, have been rewarded by the large number of new molecules and new indications for existing molecules that we have in all stages of development. We currently have approximately 60 drug candidates across all stages of human testing and a larger number of projects in preclinical development. Among our new investigational molecules currently in the product phase of development or awaiting regulatory approval are potential therapies for diabetes, various cancers, Alzheimer's disease, pain, high-risk vascular disease, rheumatoid arthritis, lupus, psoriasis, and psoriatic arthritis. We are studying many other drug candidates in the earlier stages of development, including molecules targeting various cancers, diabetes, Alzheimer's disease, depression, pain, migraine, bipolar disorder, anemia, cardiovascular disease, musculoskeletal disorders, renal diseases, lupus, and Crohn's disease. We are also developing new uses, formulations, or delivery methods for many of these molecules as well as several currently marketed products, including Axiron, Cialis, Effient, Humalog, and Trajenta. See Item 7, "Management's Discussion and Analysis--Late-Stage Pipeline," for more information on certain of our product candidates.

Raw Materials and Product Supply

Most of the principal materials we use in our manufacturing operations are available from more than one source. However, we obtain certain raw materials principally from only one source. In the event one of these suppliers was unable to provide the materials or product, we generally have sufficient inventory to supply the market until an alternative source of supply can be implemented. However, in the event of an extended failure of a supplier, it is possible that we could experience an interruption in supply until we established new sources or, in some cases, implemented alternative processes.

We produce most of our products in our own facilities. Our principal active ingredient manufacturing occurs at four owned sites in the U.S. as well as owned sites in Ireland, Puerto Rico, and the United Kingdom. Finishing operations, including formulation, filling, assembling, delivery device manufacturing, and packaging, take place at a number of sites throughout the world. We utilize third parties for certain active ingredient manufacturing and finishing operations.

We manage our supply chain (including our own facilities, contracted arrangements, and inventory) in a way that should allow us to meet all expected product demand while maintaining flexibility to reallocate manufacturing capacity to improve efficiency and respond to changes in supply and demand. To maintain a stable supply of our products, we take a variety of actions including a company-wide, comprehensive quality system, inventory management, and back-up sites.

However, human pharmaceutical and animal health production processes are complex, highly regulated, and vary widely from product to product. Shifting or adding manufacturing capacity can be a very lengthy process requiring significant capital expenditures, process modifications, and regulatory approvals. Accordingly, if we were to experience extended plant shutdowns at one of our own facilities, extended failure of a contract supplier, or extraordinary unplanned increases in demand, we could experience an interruption in supply of certain products or product shortages until production could be resumed or expanded.

Quality Assurance

Our success depends in great measure upon customer confidence in the quality of our products and in the integrity of the data that support their safety and effectiveness. Product quality arises from a total commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, distribution, and dissemination of information about our medicines.

Quality of production processes involves strict control of ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. We perform tests at various stages of production processes and on the final product to assure that the product meets all regulatory requirements and Lilly standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination. Additional assurance of quality is provided by a corporate quality-assurance group that audits

and monitors all aspects of quality related to human pharmaceutical and animal health manufacturing procedures and systems in the parent company, subsidiaries and affiliates, and third-party suppliers.

Executive Officers of the Company

The following table sets forth certain information regarding our executive officers. Except as otherwise noted, all executive officers have been employed by the company in management or executive positions during the last five years.

The term of office for each executive officer expires on the date of the annual meeting of the Board of Directors, to be held on May 5, 2014, or on the date his or her successor is chosen and qualified. No director or executive officer has a “family relationship” with any other director or executive officer of the company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer and any other person pursuant to which the executive officer was selected.

Name	Age	Offices and Business Experience
John C. Lechleiter, Ph.D.	60	Chairman (since January 2009), President (since October 2005), Chief Executive Officer (since April 2008), and a Director (since October 2005)
Melissa S. Barnes	45	Senior Vice President, Enterprise Risk Management and Chief Ethics and Compliance Officer (since January 2013)
Enrique A. Conterno	47	Senior Vice President and President, Lilly Diabetes (since November 2009)
Maria A. Crowe	54	President, Manufacturing Operations (since January 2012)
Stephen F. Fry	48	Senior Vice President, Human Resources and Diversity (since February 2011) and interim Chief Information Officer (since May 2013)
Michael J. Harrington	51	Senior Vice President and General Counsel (since January 2013)
Jan M. Lundberg, Ph.D.	60	Executive Vice President, Science and Technology, and President, Lilly Research Laboratories (since January 2010). From 2002 until he joined Lilly in January 2010, Dr. Lundberg was executive vice president and head of discovery research at AstraZeneca.
Susan Mahony, Ph.D.	49	Senior Vice President and President, Lilly Oncology (since February 2011)
Barton R. Peterson	55	Senior Vice President, Corporate Affairs and Communications (since June 2009). Mr. Peterson served as mayor of Indianapolis, Indiana from 2000 to 2007. From 2008 to 2009, he was managing director at Strategic Capital Partners, LLC, and distinguished visiting professor of public policy at Ball State University.
Derica W. Rice	49	Executive Vice President, Global Services (since January 2010) and Chief Financial Officer (since May 2006)
David A. Ricks	46	Senior Vice President and President, Lilly Bio-Medicines (since January 2012)
Jeffrey N. Simmons	46	Senior Vice President and President, Elanco Animal Health (since January 2008)
Jacques Tapiero	55	Senior Vice President and President, Emerging Markets (since January 2010) (retired January 2014)
Fionnuala M. Walsh	54	Senior Vice President, Global Quality (since July 2007)
Alfonso Zulueta	51	Senior Vice President and President, Emerging Markets (since January 2014)

Employees

At the end of 2013, we employed approximately 37,925 people, including approximately 21,425 employees outside the United States. A substantial number of our employees have long records of continuous service.

Financial Information Relating to Business Segments and Classes of Products

You can find financial information relating to our business segments and classes of products in Item 8, "Financial Statements and Supplementary Data—Note 19, Segment Information." That information is incorporated here by reference.

The relative contribution of any particular product to our consolidated revenue changes from year to year. This is due to several factors, including the introduction of new products by us and by other manufacturers and the

introduction of generic pharmaceuticals upon patent expirations. Our major product revenues are generally not seasonal.

Financial Information Relating to Foreign and Domestic Operations

You can find financial information relating to foreign and domestic operations in Item 8, “Financial Statements and Supplementary Data—Note 19, Segment Information.” That information is incorporated here by reference. To date, our overall operations abroad have not been significantly deterred by local restrictions on the transfer of funds from branches and subsidiaries located abroad, including the availability of U.S. dollar exchange. We cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on our future operations or what other restrictions may be imposed in the future. In addition, changing currency values can either favorably or unfavorably affect our financial position, liquidity, and results of operations. We mitigate foreign exchange risk through various hedging techniques including the use of foreign currency contracts.

Available Information on Our Website

We make available through our company website, free of charge, our company filings with the SEC as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. These include our 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 company website link to our SEC filings is **http://investor.lilly.com/sec.cfm** .

In addition, the Corporate Governance portion of our website includes our corporate governance guidelines, board and committee information (including committee charters), and our articles of incorporation and by-laws. The link to our corporate governance information is **http://www.lilly.com/about/corporate-governance/Pages/corporate-governance.aspx.**

We will provide paper copies of our SEC filings free of charge upon request to the company’s secretary at the address listed on the front of this Form 10-K.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our company. It is possible that our business, financial condition, liquidity, or results of operations could be materially adversely affected by any of these risks.

- **Pharmaceutical research and development is very costly and highly uncertain; we may not succeed in developing or acquiring commercially successful products to replace revenues of products losing intellectual property protection.**

  There are many difficulties and uncertainties inherent in human pharmaceutical research and development and the introduction of new products. There is a high rate of failure inherent in new drug discovery and development. To bring a drug from the discovery phase to market typically takes a decade or more and often costs well in excess of $1 billion. Failure can occur at any point in the process, including late in the process after substantial investment. As a result, most funds invested in research programs will not generate financial returns. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals and payer reimbursement, limited scope of approved uses, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies are establishing increasingly high hurdles for the efficacy and safety of new products; delays and uncertainties in the FDA approval process and the approval processes in other countries can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict sales growth rates of new products.

  We cannot state with certainty when or whether our products now under development will be approved or launched; whether we will be able to develop, license or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful. We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing

products sufficient both to cover our substantial research and development costs and to replace sales that are lost as profitable products lose intellectual property exclusivity or are displaced by competing products or therapies. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, financial position and prospects.

- **We face intense competition from multinational pharmaceutical companies, biotechnology companies, and lower-cost generic manufacturers.**

We compete with a large number of multinational pharmaceutical companies, biotechnology companies, and generic pharmaceutical companies. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet important medical needs. Our product revenues can be adversely affected by the introduction by competitors of branded products that are perceived as superior by the marketplace, by generic or biosimilar versions of our branded products, and by generic versions of other products in the same therapeutic class as our branded products. See Item 1, “Business—Competition,” for more details.

- **We depend on products with intellectual property protection for most of our revenues, cash flows, and earnings; we have lost or will lose effective intellectual property protection for many of those products in the next several years, which may result in rapid and severe declines in revenues.**

A number of our top-selling human pharmaceutical products recently have lost, or will lose in the next several years, significant patent protection and/or data protection in the U.S. as well as key countries outside the United States, as illustrated in the tables below:

Product	U.S. Revenues (2013) ($ in millions)	Percent of Worldwide Revenues (2013)	U.S. Patent / Data Protection
Cymbalta	$ 3,960.8	17%	Compound patent plus pediatric exclusivity December 2013
Humalog	1,521.4	7%	Compound patent May 2013
Alimta	1,209.1	5%	Compound patent plus pediatric exclusivity 2017; Vitamin dosage regimen patent plus pediatric exclusivity 2022
Cialis	942.8	4%	Compound patent 2017
Evista	772.0	3%	Use patents March 2014
Strattera	446.3	2%	Compound patent plus pediatric exclusivity 2017
Effient	376.9	2%	Compound patent 2017

Product	Revenues Outside U.S. (2013) ($ in millions)	Percent of Worldwide Revenues (2013)	Patent / Data Protection - Major Europe / Japan
Alimta	$ 1,493.9	6%	Major European countries: compound patent 2015, vitamin dosage regimen patent 2021 Japan: compound patent 2015, use patent to treat cancer concomitantly with vitamins 2021
Cialis	1,216.6	5%	Major European countries: compound patent 2017
Cymbalta	1,123.6	5%	Major European countries: data package protection 2014 Japan: data package protection 2018
Zyprexa	1,071.2	5%	Japan: Compound patent 2015

For non-biological products, loss of exclusivity (whether by expiration or as a consequence of litigation) typically results in the entry of one or more generic competitors, leading to a rapid and severe decline in revenues. For biological products (such as Humalog, Humulin, and Erbitux), loss of exclusivity may or may not result in the near-term entry of competitor versions (i.e., biosimilars) due to development timelines, manufacturing challenges, and/or uncertainties in the regulatory pathways for approval of the competitor versions. See Item 7, “Management’s Discussion and Analysis—Executive Overview—Legal, Regulatory, and Other Matters,” and Item 1, "Business—Patents, Trademarks, and Other Intellectual Property Rights," for more details.

- **Our long-term success depends on intellectual property protection; if our intellectual property rights are invalidated or circumvented, our business will be adversely affected.**

  Our long-term success depends on our ability to continually discover, develop, and commercialize innovative new pharmaceutical products. Without strong intellectual property protection, we would be unable to generate the returns necessary to support the enormous investments in research and development and capital as well as other expenditures required to bring new drugs to the market.

  Intellectual property protection varies throughout the world and is subject to change over time. In the U.S., the Hatch-Waxman Act provides generic companies powerful incentives to seek to invalidate our human pharmaceutical patents; as a result, we expect that our U.S. patents on major pharmaceutical products will be routinely challenged, and there can be no assurance that our patents will be upheld. We face generic manufacturer challenges to our patents outside the U.S. as well. The entry of generic competitors typically results in rapid and severe declines in sales. In addition, competitors or other third parties may claim that our activities infringe patents or other intellectual property rights held by them. If successful, such claims could result in our being unable to market a product in a particular territory or being required to pay damages for past infringement or royalties on future sales. See Item 1, “Business—Patents, Trademarks, and Other Intellectual Property Rights,” and Item 8, "Financial Statements and Supplementary Data—Note 16, Contingencies," for more details.
- **Our human pharmaceutical business is subject to increasing government price controls and other restrictions on pricing, reimbursement, and access for our drugs.**

  The continuing prominence of U.S. budget deficits as both a policy and political issue increases the risk that taxes, fees, rebates, or other federal measures that would further reduce pharmaceutical companies’ revenue or increase expenses may be enacted. Certain federal and state health care proposals, including state price controls, continue to be debated, and could place downward pressure on pharmaceutical industry sales or prices. The Medicare Independent Payment Advisory Board established under the Affordable Care and Patient Protection Act is empowered to recommend cost reduction policies under certain circumstances. These proposals, if implemented, could negatively affect revenues.

  International operations also are generally subject to extensive price and market regulations. Proposals for cost-containment measures are pending in a number of countries, including proposals that would directly or indirectly impose additional price controls, limit access to or reimbursement for our products, or reduce the value of our intellectual-property protection. Such proposals are expected to increase in both frequency and impact, given the pressures on national and regional health care budgets as a result of continued austerity measures being pursued in a number of countries and the desire to manage health expenses carefully even as economies recover. In addition, governments in many emerging markets are becoming increasingly active in expanding the country’s health care system offerings. Some governments may adopt a generics-only policy which reduces current and future access to our human pharmaceutical products. Others may use some of the approaches to restrict pricing, reimbursement and access outlined above.

  We expect pricing, reimbursement, and access pressures from both governments and private payers inside and outside the U.S. to become more severe. See Item I, “Business—Regulations Affecting Human Pharmaceutical Pricing, Reimbursement, and Access,” for more details.
- **Regulatory compliance problems could be damaging to the company.**

  The marketing, promotional, and pricing practices of human pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to extensive regulation. Many companies, including Lilly, have been subject to claims related to these practices asserted by federal, state and foreign governmental authorities, private payers, and consumers. These claims have resulted in substantial expense and other significant consequences to us. It is possible that we could become subject to such investigations and that the outcome could include criminal charges and fines, penalties, or other monetary or non-monetary remedies, including exclusion from U.S. federal and other health care programs. In addition, regulatory issues concerning compliance with cGMP regulations (and comparable foreign regulations) for pharmaceutical products can lead to product recalls and seizures, interruption of production leading to product shortages, and delays in the approvals of new products pending resolution of the issues. We are now operating under a Corporate Integrity Agreement with the Office of Inspector General of the U.S. Department of Health and Human Services that requires us to maintain comprehensive compliance programs governing our research, manufacturing, and sales and marketing of pharmaceuticals. A material failure to comply with the agreement could result in severe sanctions to the company. See Item 1, “Business—Regulation of our Operations,” for more details.

- **Pharmaceutical products can develop unexpected safety or efficacy concerns, which could have a material adverse effect on revenues.**

  Human pharmaceutical products receive regulatory approval based on data obtained in controlled clinical trials of limited duration. After approval, the products are used for longer periods of time by much larger numbers of patients; we and others (including regulatory agencies and private payers) collect extensive information on the efficacy and safety of our marketed products. In addition, we or others may conduct post-marketing clinical studies on efficacy and safety of our marketed products. New safety or efficacy data from these sources may result in product label changes that could reduce the product's market acceptance and result in declining sales. Serious safety or efficacy issues that arise after approval for marketing could result in voluntary or mandatory product recalls or withdrawals from the market. Safety issues could also result in costly product liability claims.
- **We face many product liability claims and are self-insured; we could face large numbers of claims in the future, which could adversely affect our business.**

  We are subject to a substantial number of product liability claims involving primarily Byetta ®, Darvon ™, Prozac, and Actos ®. See Item 8, “Financial Statements and Supplementary Data—Note 16, Contingencies,” and Item 3, “Legal Proceedings,” for more information on our current product liability litigation. Because of the nature of pharmaceutical products, we could become subject to large numbers of product liability claims for these or other products in the future, which could require substantial expenditures to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products.
- **Manufacturing difficulties or disruptions could lead to product supply problems.**

  Pharmaceutical manufacturing is complex and highly regulated. Manufacturing difficulties at our facilities or contracted facilities, or the failure or refusal of a contract manufacturer to supply contracted quantities, could result in product shortages, leading to lost revenue. Such difficulties or disruptions could result from quality or regulatory compliance problems, natural disasters, or inability to obtain sole-source raw or intermediate materials. In addition, given the difficulties in predicting sales of new products and the very long lead times necessary for the expansion of pharmaceutical manufacturing capacity, it is possible that we could have difficulty meeting demand for new products. See Item 1, “Business—Raw Materials and Product Supply,” for more details.
- **We depend on information technology systems and infrastructure to operate our business; system inadequacies or operating failures could harm our business.**

  We rely to a large extent on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are within the company and some of which are outsourced. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources, including energy or telecommunications failures, breakdowns, natural disasters, terrorism, war, computer malware or other malicious intrusions, and random attacks. To date, system interruptions have been infrequent and have not had a material impact on our consolidated results of operations. We have implemented extensive measures to prevent, respond to, and minimize the impact of system interruptions. However, there can be no assurance that these efforts will prevent future interruptions that would have a material adverse effect on our business.
- **Unauthorized disclosures of our trade secrets and other confidential data could impair our valuable intellectual property, harm our competitive position, and expose us to regulatory penalties.**

  A great deal of sensitive, confidential data is stored in our information systems and networks, including valuable trade secrets and intellectual property, corporate strategic plans, marketing plans, customer information, and personally identifiable information (such as employee and patient information). Some of this information is created, accessed, and/or maintained by third parties. The confidentiality of this information may be breached through malicious intrusions by private or governmental actors through human or electronic means, including “hacking” or “cyber-attacks,” or through negligent or wrongful conduct by employees or others with permitted access to our systems and data. The rapid growth of social media exacerbates the risk of confidentiality breaches. Unauthorized disclosure of trade secret information could impair our ability to secure and maintain patent rights and cause us to lose other competitive advantages. Unauthorized disclosure of personally identifiable information could expose us to sanctions for violations of data privacy laws and regulations and could damage the public trust in our company. Breaches of our data

security may be very difficult to detect, and once detected, their impact may be very difficult to assess. To date, the data security breaches of which we have become aware have been infrequent in occurrence and, to the extent we have been able to measure their financial impact on our consolidated results of operations, such impact has not been material. We have invested and continue to invest to prevent, monitor, detect, and respond to data security breaches by strengthening our information technology systems, business processes, and training, and strengthening data protection requirements for third parties that hold our confidential information. However, despite these efforts, we expect data security breaches to continue, and there can be no assurance that these efforts will prevent data security breaches that would have a material adverse effect on our business.

- **Reliance on third-party relationships and outsourcing arrangements could adversely affect our business.**

  We utilize third parties, including suppliers, alliances with other pharmaceutical and biotechnology companies, and third-party service providers, for selected aspects of product development, the manufacture and commercialization of certain products, support for information technology systems, and certain financial transactional processes. Outsourcing these functions involves the risk that the third parties may not perform to our standards or legal requirements, may not produce results in a timely manner, may not maintain the confidentiality of our proprietary information, or may fail to perform at all. Failure of these third parties to meet their contractual, regulatory, confidentiality, or other obligations to us could have a material adverse effect on our business.

- **Our animal health segment faces risks related to generic competition, food and animal safety concerns, factors affecting global agricultural markets, and other risks.**

  The animal health operating segment may be impacted by, among other things, increased generic competition; emerging restrictions and bans on the use of antibacterials in food-producing animals; perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products; increased regulation or decreased governmental support relating to the raising, processing, or consumption of food-producing animals; an outbreak of infectious disease carried by animals; adverse weather conditions and the availability of natural resources; adverse global economic conditions affecting agricultural markets; and failure of the research and development, acquisition, and licensing efforts to generate new products. The failure to manage these risks could have a material adverse effect on our revenues.

- **Worsening economic conditions could adversely affect our business and operating results.**

  While human pharmaceuticals have not generally been sensitive to overall economic cycles, prolonged economic slowdowns could lead to decreased utilization of drugs, affecting our sales volume. Declining tax revenues attributable to economic downturns increase the pressure on governments to reduce health care spending, leading to increasing government efforts to control drug prices and utilization. Additionally, some customers, including governments or other entities reliant upon government funding, may be unable to pay in a timely manner for our products. Also, if our customers, suppliers, or collaboration partners experience financial difficulties, we could experience slower customer collections, greater bad debt expense, and performance defaults by suppliers or collaboration partners.

- **Unanticipated changes in our tax rates or exposure to additional tax liabilities could increase our income taxes and decrease our net income.**

  Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits, can affect our results of operations. The Obama administration has proposed changes to the manner in which the U.S. would tax the international income of U.S.-based companies. There have also been tax proposals under discussion or introduced in the U.S. Congress that could change the manner in which, and rate at which, income of U.S. companies would be taxed. While it is uncertain how the U.S. Congress may address U.S. tax policy matters in the future, reform of U.S. taxation, including taxation of international income, will continue to be a topic of discussion for the U.S. Congress and the Obama administration. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material adverse effect on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2013 , we owned 12 production and distribution sites in the U.S. and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 10.1 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis and Clinton, Indiana; Carolina, Puerto Rico; and Branchburg, New Jersey.

We own production and distribution sites in 11 countries outside the U.S. and Puerto Rico, containing an aggregate of approximately 3.4 million square feet of floor area. Major production sites include facilities in France, the United Kingdom, Spain, Ireland, Italy, Mexico, and Brazil.

In the U.S., our research and development facilities contain an aggregate of approximately 3.8 million square feet of floor area, primarily consisting of owned facilities located in Indianapolis. We also lease smaller sites in San Diego and New York City. Outside the U.S., we own smaller research and development facilities in the United Kingdom and Spain, and lease smaller sites in China.

We believe that none of our properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business. The buildings we own are of varying ages and in good condition.

Item 3. Legal Proceedings

We are a party to various currently pending legal actions, government investigations, and environmental proceedings, and we anticipate that such actions could be brought against us in the future. The most significant of these matters are described below or, as noted, in Item 8, "Financial Statements and Supplementary Data—Note 16, Contingencies." While it is not possible to determine the outcome of the legal actions, investigations, and proceedings brought against us, we believe that, except as otherwise specifically noted in Item 8—Note 16, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could be material to our consolidated results of operations in any one accounting period.

Legal Proceedings Described in Note 16 to the Consolidated Financial Statements

See Item 8, "Financial Statements and Supplementary Data—Note 16, Contingencies," for information on various legal proceedings, including but not limited to:

- The patent litigation and administrative proceedings involving Alimta
- The U.S. product liability litigation involving Prozac and Byetta
- The employee litigation in Brazil.

That information is incorporated into this Item by reference.

Other Product Liability Litigation

We are currently a defendant in a variety of other product liability lawsuits in the U.S. involving primarily Darvon, Actos, Cymbalta, diethylstilbestrol (DES), and Zyprexa.

Along with several other manufacturers, we have been named as a defendant in approximately 55 cases in the U.S. involving approximately 1,700 claimants related to the analgesic Darvon and related formulations of propoxyphene. Additionally, approximately 80 cases involving approximately 225 claimants were recently dismissed and are on appeal to the Sixth Circuit. Almost all of the active cases have been consolidated in a federal multi-district litigation in the Eastern District of Kentucky or are pending in a coordinated state court proceeding in California. A putative class action was filed in the U.S. District Court for the Eastern District of

Louisiana (*Ballard, et al. v. Eli Lilly and Company et al.*) against Lilly and other manufacturers seeking to assert product liability claims on behalf of U.S. residents who ingested propoxyphene pain products and allegedly sustained personal injuries. Lilly was dismissed from *Ballard* with prejudice on a dispositive motion and the dismissal is now final and non-appealable. We transferred the U.S. regulatory approvals and all marketing rights to our propoxyphene products in 2002 to NeoSan Pharmaceuticals, Inc. (an affiliate of aaiPharma, Inc.), which subsequently transferred all such approvals and marketing rights to Xanodyne Pharmaceuticals, Inc. We believe these claims are without merit and are prepared to defend against them vigorously.

We have been named along with Takeda Chemical Industries, Ltd., and Takeda affiliates as a defendant in product liability cases in the U.S. related to the diabetes medication Actos, which we co-promoted with Takeda in the U.S. from 1999 until September 2006. In addition, we have been named along with Takeda as a defendant in three purported product liability class actions in Canada related to Actos, including one in Ontario (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al.*), one in Quebec (*Whyte et al. v. Eli Lilly et al.*), and one in Alberta (*Epp v. Takeda Canada et al.*). We promoted Actos in Canada until 2009. In general, plaintiffs in these actions allege that Actos caused or contributed to their bladder cancer. Under our agreement with Takeda, we will be indemnified by Takeda for our losses and expenses with respect to the U.S. litigation and other related expenses in accordance with the terms of the indemnification agreement. We believe these claims are without merit and are prepared to defend against them vigorously.

In October 2012, we were named as a defendant in a purported class-action lawsuit in the U.S. District Court for the Central District of California (*Saavedra et al v. Eli Lilly and Company*) involving Cymbalta. The plaintiffs assert claims under the consumer protection statutes of four states and seek declaratory, injunctive, and monetary relief for various alleged injuries arising from discontinuing treatment with Cymbalta. The plaintiffs purport to represent a class of all persons within the U.S. who purchased and/or paid for Cymbalta. We believe these claims are without merit and are prepared to defend against them vigorously.

We have been named as a defendant in fewer than 10 U.S. lawsuits involving fewer than 10 claimants seeking to recover damages for health issues experienced by children or grandchildren of women who were prescribed DES during pregnancy in the 1950s and 1960s. We believe these claims are without merit and are prepared to defend against them vigorously.

We are a defendant in approximately 10 Zyprexa product liability lawsuits in the U.S. covering approximately 10 plaintiffs. The lawsuits allege a variety of injuries from the use of Zyprexa. 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. We believe these claims are without merit and are prepared to defend against them vigorously.

Other Patent Litigation

In January 2014, Sanofi-Aventis U.S. LLC (Sanofi) filed a lawsuit against us in the U.S. District Court for the District of Delaware alleging patent infringement with respect to our insulin glargine product for which we are seeking approval from the FDA. See Item 7, "Management's Discussion and Analysis—Executive Overview, Late-Stage Pipeline," for additional details.

In Canada, several generic companies challenged the validity of our Zyprexa patent. In September 2012, the Canadian Court of Appeals affirmed the lower court's decision that the patent was invalid for lack of utility. In 2013, our petition for leave to appeal the decision to the Supreme Court of Canada was denied. Two of the generic companies, Apotex Inc. and Teva Canada Limited, are separately pursuing claims for damages arising from Lilly's enforcement of the patent under Canadian regulations. The total amount of damages that may be awarded will be determined through separate trials, which have not yet been scheduled.

Marketing Practices Investigations

In August 2003, we received notice that the staff of the SEC was conducting an investigation into the compliance by Lilly's Polish subsidiary with the FCPA. Subsequently, we were notified that the SEC had expanded its investigation to other countries and that the DOJ was conducting a parallel investigation. In December 2012, we announced that we had reached an agreement with the SEC to settle its investigation. The settlement relates to certain activities of Lilly subsidiaries in Brazil, China, Poland, and Russia from 1994 through 2009. Without admitting or denying the allegations, we consented to pay a civil settlement amount of

$29.4 million and agreed to have an independent compliance consultant conduct a 60-day review of our internal controls and compliance program related to the FCPA. Our understanding is that the DOJ investigation remains open.

In January 2009, as part of the resolution of a government investigation related to our U.S. marketing and promotional practices with respect to Zyprexa, we entered into a Corporate Integrity Agreement with the U.S. Department of Health and Human Services Office of Inspector General which requires us to maintain our compliance program and to undertake a set of defined corporate integrity obligations for five years. The agreement also provides for an independent third-party review organization to assess and report on the company's systems, processes, procedures, and practices related to compliance with health care laws.

Shareholder Derivative Litigation

In 2011, the company received a letter sent on behalf of shareholder Kim Barovic demanding that the board of directors cause the company to take (1) legal action against certain of its current and former officers and board members for allegedly causing damage to the company by failing to exercise proper oversight over the company's compliance with the FCPA, and (2) all necessary actions to reform and improve certain corporate governance and internal procedures.The board established a committee of disinterested directors to consider the demands and determine what action, if any, the company should take in response. In February 2013, following its investigation, the committee determined, among other things, that it would not be in the best interests of the company to take any of the actions demanded by Ms. Barovic.

In August 2013, Ms. Barovic brought a shareholder derivative suit (*Barovic v. Lechleiter, et al.*), filed in Marion County (Indiana) Superior Court. The suit seeks to maintain the action purportedly on behalf of the company against certain current and former directors and officers of the company and alleges breach of fiduciary duty, waste of corporate assets, and unjust enrichment. The company is named in the suit as a nominal defendant. The suit does not seek damages from the company, but instead requests damages in an unspecified amount and certain equitable relief on the company's behalf. The company believes the suit is without merit and all of the individual defendants intend to defend themselves vigorously against the allegations in the complaint.

Other 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 the cleanup of fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup.

We are also a defendant in other litigation and investigations, including product liability, patent, employment, and premises liability litigation, of a character we regard as normal to our business.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

You can find information relating to the principal market for our common stock and related stockholder matters at Item 6, "Selected Financial Data (unaudited)" and Item 8, "Financial Statements and Supplementary Data—Note 20, Selected Quarterly Data (unaudited)." That information is incorporated here by reference.

The following table summarizes the activity related to repurchases of our equity securities during the fourth quarter ended December 31, 2013 :

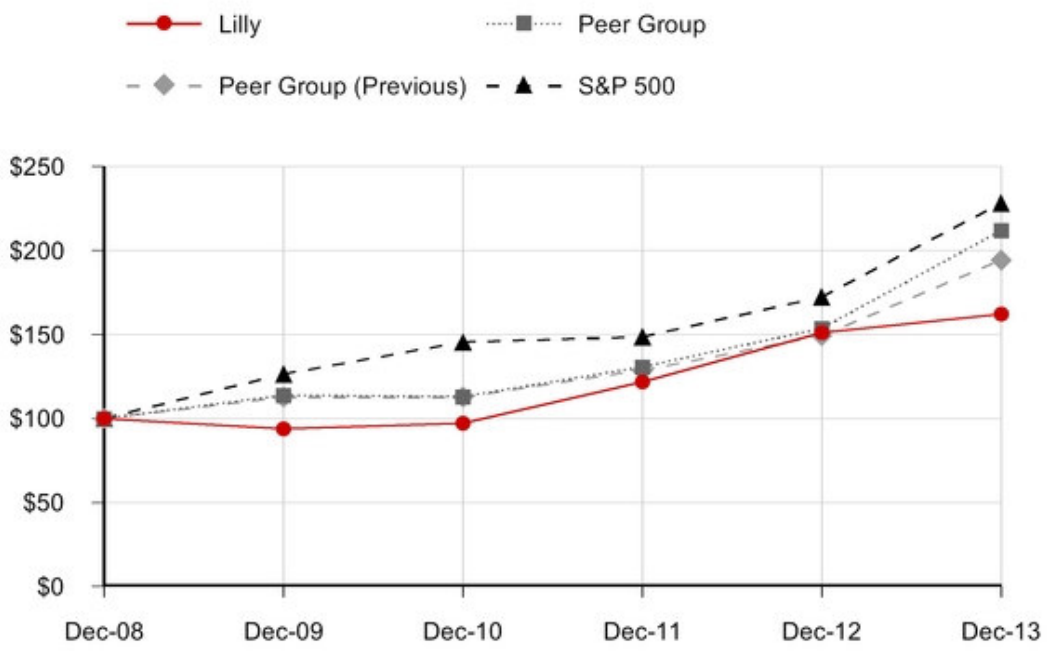
Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (dollars in millions)
October 2013	2,550.0	$ 50.40	2,550.0	$ 4,871.4
November 2013	7,378.9	50.32	7,378.9	4,500.0
December 2013	—	—	—	4,500.0
Total	9,928.9	50.34	9,928.9	

In October 2013, we announced a $5.00 billion share repurchase program. During the fourth quarter of 2013, we purchased $500.0 million of shares associated with that program. As of December 31, 2013 , there were $4.5 billion of shares remaining in that program. During 2013 and 2012, we repurchased $1.10 billion and $400.0 million , respectively, of shares associated with the $1.50 billion share repurchase program announced in 2012. During 2012, we also repurchased $419.2 million of the shares remaining under the $3.00 billion share repurchase program announced in 2000. No shares were repurchased during the year ended December 31, 2011 .

PERFORMANCE GRAPH

This graph compares the return on Lilly stock with that of the Standard & Poor's 500 Stock Index and our peer group for the years 2009 through 2013 . The graph assumes that, on December 31, 2008 , a person invested $100 each in Lilly stock, the S&P 500 Stock Index, and the peer groups' common stock. The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are reinvested in that company's stock.

Value of $100 Invested on Last Business Day of 2008
Comparison of Five-Year Cumulative Total Return Among Lilly, S&P 500 Stock Index, Peer Group (1) , and Peer Group (Previous) (2)



	Lilly	Peer Group	Peer Group (Previous)	S&P 500
Dec-08	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Dec-09	$ 93.75	$ 113.71	$ 112.71	$ 126.46
Dec-10	$ 97.23	$ 112.80	$ 112.66	$ 145.51
Dec-11	$ 121.69	$ 130.63	$ 128.73	$ 148.59
Dec-12	$ 151.21	$ 153.53	$ 149.26	$ 172.37
Dec-13	$ 162.16	$ 211.87	$ 194.27	$ 228.19

1 We constructed the peer group as the industry index for this graph. It comprises the companies in the pharmaceutical and biotech industries that we used to benchmark the compensation of executive officers for 2013: Abbott Laboratories; AbbVie Inc.; Allergan Inc.; Amgen Inc.; AstraZeneca PLC; Baxter International Inc.; Biogen Idec Inc.; Bristol-Myers Squibb Company; Celgene Corporation; Gilead Sciences Inc.; GlaxoSmithKline plc; Johnson & Johnson; Medtronic, Inc.; Merck & Co., Inc.; Novartis AG.; Pfizer Inc.; and Sanofi-Aventis.

2 In an effort to broaden our peer group for benchmarking purposes, we revised our peer group in 2013 by adding Allergan Inc., Biogen Idec Inc., Celgene Corporation, Gilead Sciences Inc., and Medtronic, Inc., and removed Takeda Pharmaceuticals Company. The new peer group includes biotech companies we directly compete with for talent and business, and improves the balance of companies with respect to revenue size. AbbVie Inc. was also added to the current peer group upon its spinoff from Abbott Laboratories.

Item 6. Selected Financial Data (unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except revenue per employee and per-share data)	2013	2012	2011	2010	2009
Operations					
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5	$ 23,076.0	$ 21,836.0
Cost of sales	**4,908.1**	4,796.5	5,067.9	4,366.2	4,247.0
Research and development	**5,531.3**	5,278.1	5,020.8	4,884.2	4,326.5
Marketing, selling, and administrative	**7,125.6**	7,513.5	7,879.9	7,053.4	6,892.5
Other	**(341.2)**	(392.9)	968.4	247.0	1,012.2
Income before income taxes	**5,889.3**	5,408.2	5,349.5	6,525.2	5,357.8
Income taxes	**1,204.5**	1,319.6	1,001.8	1,455.7	1,029.0
Net income	**4,684.8**	4,088.6	4,347.7	5,069.5	4,328.8
Net income as a percent of revenue	**20.3%**	18.1%	17.9%	22.0%	19.8%
Net income per share— diluted	**$ 4.32**	$ 3.66	$ 3.90	$ 4.58	$ 3.94
Dividends declared per share	**1.96**	1.96	1.96	1.96	1.96
Weighted-average number of shares outstanding—diluted (thousands)	**1,084,766**	1,117,294	1,113,967	1,105,813	1,098,367
Financial Position					
Current assets	**$ 13,104.7**	$ 13,038.7	$ 14,248.2	$ 14,840.0	$ 12,486.5
Current liabilities	**8,916.6**	8,389.5	8,930.9	6,926.9	6,568.1
Property and equipment—net	**7,975.5**	7,760.2	7,760.3	7,940.7	8,197.4
Total assets	**35,248.7**	34,398.9	33,659.8	31,001.4	27,460.9
Long-term debt	**4,200.3**	5,519.4	5,464.7	6,770.5	6,634.7
Total equity	**17,640.7**	14,773.9	13,535.6	12,412.8	9,525.3
Supplementary Data					
Return on total equity	**29.5%**	27.8%	31.4%	46.1%	51.0%
Return on assets	**13.8%**	12.3%	13.4%	17.7%	15.8%
Capital expenditures	**$ 1,012.1**	$ 905.4	$ 672.0	$ 694.3	$ 765.0
Depreciation and amortization	**1,445.6**	1,462.2	1,373.6	1,328.2	1,297.8
Effective tax rate	**20.5%**	24.4%	18.7%	22.3%	19.2%
Revenue per employee	**$ 609,000**	$ 590,000	$ 638,000	$ 602,000	$ 540,000
Number of employees	**37,925**	38,350	38,080	38,350	40,360
Number of shareholders of record	**31,900**	33,600	35,200	36,700	38,400

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Executive Overview

This section provides an overview of our financial results, recent product and late-stage pipeline developments, and legal, regulatory, and other matters affecting our company and the pharmaceutical industry. Earnings per share (EPS) data is presented on a diluted basis.

Financial Results

Worldwide total revenue increased 2 percent to $23.11 billion in 2013 , driven by growth in several products, including Cialis ® , Humalog ® , Trajenta ® , Alimta ® , Forteo ® , and animal health products, partially offset by the continued erosion of Zyprexa ® sales following the loss of patent exclusivity in the U.S. and most major markets outside Japan. In 2013 , net income increased 15 percent to $4.68 billion and EPS increased 18 percent to $4.32 , compared to 2012 net income and EPS of $4.09 billion and $3.66 , respectively. The increases were due to higher gross margin, lower marketing, selling, and administrative expenses, and, to a lesser extent, a lower effective tax rate, partially offset by higher research and development expenses and lower other income. EPS in 2013 also benefited from a lower number of shares outstanding compared to 2012 as a result of our share repurchase programs.

The following highlighted items affect comparisons of our 2013 and 2012 financial results:

2013

Collaborations (Note 4 to the consolidated financial statements)

- We recognized income of $495.4 million (pretax), or $0.29 per share, related to the transfer to Amylin Pharmaceuticals, Inc. (Amylin) of exenatide commercial rights in all markets outside the United States.

Acquired In-Process Research & Development (IPR&D) (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $57.1 million (pretax), or $0.03 per share, resulting from our acquisition of all development and commercial rights for a calcitonin gene-related peptide (CGRP) antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches, following a successful Phase II proof-of-concept study.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $120.6 million (pretax), or $0.08 per share, primarily related to severance costs for actions taken to reduce our cost structure and global workforce, as well as other costs associated with the anticipated closure of a packaging and distribution facility in Germany.

2012

Collaborations (Note 4 to the consolidated financial statements)

- We recognized income of $787.8 million (pretax), or $0.43 per share, related to the early payment of the exenatide revenue-sharing obligation following the completion of Amylin's acquisition by Bristol-Myers Squibb (BMS).

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized asset impairment, restructuring, and other special charges of $281.1 million (pretax), or $0.16 per share, consisting of an intangible asset impairment related to liprotamase, restructuring charges related to initiatives to reduce our cost structure and global workforce, charges associated with the decision to stop development of a delivery device platform, and charges related to changes in returns reserve estimates for the withdrawal of Xigris™.

Late-Stage Pipeline

Our long-term success depends to a great extent on our ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on molecules currently in development by other biotechnology or pharmaceutical companies. We currently have approximately 60 potential new drugs in human testing or under regulatory review, and a larger number of projects in preclinical research.

The following new molecular entities (NMEs) have been submitted for regulatory review for potential use in the disease described. The quarter the NME initially was submitted for any indication is shown in parentheses:

Dulaglutide* (Q3 2013) —a long-acting analog of glucagon-like peptide 1 for the treatment of type 2 diabetes.

Empagliflozin (Q1 2013) —a sodium glucose co-transporter-2 (SGLT-2) inhibitor for the treatment of type 2 diabetes (in collaboration with Boehringer Ingelheim).

New insulin glargine product (Q2 2013) —a new insulin glargine product for the treatment of type 1 and type 2 diabetes (in collaboration with Boehringer Ingelheim).

Ramucirumab* (Q3 2013) —an anti-vascular endothelial growth factor receptor-2 (VEGFR-2) monoclonal antibody submitted for regulatory review as a single agent for the treatment of gastric cancer. We intend to submit an application for ramucirumab in combination with paclitaxel for the treatment of gastric cancer to regulatory authorities in 2014. We also intend to submit our first application for ramucirumab in combination with chemotherapy (docetaxel) in patients with second-line non-small cell lung cancer (NSCLC) to regulatory authorities in 2014. In addition, we are currently studying ramucirumab in Phase III studies for the treatment of liver cancer and colorectal cancer.

The following NMEs are currently in Phase III clinical trial testing for potential use in the diseases described. The quarter in which the NME initially entered Phase III for any indication is shown in parentheses:

Baricitinib (Q4 2012) —a Janus tyrosine kinase (JAK 1 and JAK 2) inhibitor for the treatment of rheumatoid arthritis (in collaboration with Incyte Corporation).

Basal insulin peglispro (formerly known as novel basal insulin analog)* (Q4 2011) —a novel basal insulin for the treatment of type 1 and type 2 diabetes.

Evacetrapib (Q4 2012) —a cholesteryl ester transfer protein (CETP) inhibitor for the treatment of high-risk vascular disease.

Ixekizumab* (Q4 2011) —a neutralizing monoclonal antibody to interleukin-17A (IL-17) for the treatment of psoriasis and psoriatic arthritis.

Necitumumab* (Q4 2009) —an anti-epidermal growth factor receptor (EGFR) monoclonal antibody for the treatment of squamous NSCLC.

Solanezumab* (Q2 2009) —an anti-amyloid beta (Aß) monoclonal antibody for the treatment of mild Alzheimer's disease.

Tabalumab* (Q4 2010) —an anti-B-cell activating factor (BAFF) monoclonal antibody for the treatment of systemic lupus erythematosus (lupus).

Tanezumab* (Q3 2008) —an anti-nerve growth factor monoclonal antibody for the treatment of osteoarthritis pain, chronic low back pain and cancer pain (in collaboration with Pfizer Inc. (Pfizer)). Tanezumab is currently subject to a partial clinical hold by the U.S. Food and Drug Administration (FDA) (see Note 4 to the consolidated financial statements).

* Biologic molecule subject to the U.S. Biologics Price Competition and Innovation Act

The following are late-stage pipeline updates since January 1, 2013:

Basal insulin peglispro —In January 2013, we announced plans for the 2013 and 2014 initiation of the remainder of the pre-planned clinical trials for the molecule. These studies will be conducted to support regulatory submissions and evaluate safety, efficacy, and differentiation of the molecule. These studies are in addition to the five ongoing IMAGINE clinical trials.

Dulaglutide —In April 2013, we announced that the Phase III AWARD-2 and AWARD-4 trials studying dulaglutide as an investigational once-weekly treatment for type 2 diabetes met the primary endpoints related to reduction in hemoglobin A1c (HbA1c) compared to insulin glargine, and that the 1.5 mg dose demonstrated statistically superior reduction in HbA1c from baseline compared to insulin glargine in both trials. In the third quarter of 2013, we filed for regulatory review in both the U.S. and Europe.

Edivoxetine —In December 2013, we announced the decision to stop development of edivoxetine as an add-on treatment for depression due to lack of efficacy in three acute randomized placebo-controlled Phase III studies. The decision was not based on safety concerns.

Empagliflozin —In January 2013, we announced positive top-line results for four completed Phase III clinical trials studying empagliflozin for treatment of patients with type 2 diabetes. In all four studies, the primary efficacy endpoint, defined as significant change in HbA1c from baseline compared to placebo, was met with empagliflozin (10 and 25 mg) taken once daily. The pivotal studies for empagliflozin were completed in 2012. In the first quarter of 2013, Boehringer Ingelheim filed for regulatory review in both the U.S. and Europe. The Boehringer Ingelheim manufacturing facility where empagliflozin is being produced is subject to an FDA warning letter; however, it is not clear if this will impact the timing of FDA action for empagliflozin. In the fourth quarter of 2013, Boehringer Ingelheim filed for regulatory review in Japan.

Enzastaurin —In May 2013, we announced the decision to stop development of enzastaurin as a result of negative clinical trial results from the Phase III PRELUDE study, which explored the molecule as a monotherapy in the prevention of relapse for patients with diffuse large B-cell lymphoma.

Ixekizumab —In January 2013, we initiated Phase III clinical trial testing for ixekizumab as a potential treatment for psoriatic arthritis.

Liprotamase —In December 2013, we made the decision to discontinue further development of liprotamase.

Necitumumab —In August 2013, we announced that the Phase III study, SQUIRE, met its primary endpoint, finding that patients with stage IV metastatic squamous NSCLC experienced increased overall survival when administered necitumumab in combination with gemcitabine and cisplatin as a first-line treatment, as compared to chemotherapy alone. We anticipate filing for regulatory review before the end of 2014.

New insulin glargine product —In July 2013, we and Boehringer Ingelheim announced that the marketing authorization application for our new insulin glargine product, filed in June 2013 through the biosimilar pathway, was accepted for review by the European Medicines Agency. In the fourth quarter of 2013, we filed for regulatory review in the U.S. and Japan.

In January 2014, Sanofi-Aventis U.S. LLC (Sanofi) filed a lawsuit against us in the U.S. District Court for the District of Delaware alleging patent infringement with respect to our insulin glargine product for which we are seeking approval from the FDA. Sanofi asserts infringement of two patents relating to pen injector devices and two patents relating to insulin glargine formulations. Under the Hatch-Waxman Act, the initiation of the lawsuit automatically invokes a stay of FDA approval of the product for a period of 30 months, which may be shortened in the event of an earlier decision in our favor. We believe the lawsuit is without merit, and we are prepared to vigorously defend against the allegations.

Ramucirumab —Our rolling submission to the FDA for ramucirumab as a single-agent biologic therapy in patients with advanced gastric cancer following progression on prior chemotherapy was completed in the third quarter of 2013, and received Priority Review status by the FDA in October 2013. Our regulatory submission in Europe for the same indication was also completed in the third quarter of 2013. In September 2013, we announced that the RAINBOW trial, a global Phase III study of ramucirumab in combination with paclitaxel in patients with advanced gastric cancer, met its primary endpoint of improved overall survival and a secondary endpoint of improved progression-free survival. We intend to submit an application for this indication to regulatory authorities in 2014. In September 2013, we also announced that a separate global Phase III study of ramucirumab in women with locally recurrent or metastatic breast cancer, ROSE, did not meet its primary endpoint of

progression-free survival. We do not plan to submit an application to regulatory authorities for ramucirumab in the first-line treatment of locally recurrent or metastatic HER2-negative breast cancer based on the results from the ROSE study. In February 2014, we announced that the REVEL trial, a global Phase III study of ramucirumab in combination with chemotherapy (docetaxel) in patients with second-line NSCLC, met its primary endpoint of improved overall survival and a secondary endpoint of improved progression-free survival. We intend to submit the first application for this indication to regulatory authorities in 2014.

Tabalumab —In February 2013, we announced our decision to discontinue the Phase III rheumatoid arthritis program for tabalumab due to lack of efficacy. The decision was not based on safety concerns. The tabalumab Phase III program for lupus is continuing as planned.

Tanezumab —In October 2013, we entered into a collaboration agreement with Pfizer to jointly develop and globally commercialize tanezumab for the potential treatment of osteoarthritis pain, chronic low back pain, and cancer pain. Tanezumab is currently in Phase III clinical development and is subject to a partial clinical hold by the FDA pending submission of nonclinical data to the FDA. Pfizer anticipates submitting that data in 2014. See Note 4 to the consolidated financial statements for additional details.

There are many difficulties and uncertainties inherent in pharmaceutical research and development (R&D) and the introduction of new products. A high rate of failure is inherent in new drug discovery and development. The process to bring a drug from the discovery phase to regulatory approval can take 12 to 15 years or longer and cost more than $1 billion. Failure can occur at any point in the process, including late in the process after substantial investment. As a result, most research programs will not generate financial returns. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success. Delays and uncertainties in the regulatory approval processes in the U.S. and other countries can result in delays in product launches and lost market opportunities. Consequently, it is very difficult to predict which products will ultimately be approved and the sales growth of those products.

We manage R&D spending across our portfolio of molecules, and a delay in, or termination of, any one project will not necessarily cause a significant change in our total R&D spending. Due to the risks and uncertainties involved in the R&D process, we cannot reliably estimate the nature, timing, completion dates, and costs of the efforts necessary to complete the development of our R&D projects, nor can we reliably estimate the future potential revenue that will be generated from a successful R&D project. Each project represents only a portion of the overall pipeline, and none is individually material to our consolidated R&D expense. While we do accumulate certain R&D costs on a project level for internal reporting purposes, we must make significant cost estimations and allocations, some of which rely on data that are neither reproducible nor validated through accepted control mechanisms. Therefore, we do not have sufficiently reliable data to report on total R&D costs by project, by preclinical versus clinical spend, or by therapeutic category.

Legal, Regulatory, and Other Matters

We depend on patents or other forms of intellectual-property protection for most of our revenues, cash flows, and earnings. Cymbalta ® lost patent exclusivity in the U.S. in December 2013, resulting in the immediate entry of several generic competitors. We also expect the loss of U.S. patent protection for Evista ® in March 2014 to result in immediate generic competition. We will lose our data package protection for Cymbalta in major European countries in 2014; however, we do not anticipate the entry of generic competition in most of these countries until 2015. The entry of generic competition in each of these markets is expected to cause a rapid and severe decline in revenue from the affected products, having a material adverse effect on our consolidated results of operations and cash flows.

The U.S. compound patent for Humalog expired in May 2013. The loss of compound patent protection for Humalog has not resulted in a rapid and severe decline in revenue. To date, no biosimilar version of Humalog has been approved in the U.S. or Europe; however, we are aware that other manufacturers have efforts underway to develop biosimilar forms of Humalog, and it is difficult to predict the likelihood, timing, and impact of biosimilars entering the market.

The continuing prominence of U.S. budget deficits as both a policy and political issue increases the risk that taxes, fees, rebates, or other federal measures that would further reduce pharmaceutical companies' revenue

or increase expenses may be enacted. Certain federal and state health care proposals, including state price controls, continue to be debated, and could place downward pressure on pharmaceutical industry sales or prices. These federal and state proposals, or state price pressures, could have a material adverse effect on our consolidated results of operations.

International operations also are generally subject to extensive price and market regulations. Proposals for cost-containment measures are pending in a number of countries, including proposals that would directly or indirectly impose additional price controls, limit access to or reimbursement for our products, or reduce the value of our intellectual-property protection. Such proposals are expected to increase in both frequency and impact, given the pressures on national and regional health care budgets as a result of continued austerity measures being pursued in a number of countries; the desire to manage health expenses carefully even as economies recover; and the effort in some countries to expand access to health care coverage while seeking savings from the biopharmaceutical sector.

The Obama administration has proposed changes to the manner in which the U.S. would tax the international income of U.S.-based companies. There also have been tax proposals under discussion or introduced in the U.S. Congress that could change the manner in which, and the rate at which, income of U.S. companies would be taxed. While it is uncertain how the U.S. Congress may address U.S. tax policy matters in the future, reform of U.S. taxation, including taxation of international income, will continue to be a topic of discussion for Congress and the Obama administration. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material adverse effect on our consolidated results of operations. In addition, the Organization for Economic Co-operation and Development recently launched an initiative to analyze and potentially influence international tax policy in the major countries in which we operate. While the outcomes of this initiative are uncertain, significant changes to key elements of the global international tax framework could have a material adverse effect on our consolidated results of operations.

Operating Results— 2013

Revenue

Our worldwide revenue for 2013 increased 2 percent , to $23.11 billion , compared with 2012 as an increase of 5 percent due to higher prices was partially offset by a decrease of 2 percent due to the unfavorable impact of foreign exchange rates and a 1 percent decrease due to lower volume. Total revenue in the U.S. increased 5 percent , to $12.89 billion , due to higher prices, partially offset by volume declines for Cymbalta and Zyprexa due to the loss of patent exclusivity. Revenue outside the U.S. decreased 1 percent , to $10.22 billion , due primarily to the unfavorable impact of the continued weakness of the Japanese yen and, to a lesser extent, lower prices, partially offset by increased volume.

The following table summarizes our revenue activity in 2013 compared with 2012 :

Product	Year Ended December 31, 2013 U.S. (1)	Outside U.S.	Total	Year Ended December 31, 2012 Total	Percent Change from 2012
		(Dollars in millions)			
Cymbalta	**$ 3,960.8**	**$ 1,123.6**	**$ 5,084.4**	$ 4,994.1	2
Alimta	**1,209.1**	**1,493.9**	**2,703.0**	2,594.3	4
Humalog	**1,521.4**	**1,089.8**	**2,611.2**	2,395.5	9
Cialis	**942.8**	**1,216.6**	**2,159.4**	1,926.8	12
Humulin ®	**677.2**	**638.6**	**1,315.8**	1,239.1	6
Forteo	**511.4**	**733.5**	**1,244.9**	1,151.0	8
Zyprexa	**123.6**	**1,071.2**	**1,194.8**	1,701.4	(30)
Evista	**772.0**	**278.4**	**1,050.4**	1,010.1	4
Strattera ®	**446.3**	**262.9**	**709.2**	621.4	14
Effient ®	**376.9**	**131.8**	**508.7**	457.2	11
Other pharmaceutical products	**639.5**	**1,032.8**	**1,672.3**	1,843.0	(9)
Animal health products	**1,226.6**	**924.9**	**2,151.5**	2,036.5	6
Total net product sales	**12,407.6**	**9,998.0**	**22,405.6**	21,970.4	2
Collaboration and other revenue (2)	**482.1**	**225.4**	**707.5**	633.0	12
Total revenue	**$ 12,889.7**	**$ 10,223.4**	**$ 23,113.1**	$ 22,603.4	2

1 U.S. revenue includes revenue in Puerto Rico.

2 Collaboration and other revenue in 2013 consists primarily of royalties for Erbitux ® and revenue associated with Trajenta. Collaboration and other revenue in 2012 also includes revenue associated with exenatide in the United States.

Sales of Cymbalta, a product for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and in the U.S. for the treatment of chronic musculoskeletal pain and the management of fibromyalgia, increased 1 percent in the U.S., driven by higher prices, largely offset by lower demand due to the loss of U.S. patent exclusivity in December 2013, which is causing rapid and severe declines in our Cymbalta sales. Sales outside the U.S. increased 4 percent, driven primarily by increased volume, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

We will lose effective exclusivity for Cymbalta in major European countries upon expiration of our data package protection in 2014; however, because generic manufacturers cannot file for regulatory approval until after our data package protection expires, we do not anticipate the entry of generic competition in most of these countries until 2015. While it is difficult to predict the precise impact on Cymbalta sales, we expect the introduction of generics in these markets to result in a rapid and severe decline in our Cymbalta sales, which will have a material adverse effect on our consolidated results of operations and cash flows.

Sales of Alimta, a treatment for various cancers, increased 8 percent in the U.S., due to higher prices and increased demand. Sales outside the U.S. increased 1 percent, driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates and lower prices.

Sales of Humalog, our injectable human insulin analog for the treatment of diabetes, increased 11 percent in the U.S., driven by higher prices, wholesaler buying patterns, and increased demand. Sales outside the U.S. increased 6 percent, driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Cialis, a treatment for erectile dysfunction and benign prostatic hyperplasia (BPH), increased 21 percent in the U.S., driven by higher prices. Sales outside the U.S. increased 6 percent, driven by higher prices and increased volume, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Humulin, an injectable human insulin for the treatment of diabetes, increased 14 percent in the U.S., driven by higher prices, partially offset by decreased demand. Sales outside the U.S. decreased 1 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased volume.

Sales of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women, increased 5 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 11 percent, due to increased volume, primarily in Japan, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Zyprexa, a treatment for schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance, decreased 66 percent in the U.S. due to the continued erosion following patent expiration in 2011. Sales outside the U.S. decreased 20 percent, driven by the unfavorable effect of foreign exchange rates, lower volume in markets outside of Japan, and lower prices. Zyprexa sales in Japan were approximately $510 million in 2013, compared to approximately $585 million in 2012, and were negatively impacted by the continued weakness of the Japanese yen.

Sales of Evista, a product for the prevention and treatment of osteoporosis in postmenopausal women and for reduction of risk of invasive breast cancer in postmenopausal women with osteoporosis and postmenopausal women at high risk for invasive breast cancer, increased 10 percent in the U.S., driven by higher prices, partially offset by decreased demand. Sales outside the U.S. decreased 10 percent, driven by the unfavorable impact of foreign exchange rates and lower prices, partially offset by increased volume in Japan.

We will lose effective patent exclusivity for Evista in the U.S. on March 2, 2014. We expect generic competition immediately following the loss of exclusivity. While it is difficult to predict the precise impact on Evista sales, we expect the introduction of generics to result in a rapid and severe decline in our U.S. Evista sales, which will have a material adverse effect on our consolidated results of operations and cash flows.

Sales of Strattera, a treatment for attention-deficit hyperactivity disorder, increased 16 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 11 percent, driven primarily by increased volume in Japan, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

Sales of Effient, a product for the reduction of thrombotic cardiovascular events (including stent thrombosis) in patients with acute coronary syndrome who are managed with an artery-opening procedure known as percutaneous coronary intervention, including patients undergoing angioplasty, atherectomy, or stent placement, increased 11 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 12 percent, driven primarily by increased volume.

Animal health product sales in the U.S. increased 6 percent driven primarily by increased volume for Trifexis ® and, to a lesser extent, higher prices. Sales outside the U.S. increased 6 percent, driven by increased volume and, to a lesser extent, higher prices, partially offset by the unfavorable impact of foreign exchange rates.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue remained at 78.8 percent in 2013 as higher prices were offset by the adverse impact of foreign exchange rates on international inventories sold, which significantly decreased the cost of sales in 2012.

Marketing, selling, and administrative expenses decreased 5 percent to $7.13 billion in 2013 , driven primarily by lower selling and marketing expenses resulting from ongoing cost-containment efforts, including the previously announced reduction in U.S. sales and marketing activities in anticipation of the loss of patent exclusivity for Cymbalta and Evista, as well as the impact of foreign exchange rates.

Research and development expenses increased 5 percent to $5.53 billion in 2013 , due to higher research and clinical development expenses, including $97.2 million of milestone payments made to Boehringer Ingelheim following regulatory submissions for empagliflozin.

We recognized an acquired IPR&D charge of $57.1 million in 2013 resulting from our acquisition of a CGRP antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches, following a successful Phase II proof-of-concept study. There were no acquired IPR&D charges in 2012 . See Note 3 to the consolidated financial statements for additional information.

We recognized asset impairment, restructuring, and other special charges of $120.6 million in 2013 . These charges included $30.0 million of asset impairments primarily associated with the anticipated closure of a packaging and distribution facility in Germany, and $90.6 million of severance costs to reduce our cost structure and global workforce. In 2012, we recognized asset impairment, restructuring, and other special charges of $281.1 million . These charges included $122.6 million related to an intangible asset impairment for

liprotamase, $74.5 million related to restructuring to reduce our cost structure and global workforce, $64.0 million related to the asset impairment of a delivery device platform, and $20.0 million related to the withdrawal of Xigris. See Note 5 to the consolidated financial statements for additional information.

Other—net, (income) expense was income of $518.9 million in 2013 , compared with income of $674.0 million in 2012 . The decrease was driven primarily by lower income related to the termination of the exenatide collaboration with Amylin of $495.4 million in 2013 compared with $787.8 million in 2012, partially offset by milestone payments received from Boehringer Ingelheim for regulatory submissions in the U.S., Europe, and Japan. See Notes 4 and 18 to the consolidated financial statements for additional information.

Our effective tax rate was 20.5 percent in 2013 , compared with 24.4 percent in 2012 . The 2012 effective tax rate reflected the expiration of the R&D tax credit at the end of 2011 and the tax impact of the payment received from Amylin, partially offset by the tax benefit related to the intangible asset impairment for liprotamase. The decrease in the 2013 effective tax rate reflects the reinstatement of the R&D tax credit in the U.S. effective January 1, 2013 as well as the one-time impact of the reinstatement of the R&D tax credit for 2012 that was recorded in the first quarter of 2013. See Note 14 to the consolidated financial statements for additional information.

Operating Results— 2012

Financial Results

Worldwide total revenue decreased 7 percent to $22.60 billion in 2012, driven by steep sales declines for Zyprexa due to the loss of patent exclusivity in most major markets, partially offset by growth in certain other products. Net income and EPS decreased 6 percent to $4.09 billion and $3.66, respectively, in 2012 compared with net income of $4.35 billion and EPS of $3.90 in 2011. The decreases in net income and EPS were due to the loss of patent exclusivity for Zyprexa, partially offset by growth in certain other products and higher other income from the early payment of the exenatide revenue-sharing obligation from Amylin.

The 2012 highlighted items are summarized in the "Executive Overview" section. The 2011 highlighted items are summarized as follows:

Collaborations (Note 4 to the consolidated financial statements)

- We incurred acquired IPR&D charges associated with the diabetes collaboration with Boehringer Ingelheim of $388.0 million (pretax), or $0.23 per share.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $316.4 million (pretax), or $0.24 per share, primarily related to severance costs from strategic actions to reduce our cost structure and global workforce.
- We incurred a charge of $85.0 million (pretax), or $0.05 per share, primarily for returned product and contractual commitments related to the withdrawal of Xigris.

Revenue

Our worldwide revenue for 2012 decreased 7 percent, to $22.60 billion, driven by the loss of patent exclusivity for Zyprexa in most major markets, partially offset by growth in Cymbalta, Forteo, Effient, Alimta, and our animal health portfolio. Worldwide sales volume decreased 7 percent and the unfavorable impact of foreign exchange rates contributed 2 percent of revenue decline, partially offset by an increase of 2 percent due to higher prices. The decrease in volume was driven by the loss of patent exclusivity for Zyprexa in most major markets, partially offset by volume gains for certain other products. Total revenue in the U.S. decreased 5 percent, to $12.31 billion, due to the loss of patent exclusivity for Zyprexa, partially offset by higher prices and increased demand for certain other products. Revenue outside the U.S. decreased 9 percent, to $10.29 billion, driven by the loss of patent exclusivity for Zyprexa in markets outside of Japan, the unfavorable effect of foreign exchange rates, and lower prices, partially offset by increased demand for certain other products.

The following table summarizes our revenue activity in 2012 compared with 2011 :

Product	Year Ended December 31, 2012 U.S. (1)	Outside U.S.	Total	Year Ended December 31, 2011 Total	Percent Change from 2011
	(Dollars in millions)				
Cymbalta	$ 3,917.8	$ 1,076.3	$ 4,994.1	$ 4,161.8	20
Alimta	1,122.4	1,471.9	2,594.3	2,461.1	5
Humalog	1,370.9	1,024.6	2,395.5	2,367.6	1
Cialis	782.2	1,144.6	1,926.8	1,875.6	3
Zyprexa	360.4	1,341.0	1,701.4	4,622.0	(63)
Humulin	592.1	647.0	1,239.1	1,248.8	(1)
Forteo	488.2	662.8	1,151.0	949.8	21
Evista	699.5	310.6	1,010.1	1,066.9	(5)
Strattera	384.1	237.3	621.4	620.1	—
Effient	339.0	118.2	457.2	302.5	51
Other pharmaceutical products	593.4	1,249.6	1,843.0	2,250.0	(18)
Animal health products	1,161.8	874.7	2,036.5	1,678.6	21
Total net product sales	11,811.8	10,158.6	21,970.4	23,604.8	(7)
Collaboration and other revenue (2)	501.3	131.7	633.0	681.7	(7)
Total revenue	$ 12,313.1	$ 10,290.3	$ 22,603.4	$ 24,286.5	(7)

1 U.S. revenue includes revenue in Puerto Rico.

2 Collaboration and other revenue consists primarily of royalties for Erbitux and revenue associated with exenatide in the United States.

Sales of Cymbalta increased 23 percent in the U.S., due to higher prices and, to a lesser extent, increased demand. Sales outside the U.S. increased 9 percent, driven by increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Alimta increased 13 percent in the U.S., driven by increased demand and higher prices. Sales outside the U.S. remained flat, as increased demand was offset by lower prices in Japan and the unfavorable impact of foreign exchange rates.

Sales of Humalog decreased 2 percent in the U.S., due to increased government and commercial rebates as well as the product's removal from a large formulary in 2012. Sales outside the U.S. increased 6 percent, due to increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Cialis increased 11 percent in the U.S., driven by increased demand and higher prices. Sales outside the U.S. decreased 2 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased demand and higher prices.

Sales of Zyprexa decreased 83 percent in the United States. Sales outside the U.S. decreased 45 percent. The decreases were due to the loss of patent exclusivity in the U.S. and most major international markets outside of Japan, partially offset by growth in Japan. Zyprexa sales in Japan were approximately $585 million in 2012, compared to approximately $540 million in 2011.

Sales of Humulin increased 1 percent in the U.S., driven by higher prices, largely offset by decreased demand. U.S. sales of Humulin were negatively affected by the product's removal from a large formulary in 2012, as well as the continued decline in the market for human insulin and the termination of the Humulin ReliOn agreement with Walmart. Sales outside the U.S. decreased 2 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased volume.

Sales of Forteo increased 8 percent in the U.S., driven by higher prices, partially offset by decreased volume. Sales outside the U.S. increased 33 percent, primarily due to the increased demand in Japan.

Sales of Evista decreased 1 percent in the U.S., driven by decreased demand, largely offset by higher prices. Sales outside the U.S. decreased 14 percent, driven by decreased volume and, to a lesser extent, the unfavorable impact of foreign exchange rates.

Sales of Strattera decreased 2 percent in the U.S., due to decreased demand, partially offset by higher prices. Sales outside the U.S. increased 4 percent, driven by increased demand in Japan, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

Sales of Effient increased 52 percent in the U.S., driven by increased demand and, to a lesser extent, higher prices. Sales outside the U.S. increased 47 percent, due to increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Animal health product sales in the U.S. increased 30 percent, primarily due to increased demand for companion animal products. Sales outside the U.S. increased 12 percent, driven primarily by the impact of the acquisition of certain Janssen animal health assets in Europe (see Note 3 to the consolidated financial statements), and the growth of other products, partially offset by the unfavorable impact of foreign exchange rates.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue decreased by 0.3 percentage points in 2012 to 78.8 percent. This decrease was primarily due to lower sales of Zyprexa and, to a lesser extent, higher miscellaneous manufacturing costs, partially offset by the impact of foreign exchange rates on international inventories sold, which decreased cost of sales in 2012 and increased cost of sales in 2011.

Marketing, selling, and administrative expenses decreased 5 percent in 2012 to $7.51 billion, driven by lower marketing expense resulting from our cost-containment efforts. Research and development expenses increased 5 percent to $5.28 billion, due to higher late-stage clinical trial costs.

No acquired IPR&D charges were incurred in 2012, compared with $388.0 million in 2011, all of which was associated with the diabetes collaboration with Boehringer Ingelheim. We recognized asset impairment, restructuring, and other special charges of $281.1 million in 2012. These charges comprised $122.6 million related to an intangible asset impairment for liprotamase, $74.5 million related to restructuring to reduce our cost structure and global workforce, $64.0 million related to the asset impairment of a delivery device platform, and $20.0 million related to the withdrawal of Xigris. In 2011, we recognized asset impairment, restructuring, and other special charges of $401.4 million, of which $316.4 million primarily related to severance costs from strategic actions and $85.0 million related to the withdrawal of Xigris. See Notes 4 and 5 to the consolidated financial statements for additional information.

Other—net, (income) expense was income of $674.0 million in 2012, compared with expense of $179.0 million in 2011. The increase was driven by income of $787.8 million recognized from the early payment of the exenatide revenue-sharing obligation by Amylin. See Note 18 to the consolidated financial statements for additional information.

Our effective tax rate was 24.4 percent in 2012, compared with 18.7 percent in 2011. The increase in 2012 reflects the tax impact of the payment received from Amylin and the expiration of the research and development tax credit at the end of 2011, partially offset by the tax benefit related to the intangible asset impairment for liprotamase. The effective tax rate for 2011 was lower due to a tax benefit on the IPR&D charge associated with the diabetes collaboration with Boehringer Ingelheim, as well as a benefit from the resolution in 2011 of the IRS audits of tax years 2005-2007, along with certain matters related to 2008-2009. See Note 14 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

As of December 31, 2013 , cash and cash equivalents decreased to $3.83 billion compared with $4.02 billion at December 31, 2012 , as cash flow from operations of $5.74 billion was more than offset by dividends paid of $2.12 billion , share repurchases of $1.70 billion , net purchases of investments of $1.02 billion , and purchases of property and equipment of $1.01 billion . In addition to our cash and cash equivalents, we held total investments of $9.19 billion and $7.98 billion as of December 31, 2013 and December 31, 2012 , respectively. See Note 7 to the consolidated financial statements for additional details.

As of December 31, 2013 , total debt was $5.21 billion , a decrease of $318.4 million compared with $5.53 billion at December 31, 2012 . The decrease is due primarily to the decrease in fair value of our hedged debt. We intend to refinance $1.00 billion of debt that is maturing in March 2014. A portion of the interest rate risk associated with the anticipated refinancing has been hedged through the use of forward-starting interest rate swaps. See Note 7 to the consolidated financial statements for additional details. We currently have $1.36 billion of unused committed bank credit facilities, $1.20 billion of which backs our commercial paper program.

Capital expenditures of $1.01 billion during 2013 were $106.7 million more than in 2012 . We expect 2014 capital expenditures to be approximately $1.3 billion as we invest in the long-term growth of our diabetes-care product portfolio and additional biotechnology capacity while continuing investments to improve the quality, productivity, and capability of our manufacturing, research, and development facilities.

For the 129th consecutive year, we distributed dividend payments to our shareholders. Dividends of $1.96 per share were paid in both 2013 and 2012 . In the fourth quarter of 2013 , effective for the dividend to be paid in the first quarter of 2014 , the quarterly dividend was maintained at $0.49 per share, resulting in an indicated annual rate for 2014 of $1.96 per share.

During 2013, we repurchased the remaining $1.10 billion of shares associated with our $1.50 billion share repurchase program announced in 2012. In October 2013, we announced a new $5.00 billion share repurchase program which will be completed over time. We purchased $500.0 million of shares under the new repurchase program in 2013 .

At December 31, 2013, we had an aggregate of $11.61 billion of cash and investments at our foreign subsidiaries. A significant portion of this amount would be subject to tax payments if such cash and investments were repatriated to the United States. We record U.S. deferred tax liabilities for certain unremitted earnings, but when foreign earnings are expected to be indefinitely reinvested outside the U.S., no accrual for U.S. income taxes is provided. We believe cash provided by operating activities in the U.S. and planned repatriations of foreign earnings for which tax has been provided should be sufficient to fund our domestic operating needs, dividends paid to shareholders, share repurchases, and capital expenditures. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, “Risk Factors,” may affect our operating results and cash generated from operations.

In December 2013, we lost U.S. patent protection for Cymbalta. In 2014, we will lose U.S. patent protection for Evista and data package protection for Cymbalta in major European countries. See "Executive Overview—Legal, Regulatory, and Other Matters" for additional information.

Both domestically and abroad, we continue to monitor the potential impacts of the economic environment; the creditworthiness of our wholesalers and other customers, including foreign government-backed agencies and suppliers; the uncertain impact of recent health care legislation; and various international government funding levels.

In the normal course of business, our operations are exposed to fluctuations in interest rates and currency values. These fluctuations can vary the costs of financing, investing, and operating. We address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact on earnings of fluctuations in interest and currency exchange rates. All derivative activities are for purposes other than trading.

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate derivatives to help maintain that balance. Based on our overall interest rate exposure at December 31, 2013 and 2012 , including derivatives and other interest rate risk-sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2013 and 2012 , respectively, would not have a material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

Our foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the euro and the Japanese yen, and the British pound against the euro. We face transactional currency exposures that arise when we enter into transactions, generally on an intercompany basis, denominated in currencies other than the local currency. We also face currency exposure that arises from

translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We may enter into foreign currency forward contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, the British pound, and the Japanese yen). Our policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative positions offset, in part, the impact of currency fluctuations on the existing assets, liabilities, commitments, and anticipated revenues. Considering our derivative financial instruments outstanding at December 31, 2013 and 2012 , a hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) as of December 31, 2013 and 2012 , respectively, would not have a material impact on earnings, cash flows, or fair values of foreign currency rate risk-sensitive instruments over a one-year period. These calculations do not reflect the impact of the exchange gains or losses on the underlying positions that would be offset, in part, by the results of the derivative instruments.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. We acquire and collaborate on potential products still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval for marketing by the appropriate regulatory agency or upon the achievement of certain sales levels). If required by the arrangement, we may make royalty payments based upon a percentage of the sales of the pharmaceutical product in the event that regulatory approval for marketing is obtained. Because of the contingent nature of these payments, they are not included in the table of contractual obligations below.

Individually, these arrangements are not material in any one annual reporting period. However, if milestones for multiple products covered by these arrangements would happen to be reached in the same reporting period, the aggregate charge to expense could be material to the results of operations in that period. See Item 8, "Financial Statements and Supplementary Data—Note 4, Collaborations," for additional details. These arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the compound successfully achieves milestone objectives. We also note that, from a business perspective, we view these payments as positive because they signify that the product is successfully moving through development and is now generating or is more likely to generate cash flows from sales of products.

Our current noncancelable contractual obligations that will require future cash payments are as follows (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including interest payments [1]	$ 7,589.0	$ 1,136.3	$ 495.3	$ 1,473.0	$ 4,484.4
Capital lease obligations	27.3	10.3	13.8	3.2	—
Operating leases	620.0	136.5	218.4	147.2	117.9
Purchase obligations [2]	13,199.5	12,310.1	455.8	279.0	154.6
Other long-term liabilities reflected on our balance sheet [3]	1,989.2	—	861.5	260.5	867.2
Other [4]	476.9	476.9	—	—	—
Total	$ 23,901.9	$ 14,070.1	$ 2,044.8	$ 2,162.9	$ 5,624.1

1 Our long-term debt obligations include both our expected principal and interest obligations and our interest rate swaps. We used the interest rate forward curve at December 31, 2013 , to compute the amount of the contractual obligation for interest on the variable rate debt instruments and swaps.

2 We have included the following:

- Purchase obligations consist primarily of all open purchase orders as of December 31, 2013 . Some of these purchase orders may be cancelable; however, for purposes of this disclosure, we have not distinguished between cancelable and noncancelable purchase obligations.
- Contractual payment obligations with each of our significant vendors, which are noncancelable and are not contingent.

3 We have included long-term liabilities consisting primarily of our nonqualified supplemental pension funding requirements and deferred compensation liabilities. We excluded long-term income taxes payable of $1.08 billion, because we cannot reasonably estimate the timing of future cash outflows associated with those liabilities.

4 This category consists of various miscellaneous items expected to be paid in the next year, none of which are individually material. We excluded unfunded commitments of $142.2 million, because we cannot reasonably estimate the timing of future cash outflows associated with those commitments.

The contractual obligations table is current as of December 31, 2013 . We expect the amount of these obligations to change materially over time as new contracts are initiated and existing contracts are completed, terminated, or modified.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

In preparing our financial statements in accordance with accounting principles generally accepted in the United States (GAAP), we must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. Some of those judgments can be subjective and complex, and consequently actual results could differ from those estimates. For any given individual estimate or assumption we make, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. We believe that, given current facts and circumstances, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on our consolidated results of operations, financial position, or liquidity for the periods presented in this report. Our most critical accounting estimates have been discussed with our audit committee and are described below.

Revenue Recognition and Sales Return, Rebate, and Discount Accruals

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. Provisions for returns, rebates, and discounts are established in the same period the related sales are recorded.

We regularly review the supply levels of our significant products sold to major wholesalers in the U.S. and in major markets outside the U.S., primarily by reviewing periodic inventory reports supplied by our major

wholesalers and available prescription volume information for our products, or alternative approaches. We attempt to maintain U.S. wholesaler inventory levels at an average of approximately one month or less on a consistent basis across our product portfolio. Causes of unusual wholesaler buying patterns include actual or anticipated product-supply issues, weather patterns, anticipated changes in the transportation network, redundant holiday stocking, and changes in wholesaler business operations. In the U.S., the current structure of our arrangements does not provide an incentive for speculative wholesaler buying and provides us with data on inventory levels at our wholesalers. When we believe wholesaler purchasing patterns have caused an unusual increase or decrease in the sales of a major product compared with underlying demand, we disclose this in our product sales discussion if we believe the amount is material to the product sales trend; however, we are not always able to accurately quantify the amount of stocking or destocking. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.

When sales occur, we estimate a reserve for future product returns related to those sales. This estimate is based on several factors, including: historical return rates, expiration date by product (generally, 24 to 36 months after the initial sale of a product to our customer), and estimated levels of inventory in the wholesale and retail channels, among others, as well as any other specifically-identified anticipated returns due to known factors such as the loss of patent exclusivity, product recalls and discontinuances, or a changing competitive environment. We maintain a returns policy that allows U.S. pharmaceutical customers to return product within a specified period prior to and subsequent to the product's expiration date. Following the loss of exclusivity for a patent-dependent product, we expect to experience an elevated level of product returns as product inventory remaining in the wholesale and retail channels expires. Additional adjustments to the returns reserve may be required in the future based on revised estimates to our assumptions, which would have an impact on our consolidated results of operations. We record the return amounts as a deduction to arrive at our net product sales. Once the product is returned, it is destroyed. Actual product returns have been less than 1 percent of our net sales over the past three years and have not fluctuated significantly as a percentage of sales. However, we expect the ratio of actual product returns as a percentage of net sales to increase in future periods as we begin to experience elevated return levels for both Zyprexa and Cymbalta following the recent losses of patent exclusivity for these products in several major markets.

We establish sales rebate and discount accruals in the same period as the related sales. The rebate and discount amounts are recorded as a deduction to arrive at our net product sales. Sales rebates and discounts that require the use of judgment in the establishment of the accrual include Medicaid, managed care, Medicare, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We base these accruals primarily upon our historical rebate and discount payments made to our customer segment groups and the provisions of current rebate and discount contracts.

The largest of our sales rebate and discount amounts are rebates associated with sales covered by Medicaid. In determining the appropriate accrual amount, we consider our historical Medicaid rebate payments by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries), an evaluation of the current Medicaid rebate laws and interpretations, the percentage of our products that are sold to Medicaid recipients, and our product pricing and current rebate and discount contracts. Although we accrue a liability for Medicaid rebates at the time we record the sale (when the product is shipped), the Medicaid rebate related to that sale is typically paid up to six months later. Because of this time lag, in any particular period our rebate adjustments may incorporate revisions of accruals for several periods.

Most of our rebates outside the U.S. are contractual or legislatively mandated and are estimated and recognized in the same period as the related sales. In some large European countries, government rebates are based on the anticipated budget for pharmaceutical payments in the country. A best estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale. If our estimates are not reflective of the actual pharmaceutical costs incurred by the government, we adjust our rebate reserves.

We believe that our accruals for sales returns, rebates, and discounts are reasonable and appropriate based on current facts and circumstances. Our global rebate and discount liabilities are included in sales rebates and discounts on our consolidated balance sheet. Our global sales return liability is included in other current liabilities and other noncurrent liabilities on our consolidated balance sheet. A 5 percent change in our global

sales return, rebate, and discount liability at December 31, 2013 would lead to an approximate $138 million effect on our income before income taxes.

The portion of our global sales return, rebate, and discount liability resulting from sales of our products in the U.S. was 88 percent and 83 percent as of December 31, 2013 and 2012 , respectively.

The following represents a roll-forward of our most significant U.S. sales return, rebate, and discount liability balances, including Medicaid (in millions):

	2013	2012
Sales return, rebate, and discount liabilities, beginning of year	**$ 1,584.5**	$ 1,597.9
Reduction of net sales due to sales returns, discounts, and rebates (1)	**4,723.3**	3,563.5
Cash payments of discounts and rebates	**(4,092.3)**	(3,576.9)
Sales return, rebate, and discount liabilities, end of year (2)	**$ 2,215.5**	$ 1,584.5

1 Adjustments of the estimates for these returns, rebates, and discounts to actual results were less than 1.0 percent of net sales for each of the years presented.

2 The increase in our most significant U.S. sales return, rebate, and discount liability balances as of December 31, 2013, as compared to December 31, 2012, is primarily due to an increase in our returns reserve for sales of Cymbalta, which lost U.S. patent exclusivity in December 2013.

Product Litigation Liabilities and Other Contingencies

Product litigation liabilities and other contingencies are, by their nature, uncertain and are based upon complex judgments and probabilities. The factors we consider in developing our product litigation liability reserves and other contingent liability amounts include the merits and jurisdiction of the litigation, the nature and the number of other similar current and past litigation cases, the nature of the product and the current assessment of the science subject to the litigation, and the likelihood of settlement and current state of settlement discussions, if any. In addition, we accrue for certain product liability claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. We accrue legal defense costs expected to be incurred in connection with significant product liability contingencies when both probable and reasonably estimable.

We also consider the insurance coverage we have to diminish the exposure for periods covered by insurance. In assessing our insurance coverage, we consider the policy coverage limits and exclusions, the potential for denial of coverage by the insurance company, the financial condition of the insurers, and the possibility of and length of time for collection. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products.

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.

Pension and Retiree Medical Plan Assumptions

Pension benefit costs include assumptions for the discount rate, retirement age, and expected return on plan assets. Retiree medical plan costs include assumptions for the discount rate, retirement age, expected return on plan assets, and health-care-cost trend rates. These assumptions have a significant effect on the amounts reported. In addition to the analysis below, see Note 15 to the consolidated financial statements for additional information regarding our retirement benefits.

Annually, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. We use an actuarially determined, plan-specific yield curve of high quality, fixed income debt instruments to determine the discount rates. In evaluating the expected rate of return, we consider many factors, with a primary analysis of current and projected market conditions, asset returns and asset allocations (approximately 80 percent of which are growth investments); and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the discount rates, expected return on plan assets, and health-care-cost trend rates of other companies, where applicable. In evaluating our expected retirement age assumption, we consider the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages.

If the health-care-cost trend rates were to increase by one percentage point, the aggregate of the service cost and interest cost components of the 2013 annual expense would increase by $9.4 million . A one-percentage-point decrease would decrease the aggregate of the 2013 service cost and interest cost by $7.6 million . If the 2013 discount rate for the U.S. defined benefit pension and retiree health benefit plans (U.S. plans) were to change by a quarter percentage point, income before income taxes would change by $40.6 million . If the 2013 expected return on plan assets for U.S. plans were to change by a quarter percentage point, income before income taxes would change by $20.1 million . If our assumption regarding the 2013 expected age of future retirees for U.S. plans were adjusted by one year, our income before income taxes would be affected by $57.6 million . The U.S. plans, including Puerto Rico, represent approximately 80 percent of both the total projected benefit obligation and total plan assets at December 31, 2013 .

Impairment of Indefinite-Lived and Long-Lived Assets

We review the carrying value of long-lived assets (both intangible and tangible) for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We determine impairment by comparing the projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually and when certain impairment indicators are present. When required, a comparison of fair value to the carrying amount of assets is performed to determine the amount of any impairment.

Several methods may be used to determine the estimated fair value of the IPR&D acquired in a business combination, all of which require multiple assumptions. We utilize the "income method," which applies a probability weighting that considers the risk of development and commercialization 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.

For IPR&D assets, the risk of failure has been factored into the fair value measure and there can be no certainty that these assets ultimately will yield a successful product, as discussed previously in the "Late-Stage Pipeline" section. The nature of the pharmaceutical business is high-risk and requires that we invest in a large number of projects to build a successful portfolio of approved products. As such, it is likely that some IPR&D assets will become impaired in the future.

Estimates of future cash flows, based on what we believe to be reasonable and supportable assumptions and projections, require management's judgment. Actual results could vary from these estimates.

Income Taxes

We prepare and file tax returns based on our interpretation of tax laws and regulations and record estimates based on these judgments and interpretations. In the normal course of business, our tax returns are subject to examination by various taxing authorities, which may result in future tax, interest, and penalty assessments by these authorities. Inherent uncertainties exist in estimates of many tax positions due to changes in tax law resulting from legislation, regulation, and/or as concluded through the various jurisdictions' tax court systems. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits is adjusted for changes in facts and circumstances. For example, adjustments could result from significant amendments to existing tax law, the issuance of regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. We believe our estimates for uncertain tax positions are appropriate and sufficient to pay assessments that may result from examinations of our tax returns. We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense.

We have recorded valuation allowances against certain of our deferred tax assets, primarily those that have been generated from net operating losses and tax credit carryforwards in certain taxing jurisdictions. In

evaluating whether we would more likely than not recover these deferred tax assets, we have not assumed any future taxable income or tax planning strategies in the jurisdictions associated with these carryforwards where history does not support such an assumption. Implementation of tax planning strategies to recover these deferred tax assets or future income generation in these jurisdictions could lead to the reversal of these valuation allowances and a reduction of income tax expense.

As of December 31, 2013 , a 5 percent change in the amount of the uncertain tax positions and the valuation allowance would result in a change in net income of $26.2 million and $32.4 million , respectively.

LEGAL AND REGULATORY MATTERS

Information relating to certain legal proceedings can be found in Note 16 to the consolidated financial statements and is incorporated here by reference.

FINANCIAL EXPECTATIONS FOR 2014

For the full year of 2014, we expect EPS to be in the range of $2.77 to $2.85. EPS expectations for 2014 reflect completed share repurchases in 2013 and potential share repurchases in 2014. We anticipate that total revenue will be between $19.2 billion and $19.8 billion. Patent expirations are expected to drive a rapid and severe decline in U.S. sales of Cymbalta and Evista. These revenue declines are expected to be partially offset by growth from a portfolio of other products including Humalog, Trajenta, Cialis, Forteo and Alimta, as well as our animal health business. In addition, strong revenue growth is expected in China, while a weaker Japanese yen is expected to dampen revenue growth in Japan.

We anticipate that gross margin as a percent of revenue will be approximately 74 percent in 2014. Marketing, selling, and administrative expenses are expected to be in the range of $6.2 billion to $6.5 billion. Research and development expense is expected to be in the range of $4.4 billion to $4.7 billion. Other—net, (income) expense is expected to be in a range between $100 million and $200 million of income, benefited by gains of $150 million to $200 million on the sale of equity investments acquired as part of past business development transactions. Operating cash flows are expected to be sufficient to pay our dividend of approximately $2.1 billion, allow for capital expenditures of approximately $1.3 billion, and fund potential business development activity and share repurchases.

Our 2014 financial guidance does not include a potential charge related to the collaboration with Pfizer to develop and commercialize tanezumab. If the partial clinical hold for the molecule is removed and we and Pfizer move forward with development, we will pay a $200 million upfront fee to Pfizer. This charge would reduce EPS by approximately $0.12.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

You can find quantitative and qualitative disclosures about market risk (*e.g.,* interest rate risk) in Item 7 at “Management’s Discussion and Analysis—Financial Condition.” That information is incorporated in this report by reference.

Item 8. Financial Statements and Supplementary Data

Consolidated Statements of Operations

ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars in millions, except per-share data) Year Ended December 31	2013	2012	2011
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Cost of sales	**4,908.1**	4,796.5	5,067.9
Research and development	**5,531.3**	5,278.1	5,020.8
Marketing, selling, and administrative	**7,125.6**	7,513.5	7,879.9
Acquired in-process research and development (Notes 3 and 4)	**57.1**	—	388.0
Asset impairment, restructuring, and other special charges (Note 5)	**120.6**	281.1	401.4
Other—net, (income) expense (Note 18)	**(518.9)**	(674.0)	179.0
	17,223.8	17,195.2	18,937.0
Income before income taxes	**5,889.3**	5,408.2	5,349.5
Income taxes (Note 14)	**1,204.5**	1,319.6	1,001.8
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Earnings per share—basic (Note 13)	**$ 4.33**	$ 3.67	$ 3.90
Earnings per share—diluted (Note 13)	**$ 4.32**	$ 3.66	$ 3.90

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2013	2012	2011
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Other comprehensive income (loss):			
Foreign currency translation gains (losses)	**36.2**	160.9	(244.8)
Net unrealized gains (losses) on securities	**204.3**	88.5	(178.5)
Defined benefit pension and retiree health benefit plans (Note 15)	**2,592.2**	(128.6)	(1,240.2)
Effective portion of cash flow hedges	**(123.8)**	8.7	44.8
Other comprehensive income (loss) before income taxes	**2,708.9**	129.5	(1,618.7)
Provision for income taxes related to other comprehensive income (loss) items	**(914.5)**	(68.0)	430.2
Other comprehensive income (loss) (Note 17)	**1,794.4**	61.5	(1,188.5)
Comprehensive income	**$ 6,479.2**	$ 4,150.1	$ 3,159.2

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars in millions, shares in thousands) December 31	2013	2012
Assets		
Current Assets		
Cash and cash equivalents (Note 7)	**$ 3,830.2**	$ 4,018.8
Short-term investments (Note 7)	**1,567.1**	1,665.5
Accounts receivable, net of allowances of **$100.3 (2013)** and $108.5 (2012)	**3,434.4**	3,336.3
Other receivables	**588.4**	552.0
Inventories (Note 6)	**2,928.8**	2,643.8
Prepaid expenses and other	**755.8**	822.3
Total current assets	**13,104.7**	13,038.7
Other Assets		
Investments (Note 7)	**7,624.9**	6,313.9
Goodwill and other intangibles, net (Note 8)	**4,331.1**	4,752.7
Sundry	**2,212.5**	2,533.4
Total other assets	**14,168.5**	13,600.0
Property and equipment, net (Note 9)	**7,975.5**	7,760.2
Total assets	**$ 35,248.7**	$ 34,398.9
Liabilities and Equity		
Current Liabilities		
Short-term borrowings and current maturities of long-term debt (Note 10)	**$ 1,012.6**	$ 11.9
Accounts payable	**1,119.3**	1,188.3
Employee compensation	**943.9**	940.3
Sales rebates and discounts	**1,941.7**	1,777.2
Dividends payable	**523.5**	541.4
Income taxes payable (Note 14)	**254.4**	143.5
Deferred income taxes (Note 14)	**792.8**	1,048.0
Other current liabilities	**2,328.4**	2,738.9
Total current liabilities	**8,916.6**	8,389.5
Other Liabilities		
Long-term debt (Note 10)	**4,200.3**	5,519.4
Accrued retirement benefits (Note 15)	**1,549.4**	3,012.4
Long-term income taxes payable (Note 14)	**1,078.7**	1,334.3
Other noncurrent liabilities	**1,863.0**	1,369.4
Total other liabilities	**8,691.4**	11,235.5
Commitments and contingencies (Note 16)		
Eli Lilly and Company Shareholders' Equity (Notes 11 and 12)		
Common stock—no par value Authorized shares: 3,200,000 Issued shares: **1,117,628 (2013)** and 1,146,493 (2012)	**698.5**	716.6
Additional paid-in capital	**5,050.0**	4,963.1
Retained earnings	**16,992.4**	16,088.2
Employee benefit trust	**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 17)	**(2,002.7)**	(3,797.1)
Cost of common stock in treasury, **833 shares (2013)** and 2,850 shares (2012)	**(93.6)**	(192.4)
Total Eli Lilly and Company shareholders' equity	**17,631.4**	14,765.2
Noncontrolling interests	**9.3**	8.7
Total equity	**17,640.7**	14,773.9
Total liabilities and equity	**$ 35,248.7**	$ 34,398.9

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury		Other (1)	Shareholders' Equity
	Shares	Amount				Shares	Amount		
Balance at January 1, 2011	1,154,018	$ 721.3	$ 4,798.5	$ 12,732.6	$ (2,670.1)	864	$ (96.4)	$ (3,065.6)	$ 12,420.3
Net income				4,347.7					4,347.7
Other comprehensive income (loss), net of tax					(1,188.5)				(1,188.5)
Cash dividends declared per share: $1.96				(2,182.5)					(2,182.5)
Retirement of treasury shares	(1)		(0.1)			(1)	0.1		—
Issuance of stock under employee stock plans-net	4,627	2.8	(108.7)			(10)	1.0		(104.9)
Stock-based compensation			147.4						147.4
ESOP transactions			49.7					52.4	102.1
Other								0.1	0.1
Balance at December 31, 2011	1,158,644	724.1	4,886.8	14,897.8	(3,858.6)	853	(95.3)	(3,013.1)	13,541.7
Net income				4,088.6					4,088.6
Other comprehensive income (loss), net of tax					61.5				61.5
Cash dividends declared per share: $1.96				(2,186.5)					(2,186.5)
Retirement of treasury shares	(14,912)	(9.3)		(711.7)		(14,912)	721.1		0.1
Purchase for treasury						16,918	(819.2)		(819.2)
Issuance of stock under employee stock plans-net	2,761	1.8	(65.2)			(9)	1.0		(62.4)
Stock-based compensation			141.5						141.5
Other								(0.1)	(0.1)
Balance at December 31, 2012	1,146,493	716.6	4,963.1	16,088.2	(3,797.1)	2,850	(192.4)	(3,013.2)	14,765.2
Net income				**4,684.8**					**4,684.8**
Other comprehensive income (loss), net of tax					**1,794.4**				**1,794.4**
Cash dividends declared per share: $1.96				**(2,102.8)**					**(2,102.8)**
Retirement of treasury shares	**(32,406)**	**(20.3)**		**(1,677.8)**		**(32,406)**	**1,698.1**		**—**
Purchase for treasury						**30,400**	**(1,600.0)**		**(1,600.0)**
Issuance of stock under employee stock plans-net	**3,541**	**2.2**	**(58.0)**			**(11)**	**0.7**		**(55.1)**
Stock-based			**144.9**						**144.9**

compensation									
Balance at December 31, 2013	**1,117,628**	**$ 698.5**	**$ 5,050.0**	**$ 16,992.4**	**$ (2,002.7)**	**833**	**$ (93.6)**	**$ (3,013.2)**	**$ 17,631.4**

1 Includes activity related to shares held by an employee benefit trust and employee stock ownership plan (ESOP). See Note 12 for additional details.

Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2013	2012	2011
Cash Flows from Operating Activities			
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities			
Depreciation and amortization	**1,445.6**	1,462.2	1,373.6
Change in deferred income taxes	**285.9**	126.0	(268.5)
Stock-based compensation expense	**144.9**	141.5	147.4
Impairment charges, indefinite lived intangibles	**—**	205.0	151.5
Acquired in-process research and development, net of tax	**37.1**	—	252.2
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**(495.4)**	(787.8)	—
Other operating activities, net	**25.1**	120.5	(17.8)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables—(increase) decrease	**(152.7)**	361.8	(188.8)
Inventories—(increase) decrease	**(286.5)**	(307.9)	203.1
Other assets—(increase) decrease	**116.5**	231.0	642.7
Accounts payable and other liabilities—increase (decrease)	**(70.3)**	(336.1)	591.4
Net Cash Provided by Operating Activities	**5,735.0**	5,304.8	7,234.5
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,012.1)**	(905.4)	(672.0)
Disposals of property and equipment	**179.4**	22.0	25.3
Proceeds from sales and maturities of short-term investments	**3,320.1**	2,547.5	1,807.9
Purchases of short-term investments	**(1,531.0)**	(2,172.4)	(2,058.8)
Proceeds from sales and maturities of noncurrent investments	**11,235.0**	4,355.7	2,138.5
Purchases of noncurrent investments	**(14,041.9)**	(7,618.6)	(4,459.4)
Purchase of product rights	**(24.1)**	(138.8)	(632.9)
Purchases of in-process research and development	**(57.1)**	—	(388.0)
Cash paid for acquisitions, net of cash acquired	**(43.7)**	(199.3)	(307.8)
Net change in loan to collaboration partner (Note 4)	**—**	165.0	(165.0)
Proceeds from prepayment of revenue-sharing obligation (Note 4)	**—**	1,212.1	—
Other investing activities, net	**(97.4)**	(100.6)	(112.2)
Net Cash Used for Investing Activities	**(2,072.8)**	(2,832.8)	(4,824.4)
Cash Flows from Financing Activities			
Dividends paid	**(2,120.7)**	(2,187.4)	(2,180.1)
Net change in short-term borrowings	**—**	—	(134.1)
Repayments of long-term debt	**(10.5)**	(1,511.1)	(61.7)
Purchases of common stock	**(1,698.1)**	(721.1)	—
Other financing activities, net	**—**	—	6.0
Net Cash Used for Financing Activities	**(3,829.3)**	(4,419.6)	(2,369.9)
Effect of exchange rate changes on cash and cash equivalents	**(21.5)**	43.9	(110.9)
Net decrease in cash and cash equivalents	**(188.6)**	(1,903.7)	(70.7)
Cash and cash equivalents at beginning of year	**4,018.8**	5,922.5	5,993.2
Cash and Cash Equivalents at End of Year	**$ 3,830.2**	$ 4,018.8	$ 5,922.5

See notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The accounts of all wholly-owned and majority-owned subsidiaries are included in the consolidated financial statements. Where our ownership of consolidated subsidiaries is less than 100 percent, the noncontrolling shareholders' interests are reflected as a separate component of equity. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to 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. We issued our financial statements by filing with the Securities and Exchange Commission and have evaluated subsequent events up to the time of the filing.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of dilutive stock options and other incremental shares.

Cash equivalents

We consider all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. The cost of these investments approximates fair value.

Inventories

We state all inventories at the lower of cost or market. We use the last-in, first-out (LIFO) method for the majority of our inventories located in the continental United States. Other inventories are valued by the first-in, first-out (FIFO) method. FIFO cost approximates current replacement cost.

Investments

Substantially all of our investments in debt and marketable equity securities are classified as available-for-sale. Investment securities with maturity dates of less than one year from the date of the balance sheet are classified as short-term. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income (loss). The credit portion of unrealized losses on our debt securities considered to be other-than-temporary is recognized in earnings. The remaining portion of the other-than-temporary impairment on our debt securities is then recorded, net of tax, in other comprehensive income (loss). The entire amount of other-than-temporary impairment on our equity securities is recognized in earnings. We do not evaluate cost-method investments for impairment unless there is an indicator of impairment. We review these investments for indicators of impairment on a regular basis. Realized gains and losses on sales of available-for-sale securities are computed based upon specific identification of the initial cost adjusted for any other-than-temporary declines in fair value that were recorded in earnings. Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method with our share of earnings or losses reported in other–net, (income) expense. We own no investments that are considered to be trading securities.

Risk-management instruments

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As derivative contracts are initiated, we designate the instruments individually as either a fair value hedge or a cash flow hedge. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative contracts that are designated and qualify as fair value hedges, the derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative contracts that are designated and qualify as cash flow hedges, the effective portion of gains and losses on these contracts is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings. Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in current earnings during the period of change.

We may enter into foreign currency forward contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, the British pound, and the Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other–net, (income) expense. We may enter into foreign currency forward contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months.

In the normal course of business, our operations are exposed to fluctuations in interest rates which can vary the costs of financing, investing, and operating. We address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact of fluctuations in interest rates on earnings. Our primary interest-rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest-rate exposures, we strive to achieve an acceptable balance between fixed- and floating-rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance.

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements.

We may enter into forward contracts and designate them as cash flow hedges to limit the potential volatility of earnings and cash flow associated with forecasted sales of available-for-sale securities.

We may enter into forward-starting interest rate swaps as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. Upon completion of a debt issuance and termination of the swap, the change in fair value of these instruments is recorded as part of other comprehensive income (loss) and is amortized to interest expense over the life of the debt agreement.

Goodwill and other intangibles

Goodwill results from excess consideration in a business combination over the fair value of identifiable net assets acquired. Goodwill is not amortized.

Intangible assets with finite lives are capitalized and are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years.

The costs of in-process research and development (IPR&D) projects acquired directly in a transaction other than a business combination are capitalized if the projects have an alternative future use; otherwise, they are expensed. The fair values of IPR&D projects acquired in business combinations are capitalized as other intangible assets. Several methods may be used to determine the estimated fair value of the IPR&D acquired in a business combination. We utilize the “income method,” which applies a probability weighting that considers the risk of development and commercialization, 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. These assets are treated as indefinite-lived intangible assets until completion or abandonment of the projects, at which time the assets are tested for impairment and amortized over the remaining useful life or written off, as appropriate. For transactions other than a business combination, we also capitalize milestone payments incurred at or after the product has

obtained regulatory approval for marketing and amortize those amounts over the remaining estimated useful life of the underlying asset.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually and when impairment indicators are present. When required, a comparison of fair value to the carrying amount of assets is performed to determine the amount of any impairment. When determining the fair value of indefinite-lived IPR&D assets for impairment testing purposes, we utilize the "income method" discussed in the previous paragraph. Finite-lived intangible assets are reviewed for impairment when an indicator of impairment is present.

Property and equipment

Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives (12 to 50 years for buildings and 3 to 18 years for equipment). We review the carrying value of long-lived assets for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Impairment is determined by comparing projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Litigation and environmental liabilities

Litigation accruals, environmental liabilities, and the related estimated insurance recoverables are reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets. With respect to the product liability claims currently asserted against us, we have accrued for our estimated exposures to the extent they are both probable and reasonably estimable based on the information available to us. We accrue for certain product liability claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. Legal defense costs expected to be incurred in connection with significant product liability loss contingencies are accrued when both probable and reasonably estimable. For substantially all of our currently marketed products, we are completely self-insured for product liability losses.

Revenue recognition

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. Provisions for returns, discounts, and rebates are established in the same period the related sales are recognized.

We also generate income as a result of collaboration agreements. Revenue from co-promotion arrangements is based upon gross margins reported to us by our co-promotion partners. Initial fees we receive from the partnering of our compounds under development where we have continuing involvement are generally amortized through the expected product approval date. For out-licensing agreements that include both the sale of marketing rights to our commercialized products and a related commitment to supply the products, the initial fees received are generally recognized in net product sales over the term of the supply agreement when we have determined that the marketing rights do not have value on a standalone basis. We immediately recognize the full amount of developmental milestone payments due to us upon the achievement of the milestone event if the event is objectively determinable and the milestone is substantive in its entirety. A milestone is considered substantive if the consideration earned 1) relates solely to past performance, 2) is commensurate with the enhancement in the pharmaceutical product's value associated with the achievement of the important event in its development life cycle, and 3) is reasonable relative to all of the deliverables and payment terms within the arrangement. Milestone payments earned by us are generally recorded in other–net, (income) expense. If the payment to us is a commercialization payment that is part of a multiple-element collaborative commercialization arrangement and is a result of the initiation of the commercialization period (e.g., payments triggered by regulatory approval for marketing or launch of the product), we amortize the payment to income as we perform under the terms of the arrangement. See Note 4 for specific agreement details.

Royalty revenue from licensees, which is based on third-party sales of licensed products and technology, is recorded as earned in accordance with the contract terms when third-party sales can be reasonably

measured and collection of the funds is reasonably assured. This royalty revenue is included in collaboration and other revenue.

Research and development expenses and acquired IPR&D

Research and development expenses include the following:

- Research and development costs, which are expensed as incurred.
- Milestone payment obligations incurred prior to regulatory approval of the product, which are accrued when the event requiring payment of the milestone occurs.

Acquired IPR&D expense includes the initial costs of IPR&D projects acquired directly in asset acquisitions, unless they have an alternative future use.

Income taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S. and be taxable. When foreign earnings are expected to be indefinitely reinvested outside the U.S., no accrual for U.S. income taxes is provided.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Earnings per share

We calculate basic earnings per share based on the weighted-average number of common shares outstanding and incremental shares. We calculate diluted earnings per share based on the weighted-average number of common shares outstanding, including incremental shares and dilutive stock options. See Note 13 for further discussion.

Stock-based compensation

We recognize the fair value of stock-based compensation as expense over the requisite service period of the individual grantees, which generally equals the vesting period. Under our policy, all stock-based awards are approved prior to the date of grant. The compensation committee of the board of directors approves the value of the award and date of grant. Stock-based compensation that is awarded as part of our annual equity grant is made on a specific grant date scheduled in advance.

Reclassifications

Certain reclassifications have been made to prior periods in the consolidated financial statements and accompanying notes to conform with the current presentation.

Note 2: Implementation of New Financial Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued a clarification regarding the presentation of an unrecognized tax benefit related to a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Under this new standard, the liability related to an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset if available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, the unrecognized tax benefit should be presented in the financial statements as a separate liability. The assessment is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date. The provisions of the new standard are effective on a prospective basis beginning in 2014 for annual and interim reporting periods, with earlier adoption permitted. While we are still finalizing our determination of the impact of this standard on both our deferred tax assets and income taxes payable, we do not currently anticipate that the implementation of this standard will have a material impact on our consolidated balance sheets, and it will have no impact on our consolidated statements of operations.

Note 3: Acquisitions

During 2012 and 2011, we completed the acquisitions of ChemGen Corporation (ChemGen) and the animal health business of Janssen Pharmaceuticia NV (Janssen), respectively. These acquisitions were accounted for as business combinations under the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of these acquisitions are included in our consolidated financial statements from the date of acquisition. None of these acquisitions were material to our consolidated financial statements.

In addition to the acquisitions of businesses, we also acquired assets in development in 2013 and 2011 which are further discussed below in Product Acquisitions and in Note 4, respectively. Upon acquisition, the acquired IPR&D related to these products was immediately written off as an expense because the products had no alternative future use. For the years ended December 31, 2013 and 2011 , we recorded acquired IPR&D charges of $57.1 million and $388.0 million , respectively, associated with these transactions. There were no acquired IPR&D charges in 2012 .

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

Acquisition of Businesses

ChemGen

On February 17, 2012, we acquired all of the outstanding stock of ChemGen Corporation, a privately-held bioscience company specializing in the development and commercialization of innovative feed-enzyme products that improve the efficiency of poultry, egg, and meat production, for total purchase consideration of $206.9 million in cash. In connection with this acquisition, we recorded $151.5 million of marketed product assets and $55.4 million of other net assets.

Janssen

On July 7, 2011, we acquired the animal health business of Janssen, a Johnson & Johnson company, for total purchase consideration of $307.8 million in cash. We obtained a portfolio of more than 50 marketed animal health products. In connection with this acquisition, we recorded $234.4 million of marketed product assets, $29.6 million of acquired IPR&D assets, and $43.8 million of other net assets.

Product Acquisitions

In December 2013, we acquired all development and commercial rights for a calcitonin gene-related peptide (CGRP) antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches for $57.1 million in cash. At the time of the purchase, the product had completed a successful Phase II proof-of-concept study and had no alternative future use. The related $57.1 million charge for acquired IPR&D was included as expense in the fourth quarter of 2013 and is deductible for tax purposes.

Note 4: Collaborations

We often enter into collaborative arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These collaborations often require milestone and royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements or payments to the third party. Revenues related to products we sell pursuant to these arrangements are included in net product sales, while other sources of revenue (e.g., royalties and profit-share payments) are included in collaboration and other revenue. For the years ended December 31, 2013 , 2012 , and 2011 , we recognized collaboration and other revenue of $707.5 million , $633.0 million , and $681.7 million , respectively. Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments made

to or reimbursements received from our collaboration partners. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

Exenatide

In November 2011, we agreed with Amylin Pharmaceuticals, Inc. (Amylin) to terminate our collaborative arrangement for the joint development, marketing, and selling of Byetta ® (exenatide injection) and other forms of exenatide such as Bydureon ® (exenatide extended-release for injectable suspension). Under the terms of the termination agreement, Amylin made a one-time, upfront payment to us of $250.0 million . Amylin also agreed to make future revenue-sharing payments to us in an amount equal to 15.0 percent of its global net sales of exenatide products until Amylin made aggregate payments to us of $1.20 billion plus interest, which would accrue at 9.5 percent . Upon completion of the acquisition of Amylin by Bristol-Myers Squibb Company in August 2012, Amylin's obligation of $1.26 billion , including accrued interest, was paid in full, with $1.21 billion representing a prepayment of the obligation. We would also receive a $150.0 million milestone payment contingent upon U.S. Food and Drug Administration (FDA) approval of a once-monthly suspension version of exenatide.

Commercial operations were transferred to Amylin in the U.S. in late-2011. Outside the U.S., we transferred to Amylin exenatide commercial rights and control in all markets during the first quarter of 2013.

Payments received from Amylin were allocated 65 percent to the U.S., which was treated as a contract termination, and 35 percent to the business outside the U.S., which was treated as the disposition of a business. The allocation was based upon relative fair values. The revenue-sharing income allocated to the U.S. was recognized as collaboration and other revenue, consistent with our policy for royalty revenue, while the income related to the prepayment of Amylin's obligation allocated to the U.S. was recognized in other-net, (income) expense. All income allocated to the business outside the U.S. that was transferred during the first quarter of 2013 was recognized as a gain on the disposition of a business in other–net, (income) expense, net of the goodwill allocated to the business transferred.

Prior to termination of the collaboration, we and Amylin were co-promoting Byetta in the United States. Amylin was responsible for manufacturing and primarily utilized third-party contract manufacturers to supply Byetta. We supplied Byetta pen delivery devices for Amylin and will continue to do so for a period that will not extend beyond the first quarter of 2014. We were responsible for certain development costs related to certain clinical trials outside the U.S. that we were conducting as of the date of the termination agreement as well as commercialization costs outside the U.S. until the commercial rights were transferred to Amylin.

Under the terms of our prior arrangement, we reported as collaboration and other revenue our 50 percent share of gross margin on Amylin’s net product sales in the United States. We reported as net product sales 100 percent of sales outside the U.S. and our sales of Byetta pen delivery devices to Amylin. We paid Amylin a percentage of the gross margin of exenatide sales outside of the U.S., and these costs were recorded in cost of sales. This arrangement for the commercial operations outside the U.S. continued until those rights were transferred to Amylin during the first quarter of 2013. Prior to termination of the agreement, under the 50/50 profit-sharing arrangement for the U.S., in addition to recording as revenue our 50 percent share of exenatide’s gross margin, we also recorded approximately 50 percent of U.S. related research and development costs and marketing and selling costs in the respective line items on the consolidated statements of operations.

In accordance with the prior arrangement and pursuant to Amylin’s request, we loaned Amylin $165.0 million in the second quarter of 2011. This loan and related accrued interest were paid in full in August 2012.

The following table summarizes the revenue and other income recognized with respect to exenatide:

	2013	2012	2011
Net product sales	**$ 133.1**	$ 207.8	$ 179.6
Collaboration and other revenue	**—**	70.1	243.1
Total revenue	**$ 133.1**	$ 277.9	$ 422.7
Income related to termination of the exenatide collaboration with Amylin (1)	**$ 495.4**	$ 787.8	$ —

1 Presented in other-net, (income) expense

Effient ®

We are in a collaborative arrangement with Daiichi Sankyo Co., Ltd. (Daiichi Sankyo) to develop, market, and promote Effient. We and Daiichi Sankyo co-promote Effient in certain territories (including the U.S. and five major European markets), while we have exclusive marketing rights in certain other territories. Daiichi Sankyo has exclusive marketing rights in Japan and certain other territories. The parties share approximately 50 /50 in the profits, as well as in the costs of development and marketing in the co-promotion territories. A third party manufactures bulk product, and we produce the finished product for our exclusive and co-promotion territories. We record product sales in our exclusive and co-promotion territories. In our exclusive territories, we pay Daiichi Sankyo a royalty specific to these territories. Profit-share payments made to Daiichi Sankyo are recorded as marketing, selling, and administrative expenses. All royalties paid to Daiichi Sankyo and the third-party manufacturer are recorded in cost of sales. Effient sales were $508.7 million , $457.2 million , and $302.5 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

Erbitux ®

We have several collaborations with respect to Erbitux. The most significant collaborations are in the U.S., Canada, and Japan (Bristol-Myers Squibb Company); and worldwide except the U.S. and Canada (Merck KGaA). Upon expiration of the agreements, all of the rights to Erbitux in the U.S. and Canada return to us and certain rights to Erbitux outside the U.S. and Canada will remain with Merck KGaA (Merck).

The following table summarizes our revenue recognized with respect to Erbitux:

	2013	2012	2011
Net product sales	**$ 58.5**	$ 76.4	$ 87.6
Collaboration and other revenue	**315.2**	320.6	321.6
Total revenue	**$ 373.7**	$ 397.0	$ 409.2

Bristol-Myers Squibb Company

Pursuant to commercial agreements with Bristol-Myers Squibb Company and E.R. Squibb (collectively, BMS), we are co-developing Erbitux in the U.S. and Canada with BMS through September 2018, exclusively, and in Japan with BMS and Merck through 2032. Under these arrangements, Erbitux research and development and other costs are shared by both companies according to a predetermined ratio.

Responsibilities associated with clinical and other ongoing studies are apportioned between the parties under the agreements. Collaborative reimbursements received by us for supply of clinical trial materials; for research and development; and for a portion of marketing, selling, and administrative expenses are recorded as a reduction to the respective expense line items on the consolidated statement of operations. We receive a distribution fee in the form of a royalty from BMS, based on a percentage of net sales in the U.S. and Canada, which is recorded in collaboration and other revenue. Royalty expense paid to third parties, net of any reimbursements received, is recorded as a reduction of collaboration and other revenue.

We are responsible for the manufacture and supply of all requirements of Erbitux in bulk-form active pharmaceutical ingredient (API) for clinical and commercial use in the U.S. and Canada, and BMS will purchase all of its requirements of API for commercial use from us, subject to certain stipulations per the agreement. Sales of Erbitux to BMS for commercial use are reported in net product sales.

Merck KGaA

A development and license agreement grants Merck exclusive rights to market Erbitux outside of the U.S. and Canada, and expires in December 2018. A separate agreement grants co-exclusive rights among Merck, BMS and us in Japan and expires in 2032.

Merck manufactures Erbitux for supply in its territory as well as for Japan. We receive a royalty on the sales of Erbitux outside of the U.S. and Canada, which is included in collaboration and other revenue as earned. Collaborative reimbursements received for research and development and for marketing, selling, and administrative expenses are recorded as a reduction to the respective expense line items on the consolidated statement of operations. Royalty expense paid to third parties, net of any royalty reimbursements received, is recorded as a reduction of collaboration and other revenue.

Diabetes Collaboration

In January 2011, we and Boehringer Ingelheim entered into a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Currently, the compounds included in the collaboration are Boehringer Ingelheim's two oral diabetes agents, linagliptin and empagliflozin, and our new insulin glargine product. Additionally, Boehringer Ingelheim may elect to opt in to the Phase III development and potential commercialization of our anti-TGF-beta monoclonal antibody. Under the terms of the global agreement, we made an initial one-time payment to Boehringer Ingelheim of $388.0 million and recorded an acquired IPR&D charge, which was included as expense in the first quarter of 2011 and was deductible for tax purposes.

Linagliptin was subsequently approved in 2011 and launched in the U.S. (trade name Tradjenta ®), Japan (trade name Trazenta ™), certain countries in Europe (trade name Trajenta ®), and other countries. Currently, empagliflozin and the new insulin glargine product are both under regulatory review in the U.S., Europe, and Japan, and the anti-TGF-beta monoclonal antibody is in Phase II clinical testing.

In connection with the approval of linagliptin in the U.S., Japan, and Europe, in 2011 we paid $478.7 million in success-based regulatory milestones, all of which were capitalized as intangible assets and are being amortized to cost of sales. We incurred milestone-related expenses of $97.2 million in connection with regulatory submissions for empagliflozin in the U.S., Europe, and Japan during 2013. These regulatory submission milestones were recorded as research and development expenses. We may also pay up to 225.0 million euro in additional success-based regulatory milestones for empagliflozin.

During 2013, we earned $50.0 million in milestones for the regulatory submissions of our new insulin glargine product in the U.S., Europe, and Japan. These submission milestones were recorded as income in other–net, (income) expense. In the future, we will be eligible to receive up to $250.0 million in success-based regulatory milestones on our new insulin glargine product.

Should Boehringer Ingelheim elect to opt in to the Phase III development and potential commercialization of the anti-TGF-beta monoclonal antibody, we would be eligible for up to $525.0 million in opt-in and success-based regulatory milestone payments.

The companies share ongoing development costs equally. The companies also share in the commercialization costs and gross margin for any product resulting from the collaboration that receives regulatory approval. We record our portion of the gross margin as collaboration and other revenue, and we record our portion of the commercialization costs as marketing, selling, and administrative expense. Each company will also be entitled to potential performance payments on sales of the molecules they contribute to the collaboration. Our revenue related to this collaboration (which is, to-date, entirely related to Trajenta) was $249.2 million , $88.6 million , and $15.1 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

Solanezumab

We have an agreement with an affiliate of TPG-Axon Capital (TPG) whereby TPG funded a portion of the Phase III development of solanezumab. Under the agreement, TPG’s obligation to fund solanezumab costs was not material and ended in the first half of 2011. In exchange for their funding, TPG may receive success-based sales milestones totaling approximately $70 million and mid-single digit royalties contingent upon the successful development of solanezumab. The royalties would be paid for approximately ten years after launch of a product.

Baricitinib

In December 2009, we entered into a worldwide license and collaboration agreement with Incyte Corporation (Incyte) to acquire development and commercialization rights to its Janus tyrosine kinase (JAK) inhibitor compound, now known as baricitinib, and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double-digit royalty payments on future global sales with rates ranging up to 20 percent if the product is successfully commercialized. The agreement provides Incyte with options to co-develop these compounds on an indication-by-indication basis by funding 30 percent of the associated development costs from the initiation of a Phase IIb trial through regulatory approval in exchange for increased tiered royalties ranging up to percentages in the high twenties. In 2010, Incyte exercised its option to co-develop baricitinib in rheumatoid arthritis. The agreement also provides Incyte with an option to co-promote in the U.S. and calls for payments associated with certain development, success-based regulatory, and sales-based milestones. Upon initiation of Phase III trials for the treatment of rheumatoid arthritis in the fourth quarter of 2012, we incurred a milestone-related expense of $50.0 million which was recorded as research and development expense. As of December 31, 2013, Incyte is eligible to receive up to $415.0 million of additional payments from us contingent upon certain development and success-based regulatory milestones as well as an additional $150.0 million of potential sales-based milestones.

Tanezumab

In October 2013, we entered into a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the potential treatment of osteoarthritis pain, chronic low back pain and cancer pain. Tanezumab is currently in Phase III development and is subject to a partial clinical hold by the FDA pending submission of nonclinical data to the FDA. Under the agreement, the companies share equally the ongoing development costs and, if successful, in gross margins and commercialization expenses. Contingent upon the parties continuing in the collaboration after receipt of the FDA's response to the submission of the nonclinical data, we will be obligated to pay an upfront fee of $200.0 million . This payment would be immediately expensed. In addition to this fee, we may pay up to $350.0 million in success-based regulatory milestones and up to $1.23 billion in a series of sales-based milestones, contingent upon the commercial success of tanezumab. Both parties have the right to terminate the agreement under certain circumstances.

Summary of Collaboration-Related Commission and Profit-Share Payments

The aggregate amount of commission and profit-share payments included in marketing, selling, and administrative expense pursuant to the collaborations described above was $203.7 million , $188.5 million , and $125.4 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

Note 5: Asset Impairment, Restructuring, and Other Special Charges

The components of the charges included in asset impairment, restructuring, and other special charges in our consolidated statements of operations are described below.

	2013	2012	2011
Severance	**$ 90.6**	$ 74.5	$ 251.8
Asset impairment and other special charges	**30.0**	206.6	149.6
Asset impairment, restructuring, and other special charges	**$ 120.6**	$ 281.1	$ 401.4

Severance costs listed above for all years relate to initiatives to reduce our cost structure and global workforce.

For the year ended December 31, 2013, we incurred $30.0 million of asset impairment and other special charges related primarily to costs associated with the anticipated closure of a packaging and distribution facility in Germany.

For the year ended December 31, 2012, we incurred $206.6 million of asset impairment and other special charges consisting of $122.6 million related to an intangible asset impairment for liprotamase (see Note 8) net of the reduction of the related contingent consideration liability, $64.0 million related to the recognition of an

asset impairment associated with the decision to stop development of a delivery device platform, and $20.0 million resulting from a change in our estimates of returned product related to the withdrawal of Xigris ™ from the market during the fourth quarter of 2011.

For the year ended December 31, 2011, we incurred $149.6 million of asset impairments and other special charges primarily consisting of $85.0 million for returned product and contractual commitments related to the withdrawal of Xigris from the market and $56.1 million related to our decision to vacate certain leased premises.

Note 6: Inventories

Inventories at December 31 consisted of the following:

	2013	2012
Finished products	**$ 968.1**	$ 834.4
Work in process	**1,868.3**	1,735.8
Raw materials and supplies	**259.0**	256.1
	3,095.4	2,826.3
Reduction to LIFO cost	**(166.6)**	(182.5)
Inventories	**$ 2,928.8**	$ 2,643.8

Inventories valued under the LIFO method comprised $1.02 billion and $994.3 million of total inventories at December 31, 2013 and 2012 , respectively.

Note 7: Financial Instruments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-sciences products account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by our ongoing credit-review procedures and insurance. A large portion of our cash is held by a few major financial institutions. We monitor our exposures with these institutions and do not expect any of these institutions to fail to meet their obligations. Major financial institutions represent the largest component of our investments in corporate debt securities. In accordance with documented corporate policies, we monitor the amount of credit exposure to any one financial institution or corporate issuer. We are exposed to credit-related losses in the event of nonperformance by counterparties to risk-management instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

At December 31, 2013 , we had outstanding foreign currency forward commitments to purchase 462.6 million U.S. dollars and sell 337.6 million euro; commitments to purchase 520.7 million euro and sell 716.8 million U.S. dollars; commitments to purchase 180.7 million British pounds and sell 216.0 million euro; and commitments to purchase 234.4 million U.S. dollars and sell 24.35 billion Japanese yen, which will all settle within 30 days .

At December 31, 2013 , substantially all of our total debt is at a fixed rate. We have converted approximately 65 percent of our fixed-rate debt to floating rates through the use of interest rate swaps.

During 2013 we entered into forward-starting interest rate swaps with a notional amount of $500.0 million and maturities not exceeding 30 years to hedge a portion of the cash flows associated with the planned refinancing of our $1.00 billion March 2014 debt maturity.

The Effect of Risk Management Instruments on the Statement of Operations

The following effects of risk-management instruments were recognized in other—net, (income) expense:

	2013	2012	2011
Fair value hedges:			
Effect from hedged fixed-rate debt	**$ (308.2)**	$ 51.5	$ 259.6
Effect from interest rate contracts	**308.2**	(51.5)	(259.6)
Cash flow hedges:			
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**9.0**	9.0	9.0
Net (gains) losses on foreign currency exchange contracts not designated as hedging instruments	**15.4**	(35.8)	97.4

The effective portion of net gains (losses) on equity contracts in designated cash flow hedging relationships recorded in other comprehensive income (loss) was $(149.6) million , $0.0 million , and $35.6 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively. There were no equity contracts in designated cash flow hedging relationships in 2012. During the next 12 months, we expect to sell the underlying equity securities in designated cash flow hedging relationships that were outstanding at December 31, 2013, and will reclassify to earnings the accumulated other comprehensive loss related to the cash flow hedges and the unrealized gains on the underlying equity securities. The unrealized gains are in excess of the losses on the cash flow hedges.

For forward-starting interest rate swaps in designated cash flow hedging relationships associated with an anticipated debt issuance, the effective portion of net gains recorded in other comprehensive income (loss) was $16.7 million for the year ended December 31, 2013. There were no forward-starting interest rate swaps in designated cash flow hedging relationships in 2012 and 2011.

During the next 12 months, we expect to reclassify from accumulated other comprehensive loss to earnings $8.8 million of pretax net losses on cash flow hedges of the variability in expected future interest payments on our floating rate debt.

During the years ended December 31, 2013 , 2012 , and 2011 , net losses related to ineffectiveness, as well as net losses related to the portion of our risk-management hedging instruments, fair value hedges, and cash flow hedges that were excluded from the assessment of effectiveness, were not material.

Fair Value of Financial Instruments

The following tables summarize certain fair value information at December 31 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount and amortized cost of certain other investments:

Description	Carrying Amount	Amortized Cost	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2013						
Cash and cash equivalents	**$ 3,830.2**	**$ 3,830.2**	**$ 3,772.6**	**$ 57.6**	**$**	**$ 3,830.2**
Short-term investments:						
U.S. government and agencies	**$ 276.4**	**$ 276.6**	**$ 276.4**	**$**	**$**	**$ 276.4**
Corporate debt securities	**931.7**	**929.8**		**931.7**		**931.7**
Other securities	**2.7**	**2.7**		**2.7**		**2.7**
Marketable equity	**356.3**	**75.0**	**356.3**			**356.3**
Short-term investments	**$ 1,567.1**	**$ 1,284.1**				
Noncurrent investments:						
U.S. government and agencies	**$ 1,115.6**	**$ 1,126.1**	**$ 1,035.6**	**$ 80.0**	**$**	**$ 1,115.6**
Corporate debt securities	**4,940.5**	**4,933.7**		**4,940.5**		**4,940.5**
Mortgage-backed	**636.0**	**652.4**		**636.0**		**636.0**
Asset-backed	**490.0**	**494.5**		**490.0**		**490.0**
Other securities	**7.3**	**8.3**		**7.3**		**7.3**
Marketable equity	**81.2**	**22.8**	**81.2**			**81.2**
Equity method and other investments (1)	**354.3**	**354.3**				
Noncurrent investments	**$ 7,624.9**	**$ 7,592.1**				
December 31, 2012						
Cash and cash equivalents	$ 4,018.8	$ 4,018.8	$ 3,964.4	$ 54.4	$	$ 4,018.8
Short-term investments:						
U.S. government and agencies	$ 150.2	$ 150.2	$ 150.2	$	$	$ 150.2
Corporate debt securities	1,503.5	1,501.5		1,503.5		1,503.5
Other securities	11.8	11.8		11.8		11.8
Short-term investments	$ 1,665.5	$ 1,663.5				
Noncurrent investments:						
U.S. government and agencies	$ 1,362.7	$ 1,360.3	$ 1,122.4	$ 240.3	$	$ 1,362.7
Corporate debt securities	3,351.3	3,322.9		3,351.3		3,351.3
Mortgage-backed	668.1	677.7		668.1		668.1
Asset-backed	519.0	523.5		519.0		519.0
Other securities	3.3	3.3		3.3		3.3
Marketable equity	175.8	83.0	175.8			175.8
Equity method and other investments (1)	233.7	233.7				
Noncurrent investments	$ 6,313.9	$ 6,204.4				

1 Fair value not applicable

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Long-term debt, including current portion					
December 31, 2013	**$ (5,212.9)**	**$**	**$ (5,490.9)**	**$**	**$ (5,490.9)**
December 31, 2012	(5,531.3)		(5,996.6)		(5,996.6)

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2013					
Risk-management instruments					
Interest rate contracts designated as hedging instruments:					
Other receivables	**$ 20.1**	**$**	**$ 20.1**	**$**	**$ 20.1**
Sundry	**278.7**		**278.7**		**278.7**
Other noncurrent liabilities	**(0.9)**		**(0.9)**		**(0.9)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**6.7**		**6.7**		**6.7**
Other current liabilities	**(7.1)**		**(7.1)**		**(7.1)**
Equity contracts designated as hedging instruments:					
Other current liabilities	**(149.6)**		**(149.6)**		**(149.6)**
December 31, 2012					
Risk-management instruments					
Interest rate contracts designated as hedging instruments:					
Sundry	589.4		589.4		589.4
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	11.0		11.0		11.0
Other current liabilities	(17.5)		(17.5)		(17.5)

Risk-management instruments above are disclosed on a gross basis. There are various rights of setoff associated with certain of the risk-management instruments above that are subject to an enforceable master netting arrangement or similar agreements. Although various rights of setoff and master netting arrangements or similar agreements may exist with the individual counterparties to the risk-management instruments above, individually, these financial rights are not material.

We determine fair values based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. The fair value of equity method investments and other investments is not readily available.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of December 31, 2013 :

		Maturities by Period			
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 8,400.2	$ 1,210.8	$ 5,977.4	$ 471.3	$ 740.7

A summary of the fair value of available-for-sale securities in an unrealized gain or loss position and the amount of unrealized gains and losses (pretax) in accumulated other comprehensive loss follows:

	2013	2012
Unrealized gross gains	**$ 375.6**	$ 140.5
Unrealized gross losses	**59.8**	29.0
Fair value of securities in an unrealized gain position	**4,982.7**	5,246.0
Fair value of securities in an unrealized loss position	**3,664.7**	2,102.0

Other-than-temporary impairment losses on investment securities of $11.3 million , $22.6 million , and $31.1 million were recognized in the consolidated statements of operations for the years ended December 31, 2013 , 2012 , and 2011 , respectively. For fixed-income securities, the amount of credit losses represents the difference between the present value of cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing the credit loss were the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration.

The securities in an unrealized loss position include fixed-rate debt securities of varying maturities. The value of fixed-income securities is sensitive to changes in the yield curve and other market conditions. Approximately 90 percent of the securities in a loss position are investment-grade debt securities. At this time, there is no indication of default on interest or principal payments for debt securities other than those for which an other-than-temporary impairment charge has been recorded. We do not intend to sell and it is not more likely than not we will be required to sell the securities in a loss position before the market values recover or the underlying cash flows have been received, and we have concluded that no additional other-than-temporary loss is required to be charged to earnings as of December 31, 2013 .

Activity related to our investment portfolio, substantially all of which related to available-for-sale securities, was as follows:

	2013	2012	2011
Proceeds from sales	**$ 13,753.5**	$ 6,529.8	$ 2,268.3
Realized gross gains on sales	**49.5**	82.3	140.0
Realized gross losses on sales	**15.4**	10.9	9.9

Note 8: Goodwill and Other Intangibles

Goodwill and other indefinite-lived intangible assets at December 31 were as follows:

	2013	2012
Goodwill (by segment):		
Human pharmaceutical products	**$ 1,354.7**	$ 1,364.2
Animal health	**162.1**	137.1
Total goodwill	**1,516.8**	1,501.3
In-process research and development	**33.6**	65.0
Total indefinite-lived intangible assets	**$ 1,550.4**	$ 1,566.3

No impairments occurred with respect to the carrying value of goodwill for the years ended December 31, 2013 , 2012 , and 2011 .

IPR&D consists of the acquisition date fair value of products under development acquired in business combinations that have not yet achieved regulatory approval for marketing adjusted for subsequent impairments. Examples of such products acquired in business combinations include liprotamase and Amyvid ® , which are discussed further below. As discussed in Note 1, we use the "income method" to calculate the fair value of the IPR&D assets, which is a Level 3 fair value measurement.

No material impairments occurred with respect to the carrying value of IPR&D for the year ended December 31, 2013.

In 2012, we recorded impairment charges of $205.0 million related to liprotamase as a result of changes in key assumptions used in the valuation, based upon additional communications with the FDA regarding the clinical trial that would be required for resubmission, and our expectations for the product.

In 2011, we recorded impairment charges of $151.5 million due primarily to the impairment of the IPR&D assets related to Amyvid and liprotamase. The impairment of Amyvid was due to a delay in product launch and lower sales projections during the early part of the product's expected life cycle. In April 2011, we received a complete response letter from the FDA for the New Drug Application (NDA) for liprotamase, which communicated the need for us to conduct an additional clinical trial prior to a resubmission, resulting in an impairment of liprotamase.

The components of finite-lived intangible assets at December 31 were as follows:

	2013			2012		
Description	Carrying Amount—Gross	Accumulated Amortization	Carrying Amount—Net	Carrying Amount—Gross	Accumulated Amortization	Carrying Amount—Net
Marketed products	**$ 5,136.1**	**$ (2,447.2)**	**$ 2,688.9**	$ 5,107.9	$ (1,987.0)	$ 3,120.9
Other	**164.8**	**(73.0)**	**91.8**	129.5	(64.0)	65.5
Total finite-lived intangible assets	**$ 5,300.9**	**$ (2,520.2)**	**$ 2,780.7**	$ 5,237.4	$ (2,051.0)	$ 3,186.4

Marketed products consist of the amortized cost of the rights to assets acquired in business combinations and approved for marketing in a significant global jurisdiction (U.S., Europe, and Japan) and capitalized milestone payments. Other intangibles consist primarily of the amortized cost of licensed platform technologies that have alternative future uses in research and development, manufacturing technologies, and customer relationships from business combinations. No material impairments occurred with respect to the carrying value of finite-lived intangible assets for the years ended December 31, 2013 , 2012 and 2011 .

See Note 3 for further discussion of intangible assets acquired in recent business combinations.

As of December 31, 2013 , the remaining weighted-average amortization period for finite-lived intangible assets is approximately 8 years . Amortization expense was $555.0 million , $563.0 million , and $469.0 million for 2013 , 2012 , and 2011 , respectively. The estimated amortization expense associated with our current finite-lived intangible assets for each of the next five years approximates $530 million in 2014 , $490 million in 2015 , $380 million in 2016 , $200 million in 2017 , and $180 million in 2018 . Amortization expense is included in either cost of sales, marketing, selling, and administrative or research and development depending on the nature of the intangible asset being amortized.

Note 9: Property and Equipment

At December 31, property and equipment consisted of the following:

	2013	2012
Land	**$ 198.7**	$ 201.4
Buildings	**6,489.9**	6,373.8
Equipment	**7,752.7**	7,542.9
Construction in progress	**1,205.4**	799.9
	15,646.7	14,918.0
Less accumulated depreciation	**(7,671.2)**	(7,157.8)
Property and equipment, net	**$ 7,975.5**	$ 7,760.2

Depreciation expense for the years ended December 31, 2013 , 2012 , and 2011 was $774.8 million , $754.0 million , and $732.4 million , respectively. Interest costs of $24.1 million , $21.0 million , and $25.7 million were capitalized as part of property and equipment for the years ended December 31, 2013 , 2012 , and 2011 , respectively. Total rental expense for all leases, including contingent rentals (not material), amounted to $227.2 million , $262.2 million , and $267.4 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively. Assets under capital leases included in property and equipment, net on the consolidated balance sheets, capital lease obligations entered into, and future minimum rental commitments are not material.

Note 10: Borrowings

Long-term debt at December 31 consisted of the following:

	2013	2012
4.20 to 7.13 percent notes (due 2014-2037)	**$ 4,887.3**	$ 4,887.3
Other, including capitalized leases	**27.1**	37.4
Fair value adjustment	**298.5**	606.6
	5,212.9	5,531.3
Less current portion	**(1,012.6)**	(11.9)
Long-term debt	**$ 4,200.3**	$ 5,519.4

Current maturities of long-term debt of $1.51 billion were repaid during the year ended December 31, 2012 .

The aggregate amounts of maturities on long-term debt for the next five years are $1.01 billion in 2014 , $9.5 million in 2015 , $205.6 million in 2016 , $1.00 billion in 2017 , and $200.3 million in 2018 .

At December 31, 2013 , we have $1.36 billion of unused committed bank credit facilities, $1.20 billion of which is a revolving credit facility that backs our commercial paper program and matures in April 2015. There were no amounts outstanding under the revolving credit facility during the year ended December 31, 2013 . Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

We have converted approximately 65 percent of all fixed-rate debt to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rates based on debt obligations and interest rates at December 31, 2013 and 2012 , including the effects of interest rate swaps for hedged debt obligations, were 3.10 percent and 3.20 percent , respectively.

For the years ended December 31, 2013 , 2012 , and 2011 , cash payments for interest on borrowings totaled $139.7 million , $171.9 million , and $167.4 million , respectively, net of capitalized interest.

In accordance with the requirements of derivatives and hedging guidance, the portion of our fixed-rate debt obligations that is hedged, as a fair value hedge, is reflected in the consolidated balance sheets as an amount equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

Note 11: Stock-Based Compensation

Stock-based compensation expense of $144.9 million , $141.5 million , and $147.4 million was recognized for the years ended December 31, 2013 , 2012 , and 2011 , respectively, as well as related tax benefits of $50.7 million , $49.5 million , and $51.6 million , respectively. Our stock-based compensation expense consists of performance awards (PAs), shareholder value awards (SVAs), and restricted stock units (RSUs). We recognize stock-based compensation expense over the requisite service period of the individual grantees, which equals the vesting period. We provide newly issued shares and treasury stock to satisfy stock option exercises and for the issuance of PA, SVA, and RSU shares. We classify tax benefits resulting from tax deductions in excess of the compensation cost recognized for exercised stock options as a financing cash flow in the consolidated statements of cash flows.

At December 31, 2013 , additional stock-based compensation awards may be granted under the 2002 Lilly Stock Plan for not more than 100.0 million shares.

Performance Award Program

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 pre-established earnings-per-share targets over a two -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 measurement periods. The fair values of PAs granted for the years ended December 31, 2013 , 2012 , and 2011 were $50.19 , $35.74 , and $31.90 , respectively. The number of shares ultimately issued for the PA program is dependent upon the earnings achieved during the vesting period. Pursuant to this plan, approximately 0.7 million shares, 1.6 million shares, and 3.9 million shares were issued during the years ended December 31, 2013 , 2012 , and 2011 , respectively. Approximately 0.6 million shares are expected to be issued in 2014 . As of December 31, 2013 , the total remaining unrecognized compensation cost related to nonvested PAs was $18.9 million , which will be amortized over the weighted-average remaining requisite service period of 12 months.

Shareholder Value Award Program

SVAs are granted to officers and management and are payable in shares of our common stock at the end of a three -year period. The number of shares actually issued, if any, varies depending on our stock price at the end of the three -year vesting period compared to pre-established target stock prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The 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. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the SVA units granted during the years ended December 31, 2013 , 2012 , and 2011 were $45.17 , $30.35 , and $28.33 , respectively, determined using the following assumptions:

(Percents)	2013	2012	2011
Expected dividend yield	**3.50%**	4.50%	4.90%
Risk-free interest rate	**.08-.43**	.10-.36	.20-1.36
Range of volatilities	**18.95-22.37**	22.40-25.64	27.61-29.10

A summary of the SVA activity is presented below:

Units Attributable to SVAs (in thousands)	2013	2012	2011
Outstanding at January 1	**7,539**	7,036	6,381
Granted	**1,795**	2,439	2,561
Issued	**(2,397)**	(973)	(428)
Forfeited or expired	**(301)**	(963)	(1,478)
Outstanding at December 31	**6,636**	7,539	7,036

Approximately 2.2 million shares are expected to be issued in 2014 . As of December 31, 2013 , the total remaining unrecognized compensation cost related to nonvested SVAs was $51.6 million , which will be amortized over the weighted-average remaining requisite service period of 20 months.

Restricted Stock Units

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically 3 years. The fair values of RSU awards granted during the years ended December 31, 2013 , 2012 , and 2011 were $54.10 , $39.65 , and $35.80 , respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures. Pursuant to this plan, 1.1 million , 1.4 million , and 1.5 million shares were granted during the years ended December 31, 2013 , 2012 , and 2011 , respectively, and approximately 0.8 million , 0.3 million , and 0.2 million shares were issued during the years ended December 31, 2013 , 2012 , and 2011 , respectively. Approximately 0.8 million shares are expected to be issued in 2014 . As of December 31, 2013 , the total remaining unrecognized compensation cost related to nonvested RSUs was $58.4 million , which will be amortized over the weighted-average remaining requisite service period of 21 months.

Stock Option Program

Stock options were granted prior to 2007 to officers, management, and board members at exercise prices equal to the fair market value of our stock at the date of grant. Options fully vested 3 years from the grant date and have a term of 10 years.

Stock option activity during the year ended December 31, 2013 is summarized below:

	Shares of Common Stock Attributable to Options (in thousands)	Weighted-Average Exercise Price of Options	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	27,232	$ 63.89		
Exercised	(208)	54.27		
Forfeited or expired	(10,884)	59.95		
Outstanding at December 31, 2013	16,140	66.66	0.7	$ —
Exercisable at December 31, 2013	16,140	66.66	0.7	—

For options exercised during the years ended December 31, 2013 , 2012 , and 2011 , the related intrinsic value, cash received, and tax benefits were not material.

Note 12: Shareholders' Equity

During 2013, we purchased $500.0 million of shares associated with our $5.00 billion share repurchase program that was announced in the fourth quarter of 2013. As of December 31, 2013 , there were $4.50 billion of shares remaining in that program. During 2013 and 2012, we repurchased $1.10 billion and $400.0 million , respectively, of shares, completing our $1.50 billion share repurchase program announced in 2012. During 2012, we also repurchased $419.2 million of shares, completing our $3.00 billion share repurchase program announced in 2000. No shares were repurchased during the year ended December 31, 2011.

We have 5.0 million authorized shares of preferred stock. As of December 31, 2013 and 2012 , no preferred stock has been issued.

We have an employee benefit trust that held 50.0 million shares of our common stock at both December 31, 2013 and 2012 , to provide a source of funds to assist us in meeting our obligations under various employee benefit plans. The cost basis of the shares held in the trust was $3.01 billion at both December 31, 2013 and 2012 , and is shown as a reduction in shareholders' equity. Any dividend transactions between us and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of earnings per share. The assets of the trust were not used to fund any of our obligations under these employee benefit plans during the years ended December 31, 2013 , 2012 , and 2011 .

We have an ESOP as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from us to purchase shares of common stock from our treasury. The ESOP issued third-party debt, which was repaid in 2011. The proceeds were used to purchase shares of our common stock on the open market. As of December 31, 2013 , all shares of common stock held by the ESOP were allocated to participating employees as part of our savings plan contribution. The fair value of shares allocated each period was recognized as compensation expense.

Note 13: Earnings Per Share

Following is a reconciliation of the denominators used in computing earnings per share:

(Shares in thousands)	2013	2012	2011
Income available to common shareholders	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Basic earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares	**1,080,874**	1,113,178	1,113,923
Basic earnings per share	**$ 4.33**	$ 3.67	$ 3.90
Diluted earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares and stock options	**1,084,766**	1,117,294	1,113,967
Diluted earnings per share	**$ 4.32**	$ 3.66	$ 3.90

Note 14: Income Taxes

Following is the composition of income tax expense:

	2013	2012	2011
Current:			
Federal	**$ 259.1**	$ 596.8	$ 671.4
Foreign	**553.2**	540.6	759.5
State	**126.3**	56.2	(22.9)
Total current tax expense	**938.6**	1,193.6	1,408.0
Deferred:			
Federal	**297.0**	87.0	(398.5)
Foreign	**(28.2)**	29.9	(34.7)
State	**(2.9)**	9.1	27.0
Total deferred tax expense (benefit)	**265.9**	126.0	(406.2)
Income taxes	**$ 1,204.5**	$ 1,319.6	$ 1,001.8

Significant components of our deferred tax assets and liabilities as of December 31 are as follows:

	2013	2012
Deferred tax assets:		
Compensation and benefits	**$ 639.8**	$ 1,081.8
Tax credit carryforwards and carrybacks	**494.6**	703.2
Purchases of intangible assets	**418.8**	366.8
Product return reserves	**313.7**	153.8
Tax loss carryforwards and carrybacks	**311.7**	370.1
Debt	**110.0**	232.8
Contingencies	**106.0**	113.2
Intercompany profit in inventories	**104.5**	159.6
Sale of intangibles	**76.5**	278.6
Other	**518.5**	361.5
Total gross deferred tax assets	**3,094.1**	3,821.4
Valuation allowances	**(647.1)**	(675.8)
Total deferred tax assets	**2,447.0**	3,145.6
Deferred tax liabilities:		
Unremitted earnings	**(898.3)**	(920.4)
Inventories	**(685.6)**	(573.4)
Intangibles	**(598.9)**	(708.8)
Prepaid employee benefits	**(446.2)**	—
Property and equipment	**(379.1)**	(407.1)
Financial instruments	**(109.6)**	(257.0)
Total deferred tax liabilities	**(3,117.7)**	(2,866.7)
Deferred tax assets (liabilities) - net	**$ (670.7)**	$ 278.9

At December 31, 2013 and 2012 , no individually significant items were classified as “Other” deferred tax assets.

The deferred tax asset and related valuation allowance amounts for U.S. federal and state net operating losses and tax credits shown above have been reduced for differences between financial reporting and tax return filings.

Based on filed tax returns, we have tax credit carryforwards and carrybacks of $494.6 million available to reduce future income taxes; $2.9 million will be carried back; $183.8 million of the tax credit carryforwards will expire between 2023 and 2033 ; and $4.9 million of the tax credit carryforwards will never expire. The remaining portion of the tax credit carryforwards is related to federal tax credits of $80.3 million , international tax credits of $105.3 million , and state tax credits of $117.4 million , all of which are substantially reserved.

At December 31, 2013 , based on filed tax returns we had net operating losses and other carryforwards for international and U.S. income tax purposes of $662.5 million : $262.8 million will expire by 2018 ; $356.8 million will expire between 2018 and 2033 ; and $42.9 million of the carryforwards will never expire. Other carryforwards for international and U.S. federal income tax purposes are substantially reserved. Deferred tax assets related to state net operating losses of $81.0 million and $9.8 million of other state carryforwards are substantially reserved.

Domestic and Puerto Rican companies contributed approximately 61 percent , 54 percent , and 24 percent for the years ended December 31, 2013 , 2012 , and 2011 , respectively, to consolidated income before income taxes. We have a subsidiary operating in Puerto Rico under a tax incentive grant. The current tax incentive grant will not expire prior to 2017.

At December 31, 2013 , U.S. income taxes have not been provided on approximately $23.74 billion of unremitted earnings of foreign subsidiaries as we consider these unremitted earnings to be indefinitely invested for continued use in our foreign operations. Additional tax provisions will be required if these earnings are repatriated in the future to the United States. Due to complexities in the tax laws and assumptions that we would have to make, it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

Cash payments of income taxes totaled $1.26 billion , $992.0 million , and $942.8 million , for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

Following is a reconciliation of the income tax expense applying the U.S. federal statutory rate to income before income taxes to reported income tax expense:

	2013	2012	2011
Income tax at the U.S. federal statutory tax rate	**$ 2,061.3**	$ 1,892.9	$ 1,872.3
Add (deduct):			
International operations, including Puerto Rico	**(778.3)**	(593.8)	(796.7)
General business credits	**(175.6)**	(11.2)	(80.8)
IRS audit conclusion	**(7.9)**	—	(85.3)
Other	**105.0**	31.7	92.3
Income taxes	**$ 1,204.5**	$ 1,319.6	$ 1,001.8

The American Taxpayer Relief Act of 2012, which included the reinstatement of the research tax credit for the year 2012, was enacted in early 2013. Therefore, the research tax credits for the years 2012 and 2013 are both included in 2013 with general business credits.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	2013	2012	2011
Beginning balance at January 1	**$ 1,534.3**	$ 1,369.3	$ 1,714.3
Additions based on tax positions related to the current year	**142.5**	144.8	89.4
Additions for tax positions of prior years	**251.5**	70.1	390.0
Reductions for tax positions of prior years	**(358.2)**	(38.5)	(492.3)
Settlements	**(404.9)**	(9.2)	(326.3)
Lapses of statutes of limitation	**(24.9)**	(4.6)	(2.6)
Changes related to the impact of foreign currency translation	**(3.9)**	2.4	(3.2)
Ending balance at December 31	**$ 1,136.4**	$ 1,534.3	$ 1,369.3

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $523.3 million and $928.1 million at December 31, 2013 and 2012 , respectively.

We file income tax returns in the U.S. federal jurisdiction and various state, local, and non-U.S. jurisdictions. We are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations in most major taxing jurisdictions for years before 2007.

During 2011, we settled the U.S. examinations of tax years 2005-2007, along with certain matters related to tax years 2008-2009. The examination of the remainder of 2008-2009 commenced in the fourth quarter of 2011. Considering this current examination cycle, as well as the settlement of 2005-2007 and certain matters related to 2008-2009, our consolidated results of operations benefited from a reduction in tax expense of $85.3 million in 2011. We made cash payments totaling approximately $300 million for tax years 2005-2007.

During 2013, we reached resolution on the remaining matters related to tax years 2008–2009 that were not settled as part of a previous examination. Considering the impact of this resolution on periods that have not yet been examined, as well as its impact on tax asset carryforwards, there was an immaterial benefit to our consolidated results of operations. We made cash payments of approximately $135 million related to tax years 2008–2009 after application of available tax credit carryforwards and carrybacks. The examination of tax years 2010-2012 commenced during the fourth quarter of 2013. Because the examination of tax years 2010-2012 is still in the early stages, the resolution of matters in this audit period will likely extend beyond the next 12 months.

We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2013 , 2012 , and 2011 , we recognized income tax expense (benefit) of $(10.9) million , $42.3 million , and $(47.3) million , respectively, related to interest and penalties. At December 31, 2013 and 2012 , our accruals for the payment of interest and penalties totaled $161.5 million and $187.5 million , respectively.

Note 15: Retirement Benefits

We use a measurement date of December 31 to develop the change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets at December 31 for our defined benefit pension and retiree health benefit plans, which were as follows:

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 10,423.8**	$ 9,191.2	**$ 2,337.7**	$ 2,308.6
Service cost	**287.1**	253.1	**49.9**	63.3
Interest cost	**437.2**	455.1	**98.1**	114.9
Actuarial (gain) loss	**(792.2)**	834.0	**(642.5)**	(57.0)
Benefits paid	**(402.3)**	(404.2)	**(79.6)**	(67.2)
Plan amendments	**(0.1)**	(0.6)	**(4.1)**	(28.4)
Foreign currency exchange rate changes and other adjustments	**22.9**	95.2	**(2.3)**	3.5
Benefit obligation at end of year	**9,976.4**	10,423.8	**1,757.2**	2,337.7
Change in plan assets:				
Fair value of plan assets at beginning of year	**8,286.6**	7,186.3	**1,518.0**	1,339.0
Actual return on plan assets	**1,144.6**	922.7	**365.7**	183.4
Employer contribution	**428.9**	469.7	**75.5**	62.8
Benefits paid	**(402.3)**	(404.2)	**(79.6)**	(67.2)
Foreign currency exchange rate changes and other adjustments	**23.9**	112.1	**—**	—
Fair value of plan assets at end of year	**9,481.7**	8,286.6	**1,879.6**	1,518.0
Funded status	**(494.7)**	(2,137.2)	**122.4**	(819.7)
Unrecognized net actuarial loss	**3,546.3**	5,187.5	**178.1**	1,156.7
Unrecognized prior service (benefit) cost	**50.7**	54.9	**(171.5)**	(203.4)
Net amount recognized	**$ 3,102.3**	$ 3,105.2	**$ 129.0**	$ 133.6
Amounts recognized in the consolidated balance sheet consisted of:				
Sundry	**$ 881.2**	$ 125.5	**$ 366.4**	$ —
Other current liabilities	**(62.8)**	(61.2)	**(7.7)**	(8.9)
Accrued retirement benefits	**(1,313.1)**	(2,201.6)	**(236.3)**	(810.8)
Accumulated other comprehensive loss before income taxes	**3,597.0**	5,242.5	**6.6**	953.3
Net amount recognized	**$ 3,102.3**	$ 3,105.2	**$ 129.0**	$ 133.6

The unrecognized net actuarial loss and unrecognized prior service cost (benefit) have not yet been recognized in net periodic pension costs and are included in accumulated other comprehensive loss at December 31, 2013 .

During 2014 , we expect the following components of accumulated other comprehensive loss to be recognized as components of net periodic benefit cost:

	Defined Benefit Pension Plans	Retiree Health Benefit Plans
Unrecognized net actuarial loss	$ 277.2	$ 20.0
Unrecognized prior service cost	3.6	(31.2)
Total	$ 280.8	$ (11.2)

We do not expect any plan assets to be returned to us in 2014 .

The following represents our weighted-average assumptions as of December 31:

(Percents)	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Discount rate for benefit obligation	**4.9**	4.3	5.0	**5.0**	4.3	5.1
Discount rate for net benefit costs	**4.3**	5.0	5.6	**4.3**	5.1	5.8
Rate of compensation increase for benefit obligation	**3.4**	3.4	3.7			
Rate of compensation increase for net benefit costs	**3.4**	3.7	3.7			
Expected return on plan assets for net benefit costs	**8.4**	8.4	8.5	**8.8**	8.8	8.8

We annually evaluate the expected return on plan assets in our defined benefit pension and retiree health benefit plans. In evaluating the expected rate of return, we consider many factors, with a primary analysis of current and projected market conditions; asset returns and asset allocations; and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the assumptions and trend rates utilized by similar plans, where applicable. Health-care-cost trend rates are assumed to increase at an annual rate of 6.6 percent for the year ended December 31, 2014 , decreasing by approximately 0.3 percent per year to an ultimate rate of 5.0 percent by 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	2014	**2015**	**2016**	**2017**	**2018**	**2019-2023**
Defined benefit pension plans	$ 430.9	$ 440.1	$ 453.0	$ 469.0	$ 486.0	$ 2,726.0
Retiree health benefit plans-gross	$ 94.0	$ 98.0	$ 102.3	$ 106.4	$ 111.0	$ 612.3
Medicare rebates	(6.8)	(7.6)	(8.2)	(9.0)	(9.8)	(60.5)
Retiree health benefit plans-net	$ 87.2	$ 90.4	$ 94.1	$ 97.4	$ 101.2	$ 551.8

Amounts relating to defined benefit plans with projected benefit obligations in excess of plan assets were as follows at December 31:

	2013	**2012**
Projected benefit obligation	**$ 1,773.6**	$ 9,151.2
Fair value of plan assets	**395.4**	6,888.6

Amounts relating to defined benefit plans with accumulated benefit obligations in excess of plan assets were as follows at December 31:

	2013	**2012**
Accumulated benefit obligation	**$ 1,384.6**	$ 8,021.0
Fair value of plan assets	**181.8**	6,580.6

The total accumulated benefit obligation for our defined benefit pension plans was $9.13 billion and $9.46 billion at December 31, 2013 and 2012 , respectively.

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

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2013	2012	2011	2013	2012	2011
Components of net periodic benefit cost:						
Service cost	**$ 287.1**	$ 253.1	$ 236.3	**$ 49.9**	$ 63.3	$ 72.4
Interest cost	**437.2**	455.1	447.9	**98.1**	114.9	118.0
Expected return on plan assets	**(701.9)**	(684.8)	(685.9)	**(130.7)**	(127.2)	(129.4)
Amortization of prior service (benefit) cost	**3.7**	4.2	8.6	**(35.6)**	(39.8)	(42.9)
Recognized actuarial loss	**414.7**	285.7	200.4	**100.5**	98.4	88.7
Net periodic benefit cost	**$ 440.8**	$ 313.3	$ 207.3	**$ 82.2**	$ 109.6	$ 106.8

If the healthcare-cost trend rates were to be increased by one percentage point, the December 31, 2013 , accumulated postretirement benefit obligation would increase by $169.7 million and the aggregate of the service cost and interest cost components of the 2013 annual expense would increase by $9.4 million . A one percentage point decrease in these rates would decrease the December 31, 2013 , accumulated postretirement benefit obligation by $149.1 million , and the aggregate of the 2013 service cost and interest cost by $7.6 million .

The following represents the amounts recognized in other comprehensive income (loss) for the year ended December 31, 2013 :

	Defined Benefit Pension Plans	Retiree Health Benefit Plans
Actuarial gain arising during period	$ 1,234.7	$ 877.6
Plan amendments during period	0.1	4.1
Amortization of prior service (benefit) cost included in net income	3.7	(35.6)
Amortization of net actuarial loss included in net income	414.7	100.5
Foreign currency exchange rate changes	(7.7)	0.1
Total other comprehensive income during period	$ 1,645.5	$ 946.7

We have defined contribution savings plans that cover our eligible employees worldwide. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save. Our contributions to the plans are based on employee contributions and the level of our match. Expenses under the plans totaled $147.7 million , $136.3 million , and $124.8 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

We provide certain other postemployment benefits primarily related to disability benefits and accrue for the related cost over the service lives of employees. Expenses associated with these benefit plans for the years ended December 31, 2013 , 2012 , and 2011 were not material.

Benefit Plan Investments

Our benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. U.S. and Puerto Rico plans represent 80 percent of our global investments. Given the long-term nature of our liabilities, these plans have the flexibility to manage an above-average degree of risk in the asset portfolios. At the investment-policy level, there are no specifically prohibited investments. However, within individual investment manager mandates, restrictions and limitations are contractually set to align with our investment objectives, ensure risk control, and limit concentrations.

We manage our portfolio to minimize any concentration of risk by allocating funds within asset categories. In addition, within a category we use different managers with various management objectives to eliminate any significant concentration of risk.

Our global benefit plans may enter into contractual arrangements (derivatives) to implement the local investment policy or manage particular portfolio risks. Derivatives are principally used to increase or decrease exposure to a particular public equity, fixed income, commodity, or currency market more rapidly or less expensively than could be accomplished through the use of the cash markets. The plans utilize both

exchange-traded and over-the-counter instruments. The maximum exposure to either a market or counterparty credit loss is limited to the carrying value of the receivable, and is managed within contractual limits. We expect all of our counterparties to meet their obligations. The gross values of these derivative receivables and payables are not material to the global asset portfolio, and their values are reflected within the tables below.

The defined benefit pension and retiree health benefit plan allocation for the U.S. and Puerto Rico currently comprises approximately 80 percent growth investments and 20 percent fixed-income investments. The growth investment allocation encompasses U.S. and international public equity securities, hedge funds, private equity-like investments, and real estate. These portfolio allocations are intended to reduce overall risk by providing diversification, while seeking moderate to high returns over the long term.

Public equity securities are well diversified and invested in U.S. and international small-to-large companies across various asset managers and styles. The remaining portion of the growth portfolio is invested in private alternative investments.

Fixed-income investments primarily consist of fixed-income securities in U.S. treasuries and agencies, emerging market debt obligations, corporate bonds, mortgage-backed securities, and commercial mortgage-backed obligations.

Hedge funds are privately owned institutional investment funds that generally have moderate liquidity. Hedge funds seek specified levels of absolute return regardless of overall market conditions, and generally have low correlations to public equity and debt markets. Hedge funds often invest substantially in financial market instruments (stocks, bonds, commodities, currencies, derivatives, etc.) using a very broad range of trading activities to manage portfolio risks. Hedge fund strategies focus primarily on security selection and seek to be neutral with respect to market moves. Common groupings of hedge fund strategies include relative value, tactical, and event driven. Relative value strategies include arbitrage, when the same asset can simultaneously be bought and sold at different prices, achieving an immediate profit. Tactical strategies often take long and short positions to reduce or eliminate overall market risks while seeking a particular investment opportunity. Event strategy opportunities can evolve from specific company announcements such as mergers and acquisitions, and typically have little correlation to overall market directional movements. Our hedge fund investments are made through limited partnership interests primarily in fund-of-funds structures to ensure diversification across many strategies and many individual managers. Plan holdings in hedge funds are valued based on net asset values (NAVs) calculated by each fund or general partner, as applicable, and we have the ability to redeem these investments at NAV.

Private equity-like investment funds typically have low liquidity and are made through long-term partnerships or joint ventures that invest in pools of capital invested in primarily non-publicly traded entities. Underlying investments include venture capital (early stage investing), buyout, and special situation investing. Private equity management firms typically acquire and then reorganize private companies to create increased long term value. Private equity-like funds usually have a limited life of approximately 10-15 years, and require a minimum investment commitment from their limited partners. Our private investments are made both directly into funds and through fund-of-funds structures to ensure broad diversification of management styles and assets across the portfolio. Plan holdings in private equity-like investments are valued using the value reported by the partnership, adjusted for known cash flows and significant events through our reporting date. Values provided by the partnerships are primarily based on analysis of and judgments about the underlying investments. Inputs to these valuations include underlying NAVs, discounted cash flow valuations, comparable market valuations, and may also include adjustments for currency, credit, liquidity and other risks as applicable. The vast majority of these private partnerships provide us with annual audited financial statements including their compliance with fair valuation procedures consistent with applicable accounting standards.

Real estate is composed of both public and private holdings. Real estate investments in registered investment companies that trade on an exchange are classified as Level 1 on the fair value hierarchy. Real estate investments in funds measured at fair value on the basis of NAV provided by the fund manager are classified as Level 3. These NAVs are developed with inputs including discounted cash flow, independent appraisal, and market comparable analyses.

Other assets include cash and cash equivalents and mark-to-market value of derivatives.

The cash value of the trust-owned insurance contract is invested in investment-grade publicly traded equity and fixed-income securities.

Other than hedge funds, private equity-like investments, and real estate, which are discussed above, we determine fair values based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses.

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2013 by asset category are as follows:

		Fair Value Measurements Using		
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined Benefit Pension Plans				
Public equity securities:				
U.S.	$ 400.3	$ 189.2	$ 211.1	$
International	2,483.8	1,045.8	1,438.0	
Fixed income:				
Developed markets	1,036.1	170.2	850.0	15.9
Emerging markets	382.6		382.6	
Private alternative investments:				
Hedge funds	2,902.3		1,461.9	1,440.4
Equity-like funds	1,069.9		76.4	993.5
Real estate	521.4	368.0		153.4
Other	685.3	245.2	440.1	
Total	$ 9,481.7	$ 2,018.4	$ 4,860.1	$ 2,603.2
Retiree Health Benefit Plans				
Public equity securities:				
U.S.	$ 39.4	$ 18.3	$ 21.1	$
International	167.2	61.6	105.6	
Fixed income:				
Developed markets	54.7		53.1	1.6
Emerging markets	38.2		38.2	
Private alternative investments:				
Hedge funds	266.4		145.8	120.6
Equity-like funds	88.9			88.9
Cash value of trust owned insurance contract	1,136.8		1,136.8	
Real estate	36.7	36.7		
Other	51.3	18.0	33.3	
Total	$ 1,879.6	$ 134.6	$ 1,533.9	$ 211.1

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2013 .

The activity in the Level 3 investments during the year ended December 31, 2013 was as follows:

	Fixed Income: Developed Markets	Hedge Funds	Equity-like Funds	Real Estate	Total
Defined Benefit Pension Plans					
Beginning balance at January 1, 2013	$ 3.7	$ 1,218.1	$ 910.5	$ 142.6	$ 2,274.9
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	(3.0)	123.4	155.7	8.5	284.6
Relating to assets sold during the period	—	—	—	—	—
Purchases, sales, and settlements, net	3.7	98.9	(72.7)	2.3	32.2
Transfers into (out of) Level 3	11.5	—	—	—	11.5
Ending balance at December 31, 2013	$ 15.9	$ 1,440.4	$ 993.5	$ 153.4	$ 2,603.2
Retiree Health Benefit Plans					
Beginning balance at January 1, 2013	$ 0.4	$ 99.9	$ 81.9		$ 182.2
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	(0.3)	10.3	13.9		23.9
Relating to assets sold during the period	—	—	—		—
Purchases, sales, and settlements, net	0.4	10.4	(6.9)		3.9
Transfers into (out of) Level 3	1.1	—	—		1.1
Ending balance at December 31, 2013	$ 1.6	$ 120.6	$ 88.9		$ 211.1

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2012 by asset category are as follows:

Asset Class	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined Benefit Pension Plans				
Public equity securities:				
U.S.	$ 457.7	$ 307.9	$ 149.8	$
International	1,905.3	673.3	1,232.0	
Fixed income:				
Developed markets	1,075.4	156.4	915.3	3.7
Emerging markets	402.3		402.3	
Private alternative investments:				
Hedge funds	2,555.5		1,337.4	1,218.1
Equity-like funds	991.2	17.4	63.3	910.5
Real estate	504.3	353.5	8.2	142.6
Other	394.9	140.1	254.8	
Total	$ 8,286.6	$ 1,648.6	$ 4,363.1	$ 2,274.9
Retiree Health Benefit Plans				
Public equity securities:				
U.S.	$ 45.4	$ 30.4	$ 15.0	$
International	127.7	33.9	93.8	
Fixed income:				
Developed markets	59.4		59.0	0.4
Emerging markets	40.3		40.3	
Private alternative investments:				
Hedge funds	234.0		134.1	99.9
Equity-like funds	81.9			81.9
Cash value of trust owned insurance contract	869.1		869.1	
Real estate	35.4	35.4		
Other	24.8	6.2	18.6	
Total	$ 1,518.0	$ 105.9	$ 1,229.9	$ 182.2

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2012 .

The activity in the Level 3 investments during the year ended December 31, 2012 was as follows:

	Fixed Income: Developed Markets	Hedge Funds	Equity-like Funds	Real Estate	Total
Defined Benefit Pension Plans					
Beginning balance at January 1, 2012	$ —	$ 1,248.4	$ 870.2	$ 138.0	$ 2,256.6
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	0.3	18.3	10.1	3.3	32.0
Relating to assets sold during the period	—	(0.2)	—	—	(0.2)
Purchases, sales, and settlements, net	2.3	(48.4)	30.2	1.3	(14.6)
Transfers into (out of) Level 3	1.1	—	—	—	1.1
Ending balance at December 31, 2012	$ 3.7	$ 1,218.1	$ 910.5	$ 142.6	$ 2,274.9
Retiree Health Benefit Plans					
Beginning balance at January 1, 2012	$ —	$ 105.3	$ 79.9		$ 185.2
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	—	(0.9)	—		(0.9)
Relating to assets sold during the period	—	—	—		—
Purchases, sales, and settlements, net	0.3	(4.5)	2.0		(2.2)
Transfers into (out of) Level 3	0.1	—	—		0.1
Ending balance at December 31, 2012	$ 0.4	$ 99.9	$ 81.9		$ 182.2

Contributions to our global defined benefit pension and post-retirement health benefit plans to satisfy minimum funding requirements as well as additional discretionary funding in the aggregate are not expected to be material during 2014 .

Note 16: Contingencies

We are a party to various legal actions and government investigations. The most significant of these are described below. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that, except as specifically noted below with respect to the Alimta ® patent litigation and administrative proceedings, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

Alimta Patent Litigation and Administrative Proceedings

We are engaged in various U.S. patent litigation matters involving Alimta brought pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). Teva Parenteral Medicines, Inc. (Teva); APP Pharmaceuticals, LLC (APP); Barr Laboratories, Inc. (Barr); Pliva Hrvatska D.O.O. (Pliva); Accord Healthcare Inc. (Accord); and Apotex Inc. (Apotex) each submitted Abbreviated New Drug Applications (ANDAs) seeking approval to market generic versions of Alimta prior to the expiration of our vitamin dosage regimen patent (expiring in 2021 plus pediatric exclusivity expiring in 2022) and alleging the patent is invalid.

In October 2010, we filed a lawsuit in the U.S. District Court for the Southern District of Indiana against Teva, APP, Pliva, and Barr seeking rulings that the patent is valid and infringed. Trial in this case occurred in August 2013, and we are awaiting a decision. In January 2012 and April 2012, we filed similar lawsuits in the same court against Accord and Apotex, respectively. We filed a second lawsuit against Accord in February 2013. In September 2013, we filed a similar lawsuit in the same court against Sun Pharmaceutical Industries, Ltd. and Sun Pharma Global seeking a ruling that Lilly's patent is valid and infringed. In January 2014, we filed a

similar lawsuit in the same court against Glenmark Generics Inc., USA, seeking a ruling that Lilly's patent is valid and infringed. The Accord and Apotex cases have been consolidated and stayed by the court and the parties have agreed to be bound by the outcome of the Teva/APP litigation. In June 2013, Accord filed a petition requesting review of the patent by the U.S. Patent and Trademark Office, which was denied in October 2013. This denial is final and cannot be appealed.

Generic manufacturers have filed an opposition to the European Patent Office's decision to grant a vitamin dosage regimen patent. The Opposition Division upheld the patent and the generic manufacturers have lodged an appeal. In addition, in the UK, Actavis Group ehf and other Actavis companies have filed litigation asking for a declaratory judgment that commercialization of certain salt forms of pemetrexed (the active ingredient in Alimta) would not infringe the vitamin dosage regimen patents in the UK, Italy, France, Germany, and Spain. This case is scheduled to be heard by the trial court in April 2014. We have commenced separate infringement proceedings against certain Actavis companies in Germany. The German case is scheduled to be heard by the trial court in March 2014.

We believe our Alimta vitamin dosage patents are valid and enforceable against these generic manufacturers and we expect to prevail in these proceedings. However, it is not possible to determine the outcome of the proceedings, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect a loss of exclusivity for Alimta would result in a rapid and severe decline in future revenues in the relevant market.

Byetta Product Liability Litigation

We have been named as a defendant in approximately 275 Byetta product liability lawsuits involving approximately 700 plaintiffs. Approximately 95 of these lawsuits, covering about 510 plaintiffs, are filed in California and coordinated in a Los Angeles Superior Court. Approximately 190 of these lawsuits, involving approximately 265 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer). We are aware of approximately 460 additional claimants who have not yet filed suit. The majority of these additional claims allege damages for pancreatitis. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Prozac ® Product Liability Litigation

We have been named as a defendant in approximately 10 U.S. lawsuits primarily related to allegations that the antidepressant Prozac caused or contributed to birth defects in the children of women who ingested the drug during pregnancy. We are aware of approximately 370 additional claims related to birth defects, which have not yet been filed. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Brazil–Employee Litigation

We have been named in a lawsuit brought by the Labor Attorney for 15th Region in the Labor Court of Paulinia, State of Sao Paulo, Brazil, alleging possible harm to employees and former employees caused by exposure to heavy metals at a former Lilly manufacturing facility in Cosmopolis, Brazil. Final arguments were submitted in September and we are awaiting a decision. We have also been named in approximately 30 lawsuits filed in the same court by individual former employees making similar claims. We believe these lawsuits are without merit and are prepared to defend against them vigorously.

Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of product liability and related claims in the future. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products.

Note 17: Other Comprehensive Income (Loss)

The following table summarizes the activity related to each component of other comprehensive income (loss):

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2011	$ 510.7	$ 128.9	$ (3,175.8)	$ (133.9)	$ (2,670.1)
Unrealized gain (loss)		(59.4)		32.6	
Net amount reclassed to net income		(54.7)		(5.8)	
Net other comprehensive income (loss)	(244.8)	(114.1)	(856.4)	26.8	(1,188.5)
Balance at December 31, 2011	265.9	14.8	(4,032.2)	(107.1)	(3,858.6)
Unrealized gain (loss)		104.1		—	
Net amount reclassed to net income		(46.4)		5.9	
Net other comprehensive income (loss)	160.9	57.7	(163.0)	5.9	61.5
Balance at December 31, 2012	426.8	72.5	(4,195.2)	(101.2)	(3,797.1)
Other comprehensive income (loss) before reclassifications	**36.2**	**138.9**	**1,387.1**	**(86.5)**	**1,475.7**
Net amount reclassified from accumulated other comprehensive loss		**(6.2)**	**319.0**	**5.9**	**318.7**
Net other comprehensive income (loss)	**36.2**	**132.7**	**1,706.1**	**(80.6)**	**1,794.4**
Ending Balance at December 31, 2013	**$ 463.0**	**$ 205.2**	**$ (2,489.1)**	**$ (181.8)**	**$ (2,002.7)**

The tax effect on the unrealized net gains (losses) on securities was an expense of $71.6 million in 2013 , an expense of $30.8 million in 2012 , and a benefit of $64.4 million in 2011 . The tax effect related to our defined benefit pension and retiree health benefit plans (Note 15) was an expense of $886.1 million in 2013 , an expense of $34.4 million in 2012 , and a benefit of $383.8 million in 2011 . The tax effect on the effective portion of cash flow hedges was a benefit of $43.2 million for the year ended December 31, 2013 , and was not significant for the years ended December 31, 2012 and 2011 . Income taxes were not provided for foreign currency translation.

Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in income.

Details about Accumulated Other Comprehensive Loss Components	Reclassifications Out of Accumulated Other Comprehensive Loss Year Ended December 31, 2013	Affected Line Item in the Consolidated Statements of Operations
Amortization of defined benefit items:		
Prior service benefits, net	$ (31.9)	(1)
Actuarial losses	515.2	(1)
Total before tax	483.3	
Tax benefit	(164.3)	
Net of tax	319.0	
Other, net of tax	(0.3)	Other—net, (income) expense
Total reclassifications for the period (net of tax)	$ 318.7	

1 These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 15).

Note 18: Other–Net, (Income) Expense:

Other–net, (income) expense consisted of the following:

	2013	2012	2011
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**$ (495.4)**	$ (787.8)	$ —
Interest expense	**160.1**	177.8	186.0
Interest income	**(119.7)**	(105.0)	(79.9)
Other (income) expense	**(63.9)**	41.0	72.9
Other–net, (income) expense	**$ (518.9)**	$ (674.0)	$ 179.0

For the years ended December 31, 2013 and 2012, other–net, (income) expense primarily consists of income associated with the termination of the exenatide collaboration with Amylin, including income recognized from the transfer to Amylin of exenatide commercial rights in all markets outside the U.S. in 2013 and income recognized from the early payment of the exenatide revenue-sharing obligation by Amylin in 2012. See Note 4 for additional information. For the year ended December 31, 2011, other–net, (income) expense primarily consists of the impairment on acquired IPR&D assets related to liprotamase and Amyvid (Note 8) partially offset by gains on the disposal of investment securities.

Note 19: Segment Information

We operate in two business segments—human pharmaceutical products and animal health. 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. The accounting policies of the individual segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements.

Our human pharmaceutical products segment includes the discovery, development, manufacturing, marketing, and sales of human pharmaceutical products worldwide in the following therapeutic areas: endocrinology, neuroscience, oncology, cardiovascular, and other. Our endocrinology products consist primarily of Humalog®, Humulin®, Forteo®, Evista®, Humatrope®, Trajenta, and Axiron®. Neuroscience products include Cymbalta®, Zyprexa®, Strattera®, and Prozac. Cymbalta, which had U.S. sales of $3.96 billion in 2013, lost patent exclusivity in the U.S. in December 2013, resulting in the immediate entry of several generic competitors. Oncology products consist primarily of Alimta, Erbitux, and Gemzar®. Cardiovascular products consist primarily of Cialis®, Effient, and ReoPro®. The other pharmaceuticals category includes anti-infectives, primarily Vancocin® and Ceclor™, and other miscellaneous pharmaceutical products and services.

Our animal health segment, operating through our Elanco animal health division, includes the development, manufacturing, marketing, and sales of animal health products worldwide for both food and companion animals. Animal health products include Rumensin®, Posilac®, Tylan®, Paylean®, Optaflexx® and other products for livestock and poultry, as well as Trifexis®, Comfortis®, and other products for companion animals.

Most of our pharmaceutical products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. For the years ended December 31, 2013 , 2012 , and 2011 , our three largest wholesalers each accounted for between 10 percent and 19 percent of consolidated total revenue. Further, they each accounted for between 9 percent and 18 percent of accounts receivable as of December 31, 2013 and 2012 . Animal health products are sold primarily to wholesale distributors.

We manage our assets on a total company basis, not by operating segment, as the assets of the animal health business are largely intermixed with those of the pharmaceutical products business. Therefore, our chief operating decision maker does not review any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

We are exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates.

	2013	2012	2011
Segment revenue—to unaffiliated customers:			
Human pharmaceutical products:			
Endocrinology	**$ 7,304.4**	$ 6,810.9	$ 6,806.7
Neuroscience	**7,216.2**	7,575.1	9,723.8
Oncology	**3,268.5**	3,281.6	3,322.2
Cardiovascular	**2,923.2**	2,632.5	2,486.4
Other pharmaceuticals	**249.3**	266.8	268.8
Total human pharmaceutical products	**20,961.6**	20,566.9	22,607.9
Animal health	**2,151.5**	2,036.5	1,678.6
Total segment revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Segment profits (1) :			
Human pharmaceutical products	**$ 5,015.0**	$ 4,393.4	$ 5,837.9
Animal health	**556.6**	508.1	301.0
Total segment profits	**$ 5,571.6**	$ 4,901.5	$ 6,138.9
Reconciliation of total segment profits to consolidated income before taxes:			
Segment profits	**$ 5,571.6**	$ 4,901.5	$ 6,138.9
Other profits (losses):			
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**495.4**	787.8	—
Acquired in-process research and development (Notes 3 and 4)	**(57.1)**	—	(388.0)
Asset impairment, restructuring, and other special charges (Note 5)	**(120.6)**	(281.1)	(401.4)
Total consolidated income before taxes	**$ 5,889.3**	$ 5,408.2	$ 5,349.5

1 Human pharmaceutical products segment profit includes total depreciation and amortization expense of $1.35 billion , $1.37 billion , and $1.30 billion for the years ended December 31, 2013 , 2012 , and 2011 , respectively. Animal health segment profit includes total depreciation and amortization expense of $99.4 million , $91.1 million , and $78.1 million for the years ended December 31, 2013 , 2012 , and 2011 , respectively.

For internal management reporting presented to the chief operating decision maker, certain costs are fully allocated to our human pharmaceutical products segment and therefore are not reflected in the animal health segment's profit. Such items include costs associated with treasury-related financing, global administrative services, certain acquisition-related transaction costs, and manufacturing variances.

	2013	2012	2011
Geographic Information			
Revenue—to unaffiliated customers (1) :			
United States	**$ 12,889.7**	$ 12,313.1	$ 12,977.2
Europe	**4,338.4**	4,259.7	5,290.9
Japan	**2,063.8**	2,246.2	2,104.1
Other foreign countries	**3,821.2**	3,784.4	3,914.3
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Long-lived assets (2) :			
United States	**$ 4,649.6**	$ 5,064.7	$ 5,485.3
Europe	**2,469.7**	2,281.1	2,220.2
Japan	**81.1**	101.5	102.9
Other foreign countries	**1,540.9**	1,543.2	1,564.0
Long-lived assets	**$ 8,741.3**	$ 8,990.5	$ 9,372.4

1 Revenue is attributed to the countries based on the location of the customer.

2 Long-lived assets consist of property and equipment and certain sundry assets.

Note 20: Selected Quarterly Data (unaudited)

2013	Fourth	Third	Second	First
Revenue	$ 5,808.8	$ 5,772.6	$ 5,929.7	$ 5,602.0
Cost of sales	1,386.5	1,198.1	1,165.2	1,158.3
Operating expenses (1)	3,429.0	3,029.8	3,198.0	3,000.1
Acquired IPR&D	57.1	—	—	—
Asset impairment, restructuring, and other special charges	35.4	—	63.5	21.7
Other—net, (income) expense	(9.1)	31.3	(11.9)	(529.2)
Income before income taxes	909.9	1,513.4	1,514.9	1,951.1
Net income	727.5	1,203.1	1,206.2	1,548.0
Earnings per share—basic	0.68	1.11	1.12	1.42
Earnings per share—diluted	0.67	1.11	1.11	1.42
Dividends paid per share	0.49	0.49	0.49	0.49
Common stock closing prices:				
High	51.34	54.96	58.33	56.79
Low	47.65	49.92	49.06	49.51

2012	Fourth	Third	Second	First
Revenue	$ 5,957.3	$ 5,443.3	$ 5,600.7	$ 5,602.0
Cost of sales	1,248.3	1,203.6	1,146.7	1,197.9
Operating expenses (1)	3,440.6	3,100.2	3,251.8	2,999.0
Asset impairment, restructuring, and other special charges	204.0	53.3	—	23.8
Other—net, (income) expense	52.0	(788.5)	16.5	46.0
Income before income taxes	1,012.4	1,874.7	1,185.7	1,335.3
Net income	827.2	1,326.6	923.6	1,011.1
Earnings per share—basic	0.75	1.18	0.83	0.91
Earnings per share—diluted	0.74	1.18	0.83	0.91
Dividends paid per share	0.49	0.49	0.49	0.49
Common stock closing prices:				
High	53.81	47.64	42.91	41.80
Low	45.91	41.98	39.18	38.49

1 Includes research and development, marketing, selling, and administrative expenses

Our common stock is listed on the New York Stock Exchange, NYSE Euronext, and SIX Swiss Exchange.

Management's Reports

Management's Report for Financial Statements—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for the accuracy, integrity, and fair presentation of the financial statements. The statements have been prepared in accordance with generally accepted accounting principles in the United States and include amounts based on judgments and estimates by management. In management's opinion, the consolidated financial statements present fairly our financial position, results of operations, and cash flows.

In addition to the system of internal accounting controls, we maintain a code of conduct (known as " *The Red Book"*) that applies to all employees worldwide, requiring proper overall business conduct, avoidance of conflicts of interest, compliance with laws, and confidentiality of proprietary information. All employees must take training annually on *The Red Book* and are required to report suspected violations. A hotline number is published in *The Red Book* to enable employees to report suspected violations anonymously. Employees who report suspected violations are protected from discrimination or retaliation by the company. In addition to *The Red Book* , the CEO and all financial management must sign a financial code of ethics, which further reinforces their fiduciary responsibilities.

The consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. Their responsibility is to examine our consolidated financial statements in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Ernst & Young's opinion with respect to the fairness of the presentation of the statements is included in Item 8 of our annual report on Form 10-K. Ernst & Young reports directly to the audit committee of the board of directors.

Our audit committee includes five nonemployee members of the board of directors, all of whom are independent from our company. The committee charter, which is available on our website, outlines the members' roles and responsibilities and is consistent with enacted corporate reform laws and regulations. It is the audit committee's responsibility to appoint an independent registered public accounting firm subject to shareholder ratification, approve both audit and non-audit services performed by the independent registered public accounting firm, and review the reports submitted by the firm. The audit committee meets several times during the year with management, the internal auditors, and the independent public accounting firm to discuss audit activities, internal controls, and financial reporting matters, including reviews of our externally published financial results. The internal auditors and the independent registered public accounting firm have full and free access to the committee.

We are dedicated to ensuring that we maintain the high standards of financial accounting and reporting that we have established. We are committed to providing financial information that is transparent, timely, complete, relevant, and accurate. Our culture demands integrity and an unyielding commitment to strong internal practices and policies. Finally, we have the highest confidence in our financial reporting, our underlying system of internal controls, and our people, who are objective in their responsibilities and operate under a code of conduct and the highest level of ethical standards.

Management's Report on Internal Control Over Financial Reporting—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. We have global financial policies that govern critical areas, including internal controls, financial accounting and reporting, fiduciary accountability, and safeguarding of corporate assets. Our internal accounting control systems are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls. The general auditor reports directly to the audit committee of the board of directors.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "*Internal Control—Integrated Framewo rk (1992)"* iss ued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, we concluded that our internal control over financial reporting was effective as of December 31, 2013 . However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The internal control over financial reporting has been assessed by Ernst & Young LLP as of December 31, 2013 . Their responsibility is to evaluate whether internal control over financial reporting was designed and operating effectively.

John C. Lechleiter, Ph.D. *Chairman, President, and Chief Executive Officer*	Derica W. Rice *Executive Vice President, Global Services and Chief Financial Officer*

February 19, 2014

Report of Independent Registered Public Accounting Firm

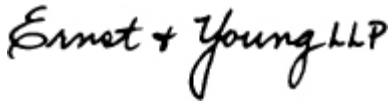
The Board of Directors and Shareholders of Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 19, 2014 expressed an unqualified opinion thereon.



Indianapolis, Indiana

February 19, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Eli Lilly and Company

We have audited Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Eli Lilly and Company and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

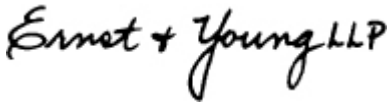
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Eli Lilly and Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Eli Lilly and Company and subsidiaries and our report dated February 19, 2014 expressed an unqualified opinion thereon.



Indianapolis, Indiana

February 19, 2014

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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 designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-K) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of John C. Lechleiter, Ph.D., chairman, president, and chief executive officer, and Derica W. Rice, executive vice president, global services and chief financial officer, evaluated our disclosure controls and procedures as of December 31, 2013, and concluded that they are effective.

Internal Control over Financial Reporting

Dr. Lechleiter and Mr. Rice provided a report on behalf of management on our internal control over financial reporting, in which management concluded that the company's internal control over financial reporting is effective at December 31, 2013. In addition, Ernst & Young LLP as of December 31, 2013, the company's independent registered public accounting firm, provided an attestation report on the company's internal control over financial reporting. You can find the full text of management's report and Ernst & Young's attestation report in Item 8, and both reports are incorporated by reference in this Item.

Changes in Internal Controls

During the fourth quarter of 2013, 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.

Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

Directors and Executive Officers

Information relating to our Board of Directors is found in our Proxy Statement to be dated on or about March 24, 2014 (the Proxy Statement) under “Board of Directors” and is incorporated in this report by reference.

Information relating to our executive officers is found at Item 1, "Business—Executive Officers of the Company.”

Code of Ethics

We have adopted a code of ethics that complies with the applicable SEC and New York Stock Exchange requirements. The code is set forth in:

- *The Red Book,* a comprehensive code of ethical and legal business conduct applicable to all employees worldwide and to our Board of Directors; and
- *Code of Ethical Conduct for Lilly Financial Management* , a supplemental code for our chief executive officer and all members of financial management that focuses on accounting, financial reporting, internal controls, and financial stewardship.

Both documents are online on our website at **http://www.lilly.com/about/business-practices/ethics-compliance/Pages/ethics-compliance.aspx.** In the event of any amendments to, or waivers from, a provision of the code affecting the chief executive officer, chief financial officer, chief accounting officer, controller, or persons performing similar functions, we intend to post on the above website within four business days after the event a description of the amendment or waiver as required under applicable SEC rules. We will maintain that information on our website for at least 12 months. Paper copies of these documents are available free of charge upon request to the company’s secretary at the address on the front of this Form 10-K.

Corporate Governance

In our proxy statements, we describe the procedures by which shareholders can recommend nominees to our board of directors. There have been no changes in those procedures since they were last published in our proxy statement of March 25, 2013.

The board has appointed an audit committee consisting entirely of independent directors in accordance with applicable SEC and New York Stock Exchange rules for audit committees. The members of the committee are Michael L. Eskew (chair), Katherine Baicker, Douglas R. Oberhelman, Kathi P. Seifert, and Jackson P. Tai. The board has determined that Messrs. Eskew, Oberhelman, and Tai are audit committee financial experts as defined in the SEC rules.

Item 11. Executive Compensation

Information on director compensation, executive compensation, and compensation committee matters can be found in the Proxy Statement under “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” "Compensation Discussion and Analysis," and “Executive Compensation.” That information is incorporated in this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

Information relating to ownership of the company's common stock by management and by persons known by the company to be the beneficial owners of more than five percent of the outstanding shares of common stock is found in the Proxy Statement under "Ownership of Company Stock." That information is incorporated in this report by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2013 , regarding our compensation plans under which shares of Lilly common stock have been authorized for issuance.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	16,140,276	$ 66.66	100,019,241
Equity compensation plan not approved by security holders	—	—	—
Total	16,140,276	66.66	100,019,241

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Person Transactions

Information relating to two related person transactions and the board's policies and procedures for approval of related person transactions can be found in the Proxy Statement under "Highlights of the Company's Corporate Governance—Conflicts of Interest and Transactions with Related Persons." That information is incorporated in this report by reference.

Director Independence

Information relating to director independence can be found in the Proxy Statement under "Director Independence" and is incorporated in this report by reference.

Item 14. Principal Accountant Fees and Services

Information related to the fees and services of our principal independent accountants, Ernst & Young LLP, can be found in the Proxy Statement under "Item 2. Proposal to Ratify the Appointment of Principal Independent Auditor—Services Performed by the Independent Auditor" and "Independent Auditor Fees." That information is incorporated in this report by reference.

Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The following consolidated financial statements of the company and its subsidiaries are found at Item 8:

- Consolidated Statements of Operations—Years Ended December 31, 2013, 2012, and 2011
- Consolidated Statements of Comprehensive Income—Years Ended December 31, 2013, 2012, and 2011
- Consolidated Balance Sheets—December 31, 2013 and 2012
- Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2013, 2012, and 2011
- Consolidated Statements of Cash Flows—Years Ended December 31, 2013, 2012, and 2011
- Notes to Consolidated Financial Statements

(a)2. Financial Statement Schedules

The consolidated financial statement schedules of the company and its subsidiaries have been omitted because they are not required, are inapplicable, or are adequately explained in the financial statements.

Financial statements of interests of 50 percent or less, which are accounted for by the equity method, have been omitted because they do not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary.

(a)3. Exhibits

3.1	Amended Articles of Incorporation
3.2	By-laws, as amended
4.1	Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., Trustee
4.2	Agreement dated September 13, 2007 appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed above
10.1	2002 Lilly Stock Plan, as amended [1]
10.2	Form of two-year Performance Award under the 2002 Lilly Stock Plan [1]
10.3	Form of Shareholder Value Award under the 2002 Lilly Stock Plan [1]
10.4	Form of Restricted Stock Unit under the 2002 Lilly Stock Plan [1]
10.5	The Lilly Deferred Compensation Plan, as amended [1]
10.6	The Lilly Directors' Deferral Plan, as amended [1]
10.7	The Eli Lilly and Company Bonus Plan, as amended [1]
10.8	The Eli Lilly and Company Executive Officer Incentive Plan [1]
10.9	2007 Change in Control Severance Pay Plan for Select Employees, as amended effective October 18, 2012 [1]
10.10	Guilty Plea Agreement in *The United States District Court for the Eastern District of Pennsylvania, United States of America v. Eli Lilly and Company*
10.11	Settlement Agreement among the company and the United States of America, acting through the United States Department of Justice, Civil Division, and the United States Attorney's Office of the Eastern District of Pennsylvania, the Office of the Inspector General of the Department of Health and Human Services, TRICARE Management Activity, and the United States Office of Personnel Management, and certain individual relators
10.12	Corporate Integrity Agreement between the company and the Office of Inspector General of the Department of Health and Human Services
12	Statement re: Computation of Ratio of Earnings to Fixed Charges
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a) Certification of John C. Lechleiter, Ph.D., Chairman of the Board, President, and Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Derica W. Rice, Executive Vice President, Global Services and Chief Financial Officer
32	Section 1350 Certification
101	Interactive Data File

[1] Indicates management contract or compensatory plan.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ John C. Lechleiter
John C. Lechleiter, Ph.D.
Chairman of the Board, President, and Chief Executive Officer

February 19, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 19, 2014 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ John C. Lechleiter, Ph.D. JOHN C. LECHLEITER, Ph.D.	Chairman of the Board, President, and Chief Executive Officer, and a Director (principal executive officer)
/s/ Derica W. Rice DERICA W. RICE	Executive Vice President, Global Services and Chief Financial Officer (principal financial officer)
/s/ Donald A. Zakrowski DONALD A. ZAKROWSKI	Vice President, Finance and Chief Accounting Officer (principal accounting officer)
/s/ Ralph Alvarez RALPH ALVAREZ	Director
/s/ Katherine Baicker, Ph.D. KATHERINE BAICKER, Ph.D.	Director
/s/ Sir Winfried Bischoff SIR WINFRIED BISCHOFF	Director
/s/ Michael L. Eskew MICHAEL L. ESKEW	Director
/s/ J. Erik Fyrwald J. ERIK FYRWALD	Director
/s/ Alfred G. Gilman, M.D., Ph.D. ALFRED G. GILMAN, M.D., Ph.D.	Director
/s/ R. David Hoover R. DAVID HOOVER	Director
/s/ Karen N. Horn, Ph.D. KAREN N. HORN, Ph.D.	Director
/s/ William G. Kaelin, Jr., M.D. WILLIAM G. KAELIN, JR., M.D.	Director
/s/ Ellen R. Marram ELLEN R. MARRAM	Director
/s/ Douglas R. Oberhelman DOUGLAS R. OBERHELMAN	Director
/s/ Franklyn G. Prendergast, M.D., Ph.D. FRANKLYN G. PRENDERGAST, M.D., Ph.D.	Director
/s/ Marschall S. Runge, M.D., Ph.D. MARSCHALL S. RUNGE, M.D., Ph.D.	Director
/s/ Kathi P. Seifert KATHI P. SEIFERT	Director

/s/ Jackson P. Tai JACKSON P. TAI		Director

Trademarks Used In This Report

Trademarks or service marks owned by Eli Lilly and Company or its subsidiaries or affiliates, when first used in this report, appear with an initial capital and are followed by the symbol ® or ™, as applicable. In subsequent uses of the marks in the report, the symbols may be omitted.

Actos ® is a trademark of Takeda Pharmaceutical Company Limited

Bydureon ® and Byetta ® are trademarks of Amylin Pharmaceuticals, Inc.

Darvon ® is a trademark of Xanodyne Pharmaceuticals, Inc.

Jentadueto ® , Tradjenta ® , Trazenta™, and Trajenta ® are trademarks of Boehringer Ingelheim GmbH.

Vancocin ® is a trademark of ViroPharma Incorporated.

Xigris™ is a trademark of Biocritica, Inc.

Index to Exhibits

The following documents are filed as part of this report:

Exhibit		Location
3.1	Amended Articles of Incorporation	Attached
3.2	By-laws, as amended	Incorporated by reference to Exhibit 99 to the Company's Report on Form 8-K filed February 27, 2012
4.1	Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., Trustee	Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 333-186979
4.2	Agreement dated September 13, 2007 appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed above	Incorporated by reference to Exhibit 4.2 to the Company's Report on Form 10-K for the year ended December 31, 2008
10.1	2002 Lilly Stock Plan, as amended	Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 2012
10.2	Form of two-year Performance Award under the 2002 Lilly Stock Plan	Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-K for the year ended December 31, 2009
10.3	Form of Shareholder Value Award under the 2002 Lilly Stock Plan	Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-K for the year ended December 31, 2009
10.4	Form of Restricted Stock Unit under the 2002 Lilly Stock Plan	Incorporated by reference to Exhibit 10.5 to the Company's Report on Form 10-K for the year ended December 31, 2009
10.5	The Lilly Deferred Compensation Plan, as amended	Attached
10.6	The Lilly Directors' Deferral Plan, as amended	Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 2009
10.7	The Eli Lilly and Company Bonus Plan, as amended	Attached
10.8	The Eli Lilly and Company Executive Officer Incentive Plan	Incorporated by reference to Appendix B to the Company's proxy statement on Schedule 14A filed March 7, 2011
10.9	2007 Change in Control Severance Pay Plan for Select Employees, as amended effective October 18, 2012	Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 2010
10.10	Guilty Plea Agreement in *The United States District Court for the Eastern District of Pennsylvania, United States of America v. Eli Lilly and Company*	Incorporated by reference to Exhibit 10.15 to the Company's Report on Form 10-K for the year ended December 31, 2008

Exhibit		Location
10.11	Settlement Agreement among the company and the United States of America, acting through the U. S. Department of Justice, Civil Division, and the U. S. Attorney's Office of the Eastern District of Pennsylvania, the Office of the Inspector General of the Department of Health and Human Services, TRICARE Management Activity, and the U. S. Office of Personnel Management, and certain individual relators	Incorporated by reference to Exhibit 10.16 to the Company's Report on Form 10-K for the year ended December 31, 2008
10.12	Corporate Integrity Agreement between the company and the Office of Inspector General of the Department of Health and Human Services	Incorporated by reference to Exhibit 10.17 to the Company's Report on Form 10-K for the year ended December 31, 2008
12	Statement re: Computation of Ratio of Earnings to Fixed Charges	Attached
21	List of Subsidiaries	Attached
23	Consent of Registered Independent Public Accounting Firm	Attached
31.1	Rule 13a-14(a) Certification of John C. Lechleiter, Ph.D., Chairman of the Board, President, and Chief Executive Officer	Attached
31.2	Rule 13a-14(a) Certification of Derica W. Rice, Executive Vice President, Global Services and Chief Financial Officer	Attached
32	Section 1350 Certification	Attached
101	Interactive Data File	Attached

ELI LILLY AND COMPANY
(an Indiana corporation)

AMENDED ARTICLES OF INCORPORATION

1. The name of the Corporation shall be

ELI LILLY AND COMPANY.

2. The purposes for which the Corporation is formed are to engage in any lawful act or activity for which a corporation may be organized under the Indiana Business Corporation Law.

3. The period during which the Corporation is to continue as a corporation is perpetual.

4. The total number of shares which the Corporation shall have authority to issue is 3,205,000,000 shares, consisting of 3,200,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. The Corporation's shares do not have any par or stated value, except that, solely for the purpose of any statute or regulation imposing any tax or fee based upon the capitalization of the Corporation, each of the Corporation's shares shall be deemed to have a par value of $0.01 per share.

5. The following provisions shall apply to the Corporation’s shares:

(a) The Corporation shall have the power to acquire (by purchase, redemption, or otherwise), hold, own, pledge, sell, transfer, assign, reissue, cancel, or otherwise dispose of the shares of the Corporation in the manner and to the extent now or hereafter permitted by the laws of the State of Indiana (but such power shall not imply an obligation on the part of the owner or holder of any share to sell or otherwise transfer such share to the Corporation), including the power to purchase, redeem, or otherwise acquire the Corporation's own shares, directly or indirectly, and without pro rata treatment of the owners or holders of any class or series of shares, unless, after giving effect thereto, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (and without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the purchase, redemption, or other acquisition, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of the shares of the Corporation being purchased, redeemed, or otherwise acquired, unless otherwise expressly provided with respect to a

series of Preferred Stock). Shares of the Corporation purchased, redeemed, or otherwise acquired by it shall constitute authorized but unissued shares, unless prior to any such purchase, redemption, or other acquisition, or within thirty (30) days thereafter, the Board of Directors adopts a resolution providing that such shares constitute authorized and issued but not outstanding shares.

(b) Preferred Stock of any series that has been redeemed (whether through the operation of a retirement or sinking fund or otherwise) or purchased by the Corporation, or which, if convertible, have been converted into shares of the Corporation of any other class or series, may be reissued as a part of such series or of any other series of Preferred Stock, subject to such limitations (if any) as may be fixed by the Board of Directors with respect to such series of Preferred Stock in accordance with the provisions of Article 7 of these Amended Articles of Incorporation.

(c) The Board of Directors of the Corporation may dispose of, issue, and sell shares in accordance with, and in such amounts as may be permitted by, the laws of the State of Indiana and the provisions of these Amended Articles of Incorporation and for such consideration, at such price or prices, at such time or times and upon such terms and conditions (including the privilege of selectively repurchasing the same) as the Board of Directors of the Corporation shall determine, without the authorization or approval by any shareholders of the Corporation. Shares may be disposed of, issued, and sold to such persons, firms, or corporations as the Board of Directors may determine, without any preemptive or other right on the part of the owners or holders of other shares of the Corporation of any class or kind to acquire such shares by reason of their ownership of such other shares.

6. The following provisions shall apply to the Common Stock:

(a) Except as otherwise provided by the Indiana Business Corporation Law and subject to such shareholder disclosure and recognition procedures (which may include voting prohibition sanctions) as the Corporation may by action of its Board of Directors establish, shares of Common Stock shall have unlimited voting rights and each outstanding share of Common Stock shall, when validly issued by the Corporation, entitle the record holder thereof to one vote at all shareholders' meetings on all matters submitted to a vote of the shareholders of the Corporation.

(b) Shares of Common Stock shall be equal in every respect insofar as their relationship to the Corporation is concerned, but such equality of rights shall not imply equality of treatment as to redemption or other acquisition of shares by the Corporation. Subject to the rights of the holders of any outstanding series of Preferred Stock, the holders of Common Stock shall be entitled to share ratably in such dividends or other distributions (other than purchases, redemptions, or other acquisitions of shares by the Corporation), if any, as are declared and paid from time to time on the Common Stock at the discretion of the Board of Directors.

(c) In the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, after payment shall have been made to the holders of any outstanding series of Preferred Stock of the full amount to which they shall be entitled, the holders of Common Stock shall be entitled, to the exclusion of the holders of the Preferred Stock of any and all series, to share, ratably according to the number of shares of Common Stock held by them, in all remaining assets of the Corporation available for distribution to its shareholders.

7. The Board of Directors is hereby expressly authorized to provide, out of the unissued shares of Preferred Stock, for one or more series of Preferred Stock. Before any shares of any such series are issued, the Board of Directors shall fix, and hereby is expressly empowered to fix, by the adoption and filing in accordance with the Indiana Business Corporation Law, of an amendment or amendments to these Amended Articles of Incorporation, the terms of such Preferred Stock or series of Preferred Stock, including the following:

(a) the designation of such series, the number of shares to constitute such series and the stated value thereof if different from the par value thereof;

(b) whether the shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited and may include the right, under specified circumstances, to elect additional directors;

(c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of Preferred Stock;

(d) whether the shares of such series shall be subject to redemption by the Corporation and, if so, the times, prices and other conditions of such redemption;

(e) the amount or amounts payable upon shares of such series upon, and the rights of the holders of such series in, the voluntary or involuntary liquidation, dissolution or winding up, or upon any distribution of the assets, of the Corporation;

(f) whether the shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;

(g) whether the shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or any other series of Preferred Stock or any other securities (whether or not issued by the Corporation) and, if so, the price or

prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;

(h) the limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of Preferred Stock;

(i) the conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock, including additional shares of such series or of any other series of Preferred Stock or of any other class of stock; and

(j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof.

Except to the extent otherwise expressly provided in these Amended Articles of Incorporation or required by law (i) no share of Preferred Stock shall have any voting rights other than those which shall be fixed by the Board of Directors pursuant to this Article 7 and (ii) no share of Common Stock shall have any voting rights with respect to any amendment to the terms of any series of Preferred Stock; *provided however* , that in the case of this clause (ii) the terms of such series of Preferred Stock, as so amended, could have been established without any vote of any shares of Common Stock.

8. The Corporation shall have the power to declare and pay dividends or other distributions upon the issued and outstanding shares of the Corporation, subject to the limitation that a dividend or other distribution may not be made if, after giving it effect, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (and without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the dividend or other distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of shares receiving the dividend or other distribution, unless otherwise expressly provided with respect to any outstanding series of Preferred Stock). The Corporation shall have the power to issue shares of one class or series as a share dividend or other distribution in respect of that class or series or one or more other classes or series.

9. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(a) The number of directors of the Corporation, exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock pursuant to Article 7(b) (the "Preferred Stock Directors"), shall not be less than nine, the exact

number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office.

(b) The Board of Directors (exclusive of Preferred Stock Directors) shall be divided into three classes, with the term of office of one class expiring each year. At the annual meeting of shareholders in 1985, five directors of the first class shall be elected to hold office for a term expiring at the 1986 annual meeting, five directors of the second class shall be elected to hold office for a term expiring at the 1987 annual meeting, and six directors of the third class shall be elected to hold office for a term expiring at the 1988 annual meeting. Commencing with the annual meeting of shareholders in 1986, each class of directors whose term shall then expire shall be elected to hold office for a three-year term. In the case of any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, the vacancy shall be filled by election of the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, for the remainder of the term of the class to which the director has been assigned. All directors shall continue in office until the election and qualification of their respective successors in office. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Election of directors need not be by written ballot unless the By-laws so provide.

(c) Any director or directors (exclusive of Preferred Stock Directors) may be removed from office at any time, but only for cause and only by the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock (as defined in Article 13 hereof), voting together as a single class.

(d) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 9.

10. The Board of Directors of the Corporation is exclusively authorized (a) to adopt, repeal, alter or amend the By-laws of the Corporation by the vote of a majority of the entire Board of Directors and (b) to adopt any By-laws which the Board of Directors may deem necessary or desirable for the efficient conduct of the affairs of the Corporation, including, without limitation, provisions governing the conduct of, and the matters which may properly be brought before, meetings of the shareholders and provisions specifying the manner and extent to which prior notice shall be given of the submission of proposals to be submitted at any meeting of shareholders or of nominations of elections of directors to be held at any such meeting.

11. The Corporation shall, to the fullest extent permitted by applicable law now or hereafter in effect, indemnify any person who is or was a director, officer or employee of the Corporation (an "Eligible Person") and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, partner, member, manager, trustee, fiduciary or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise (including, without limitation, any employee benefit plan), against all expenses (including attorneys' fees), judgments, fines or penalties (including excise taxes assessed with respect to an employee benefit plan) and amounts paid in settlement actually and reasonably incurred by such Eligible Person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Proceeding commenced by an Eligible Person except to the extent provided otherwise in the Corporation's By-laws or an agreement with an Eligible Person. The Corporation may establish provisions supplemental to or in furtherance of the provisions of this Article 11, including, but not limited to, provisions concerning the determination of any Eligible Person to indemnification, mandatory or permissive advancement of expenses to an Eligible Person incurred in connection with a Proceeding, the effect of any change in control of the Corporation on indemnification and advancement of expenses and the funding or other payment of amounts necessary to effect indemnification and advancement of expenses, in the By-laws of the Corporation or in agreements with any Eligible Person.

12. Except as otherwise expressly provided for in these Amended Articles of Incorporation, the Corporation reserves the right to amend, alter or repeal any provision contained in these Amended Articles of Incorporation, in the manner now or hereafter prescribed by law, and all rights conferred upon shareholders herein are subject to this reservation.

13. In addition to all other requirements imposed by law and these Amended Articles and except as otherwise expressly provided in paragraph (c) of this Article 13, none of the actions or transactions listed below shall be effected by the Corporation, or approved by the Corporation as a shareholder of any majority-owned subsidiary of the Corporation if, as of the record date for the determination of the shareholders entitled to vote thereon, any Related Person (as hereinafter defined) exists, unless the applicable requirements of paragraphs (b), (c), (d), (e), and (f) of this Article 13 are satisfied.

(a) The actions or transactions within the scope of this Article 13 are as follows:

(i) any merger or consolidation of the Corporation or any of its subsidiaries into or with such Related Person;

(ii) any sale, lease, exchange, or other disposition of all or any substantial part of the assets of the Corporation or any of its majority-owned subsidiaries to or with such Related Person;

(iii) the issuance or delivery of any Voting Stock (as hereinafter defined) or of voting securities of any of the Corporation's majority-owned subsidiaries to such Related Person in exchange for cash, other assets or securities, or a combination thereof;

(iv) any voluntary dissolution or liquidation of the Corporation;

(v) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries, or any other transaction (whether or not with or otherwise involving a Related Person) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of capital stock of the Corporation, or any securities convertible into capital stock of the Corporation or into equity securities of any subsidiary, that is beneficially owned by any Related Person; or

(vi) any agreement, contract, or other arrangement providing for any one or more of the actions specified in the foregoing clauses (i) through (v).

(b) The actions and transactions described in paragraph (a) of this Article 13 shall have been authorized by the affirmative vote of at least 80% of all of the votes entitled to be cast by holders of the outstanding shares of Voting Stock, voting together as a single class.

(c) Notwithstanding paragraph (b) of this Article 13, the 80% voting requirement shall not be applicable if any action or transaction specified in paragraph (a) is approved by the Corporation's Board of Directors and by a majority of the Continuing Directors (as hereinafter defined).

(d) Unless approved by a majority of the Continuing Directors, after becoming a Related Person and prior to consummation of such action or transaction.

(i) the Related Person shall not have acquired from the Corporation or any of its subsidiaries any newly issued or treasury shares of capital stock or any newly issued securities convertible into capital stock of the Corporation or any of its majority-owned subsidiaries, directly or indirectly (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata stock dividend or stock split or other distribution of stock to all shareholders pro rata);

(ii) such Related Person shall not have received the benefit directly or indirectly (except proportionately as a shareholder) of any loans, advances,

guarantees, pledges, or other financial assistance or tax credits provided by the Corporation or any of its majority-owned subsidiaries, or made any major changes in the Corporation's or any of its majority-owned subsidiaries' businesses or capital structures or reduced the current rate of dividends payable on the Corporation's capital stock below the rate in effect immediately prior to the time such Related Person became a Related Person; and

(iii) such Related Person shall have taken all required actions within its power to ensure that the Corporation's Board of Directors included representation by Continuing Directors at least proportionate to the voting power of the shareholdings of Voting Stock of the Corporation's Remaining Public Shareholders (as hereinafter defined), with a Continuing Director to occupy an additional Board position if a fractional right to a director results and, in any event, with at least one Continuing Director to serve on the Board so long as there are any Remaining Public Shareholders.

(e) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, as amended, whether or not the Corporation is then subject to such requirements, shall be mailed to the shareholders of the Corporation for the purpose of soliciting shareholder approval of such action or transaction and shall contain at the front thereof, in a prominent place, any recommendations as to the advisability or inadvisability of the action or transaction which the Continuing Directors may choose to state and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the action or transaction from a financial point of view to the Remaining Public Shareholders, such investment banking firm to be paid a reasonable fee for its services by the Corporation. The requirements of this paragraph (e) shall not apply to any such action or transaction which is approved by a majority of the Continuing Directors.

(f) For the purpose of this Article 13

(i) the term "Related Person" shall mean any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the outstanding shares of Voting Stock, and any Affiliate or Associate (as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934) of a Related Person; *provided, however,* that the term Related Person shall not include (a) the Corporation or any of its subsidiaries, (b) any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or (c) Lilly Endowment, Inc.; and *further provided,* that no corporation, person, or entity shall be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly Endowment, Inc.;

(ii) a Related Person shall be deemed to own or control, directly or indirectly, any outstanding shares of Voting Stock owned by it or any Affiliate or Associate of record or beneficially, including without limitation shares

a. which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants, or options, or otherwise or

b. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause a. above), by any other corporation, person, or other entity with which it or its Affiliate or Associate has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Voting Stock, or which is its Affiliate (other than the Corporation) or Associate (other than the Corporation);

(iii) the term "Voting Stock" shall mean all shares of any class of capital stock of the Corporation which are entitled to vote generally in the election of directors;

(iv) the term "Continuing Director" shall mean a director who is not an Affiliate or Associate or representative of a Related Person and who was a member of the Board of Directors of the Corporation immediately prior to the time that any Related Person involved in the proposed action or transaction became a Related Person or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors; and

(v) the term "Remaining Public Shareholders" shall mean the holders of the Corporation's capital stock other than the Related Person.

(g) A majority of the Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article 13, on the basis of information then known to the Continuing Directors, whether (i) any Related Person exists or is an Affiliate or an Associate of another and (ii) any proposed sale, lease, exchange, or other disposition of part of the assets of the Corporation or any majority-owned subsidiary involves a substantial part of the assets of the Corporation or any of its subsidiaries. Any such determination by the Continuing Directors shall be conclusive and binding for all purposes.

(h) Nothing contained in this Article 13 shall be construed to relieve any Related Person or any Affiliate or Associate of any Related Person from any fiduciary obligation imposed by law.

(i) The fact that any action or transaction complies with the provisions of this Article 13 shall not be construed to waive or satisfy any other requirement of law or these Amended Articles of Incorporation or to impose any fiduciary duty, obligation, or

responsibility on the Board of Directors or any member thereof, to approve such action or transaction or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit, or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such action or transaction. The Board of Directors of the Corporation, when evaluating any actions or transactions described in paragraph (a) of this Article 13, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including without limitation the social and economic effects on the employees, customers, suppliers, and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

(j) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of the holders of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 13.

14. A total of 1,500,000 shares of the 5,000,000 shares of authorized Preferred Stock are designated as "Series B Junior Participating Preferred Stock" (the "Series B Preferred Stock"). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of shares of Series B Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series B Preferred Stock. The Series B Preferred Stock shall possess the rights, preferences, qualifications, limitations, and restrictions set forth below:

(a) The holders of shares of Series B Preferred Stock shall have the following rights to dividends and distributions:

(i) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series B Preferred Stock with respect to dividends, the holders of shares of Series B Preferred Stock, in preference to the holders of Common Stock, without par value (the “Common Stock”), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the tenth day of March, June, September and December in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $10 or (b) subject to the provision for

adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non- cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) The Corporation shall declare a dividend or distribution on the Series B Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $10 per share on the Series B Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(iii) Dividends shall begin to accrue and be cumulative on outstanding shares of Series B Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend or

distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

(b) The holders of shares of Series B Preferred Stock shall have the following voting rights:

(i) Subject to the provision for adjustment hereinafter set forth, each share of Series B Preferred Stock shall entitle the holder thereof to 1000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) Except as otherwise provided herein, in any other Articles of Amendment creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(iii) Except as set forth herein, or as otherwise provided by law, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(c) The Corporation shall be subject to the following restrictions:

(i) Whenever quarterly dividends or other dividends or distributions payable on the Series B Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

a. declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock;

b. declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except dividends paid ratably on the Series B Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

c. redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preferred Stock; or

d. redeem or purchase or otherwise acquire for consideration any shares of Series B Preferred Stock, or any shares of stock ranking on a parity with the Series B Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(ii) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (i) of this Article 14(c), purchase or otherwise acquire such shares at such time and in such manner.

(d) Any shares of Series B Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Articles of Incorporation, or in any other Articles of Amendment creating a series of Preferred Stock or any similar stock or as otherwise required by law.

(e) Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (i) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received the greater of (a) $1000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (b) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1000 times the aggregate amount to be distributed per share to holders of shares

of Common Stock, or (ii) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except distributions made ratably on the Series B Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under the proviso in clause (i) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(f) In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series B Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series B Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(g) The shares of Series B Preferred Stock shall not be redeemable.

(h) The Series B Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock.

(i) The Amended Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series B Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series B Preferred Stock, voting together as a single class.

(j) In the event that the Rights Agreement dated as of July 20, 1998 between the Corporation and First Chicago Trust Company of New York, as Rights Agent (or any successor Rights Agent) is terminated or expires prior to the issuance of any shares of Series B Preferred Stock, all shares of Series B Preferred Stock shall become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth in the Articles of Incorporation or in any other Articles of Amendment creating a series of Preferred Stock or any similar stock or as otherwise required by law.

15. Subject to the rights of the holders of preferred stock to elect any directors voting separately as a class or series, at each annual meeting of shareholders, the directors to be elected at the meeting shall be chosen by the majority of the votes cast by the holders of shares entitled to vote in the election at the meeting, provided a quorum is present; provided, however, that if the number of nominees exceeds the number of directors to be elected, then directors shall be elected by the vote of a plurality of the votes cast by the holders of shares entitled to vote, provided a quorum is present. For purposes of this Article 15, a “majority of votes cast” shall mean that the number of votes cast “for” a director's election exceeds the number of votes cast “against” that director's election.

ELI LILLY AND COMPANY

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

Preamble

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

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

Section 1. Definition of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 2. Plan Administrator

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

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

Section 3. Eligibility and Participation

(a) Eligible Employees . Each Eligible Employee may become a Participant in the Plan with respect to Base Salary and/or Annual Bonus compensation earned during a Plan Year, subject to and in accordance with the terms and limitations of the Plan. Selection for participation by the Plan Administrator with respect to compensation earned for a Plan Year does

not confer upon the Eligible Employee the right to participate in the Plan with respect to compensation earned during a future Plan Year. The Plan Administrator may require an Eligible Employee to comply with such terms and conditions as the Plan Administrator may specify in order for the Eligible Employee to participate in the Plan.

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

Section 4. Elections to Participate

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

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

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

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

(ii) In the case of Annual Bonus that the Plan Administrator determines is "performance-based compensation" within the meaning of Section 409A, no

later than June 30th of the applicable Plan Year with respect to which the Annual Bonus is earned.

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

Section 5. Accounts and Interest Credits

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

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

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

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

Section 6. Distribution of Accounts

(a) Distribution upon Separation from Service . A Participant shall specify on an Election Form the manner in which the Participant's deferred Base Salary and Annual Bonus compensation as applicable for a Plan Year (and earnings thereon) shall be distributed from the Participant's Account u nder the Plan upon the Participant's Separation from Service . Any election by the Participant as to the distribution of such portion of the Account shall be irrevocable. A Participant may elect, to the extent permitted by the Plan Administrator and set forth on the Election Form, that such portion of the Account be distributed upon a Participant's Separation from Service either in:

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

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

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

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

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

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

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

Section 7. Administrative Matters

(a) Claims Process.

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

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

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

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

A claimant for benefits whose application for review is totally or partially denied may make a final appeal to the Plan Administrator or designee within 90 days from receipt of the second denial notice. The final request for review must be in writing. The same rights detailed in (iii) above will apply for this appeal.

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

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

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

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

Section 8. Unfunded Status

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

Section 9. Nontransferability; Successors

No interest of any person in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be

taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person .

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

Section 10. Limitation of Rights

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

Section 11. Enforceability

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

Section 12. Effective Date; Amendment and Termination

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

ELI LILLY AND COMPANY

APPENDIX A

GRANDFATHERED AMOUNTS

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

The Lilly Deferred Compensation Plan

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

Section 1. Establishment of the Plan .

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

Section 2. Definitions .

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

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

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

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

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

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

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

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

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

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

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

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

2.12. Lilly . The term "Lilly" means Eli Lilly and Company.

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

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

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

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

Section 3. Participation .

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

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

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

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

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

3.2. Base Salary . Subject to the right of the Committee to limit deferrals described below, prior to the beginning of each Compensation Year, an SEC Executive Officer may defer the receipt of

up to one hundred percent (100%) of Base Salary pursuant to the Plan by filing a written election with the Committee, in a form satisfactory to the Committee, that

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

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

The amount deferred may not exceed the amount of Base Salary. Except as provided in subsections 6.1 and 6.3 hereof, any election made pursuant to this Section 3 (including any election made pursuant to paragraphs (i) and (ii), above) with respect to a Bonus Year shall be irrevocable when made and shall not be affected by the Participant's ceasing to be an SEC Executive Officer after the beginning of the Bonus Year.

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

Section 4. Individual Account .

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

Section 5. Accrual of Company Credit .

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

Section 6. Payment .

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

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

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

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

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

Participant’s life shall be paid to the Participant’s estate in a lump sum in accordance with this subsection 6.2.

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

6.4. Payment on Unforeseeable Emergency . The Administrator may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant’s Account balance, notwithstanding an election under Section 6.1. above, at any time that it determines that such Participant has an unforeseeable emergency and then only to the extent reasonably necessary to meet the emergency. For purposes of this rule, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved --

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

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

(iii) By cessation of deferrals under the Plan.

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

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

Section 7. Prohibition Against Transfer .

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

Section 8. Participant's Rights Unsecured .

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

Section 9. Administration .

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

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

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

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

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

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

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

9.4. Claims Procedures . Any person making a claim for benefits hereunder shall submit the claim in writing to the Committee. If the Committee denies the claim in whole or in part, it shall issue to the claimant a written notice explaining the reason for the denial and identifying any additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within 60 days of receiving a written notice of denial, submit a written request for reconsideration to the Committee, together with a written explanation of the basis of the request. The Committee shall consider any such request and shall provide the claimant with a written decision together with a written explanation thereof. All interpretations, determinations, and decisions of the committee in respect of any claim shall be final and conclusive.

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

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

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

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

Section 10. No Employment Rights .

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

Section 11. Amendment, Suspension, and Termination .

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

Section 12. Applicable Law .

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

Section 13. Effective Date .

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

The Eli Lilly and Company Bonus Plan

(as amended effective January 1, 2014)

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The Eli Lilly and Company Bonus Plan
(as amended effective January 1, 2014)

SECTION 1. PURPOSE

The purpose of The Eli Lilly and Company Bonus Plan is to encourage and promote eligible employees to create and deliver innovative pharmaceutical-based health care solutions that enable people to live longer, healthier and more active lives, to outgrow our competitors through a constant stream of pharmaceutical innovation, and to materially increase shareholder value. The Plan is designed to accomplish the following key objectives:

a. motivate superior employee performance through the implementation of a performance-based bonus system for all eligible management employees, United States employees (including those in Puerto Rico) and other employees as may be designated from time to time;

b. create a direct relationship between key company measurements and individual bonus payouts; and

c. enable the Company to attract and retain employees that will be instrumental in driving sustained growth and performance of Eli Lilly and Company by providing a competitive bonus program that rewards outstanding performance consistent with the Company's mission, values and increased shareholder value.

SECTION 2. DEFINITIONS

The following words and phrases as used in this Plan will have the following meanings unless a different meaning is clearly required by the context. Masculine pronouns will refer both to males and to females:

2.1 Applicable Year means the calendar year immediately preceding the year in which payment of the Company Bonus is payable pursuant to Section 6. For example, the Applicable Year for 2015 payout is January 1, 2014 through December 31, 2014.

2.2 Bonus Target means the percentage of Participant Earnings for each Participant as described in Section 5.6(a) below.

2.3 Code means the Internal Revenue Code of 1986, as amended from time to time.

2.4 Committee means (i) with respect to the Executive Officers of Lilly, the Compensation Committee, the members of which will be selected by the Board of Directors of Lilly, from among its members; and (ii) with respect to all other Eligible Employees, the Compensation Committee of the Board of Directors or its designee.

2.5 Company means Eli Lilly and Company and its subsidiaries.

2.6 Company Bonus means the amount of bonus compensation payable to a Participant as described in Section 5 below. Notwithstanding the foregoing, however, the Committee may determine, in its sole discretion, to reduce the amount of a Participant's Company Bonus if such Participant becomes eligible to participate in such other bonus program of the Company as may be specifically designated by the Committee. Such reduction may be by a stated percentage up to and including 100% of the Company Bonus.

2.7 Company Performance Bonus Multiple means the amount as calculated in Sections 5.3 and 5.4 below.

2.8 Disabled means a Participant who (i) has become eligible for a payment under The Lilly Extended Disability Plan, assuming eligibility to participate in that plan, or (ii) for those employees ineligible to participate in The Lilly Extended Disability Plan, has become otherwise "disabled" under the applicable disability benefit plan or program for the Participant, or, in the event that there is no such disability benefit plan or program, has become disabled under applicable local law.

2.9 Earnings Per Share (EPS) means the diluted earnings per share of the Company as reported in the Company's "Consolidated Statements of Income" in accordance with generally accepted accounting principles and Section 3.4 below.

2.10 Earnings Per Share Change (EPS Change) means the percentage increase or decrease in EPS in the Applicable Year compared to the prior year.

2.11 Effective Date means January 1, 2004, as amended from time to time.

2.12 Eligible Employee means:

a. with respect to employees of Lilly, Lilly USA, LLC., ImClone Systems LLC or Lilly's subsidiaries with operations in Puerto Rico, a person (1) who is employed as an employee by the Company on a scheduled basis of twenty (20) or more hours per week and is scheduled to work at least five (5) months per year; and (2) who is receiving compensation, including temporary illness pay under Lilly's Illness Pay Program or similar short-term disability program, from the Company for services rendered as an employee. Notwithstanding anything herein to the contrary, the term "Eligible Employee" will not include:

(1) a person who has reached Retirement with the Company;

(2) a person who is Disabled;

(3) a person who is a "leased employee" within the meaning of Section 414(n) of the Internal Revenue Code of 1986, as amended, or whose basic compensation for services on behalf of the Company is not paid directly by the Company;

(4) a person who is classified as a "Fixed Duration Employee", as that term is used by Lilly, except as otherwise designated by the Committee;

(5) a person who is classified as a special status employee because his employment status is temporary, seasonal, or otherwise inconsistent with regular employment status;

(6) a person who is eligible to participate in the Eli Lilly and Company Prem1er Rewards Plan, a bonus or incentive plan for eligible employees of Elanco Animal Health or such other Company bonus or incentive program as may be specifically designated by the Committee or its designee; or

(7) a person who submits to the Committee in writing a request that he not be considered eligible for participation in the Plan or is a member of the Board of Directors of Lilly unless he or she is also an Eligible Employee.

(8) any other category of employees designated by the Committee in its discretion with respect to any Applicable Year.

b. with respect to those employees who are employed by the Company, but not by Lilly, Lilly USA, LLC., or a Puerto Rican subsidiary, an employee of the Company designated by the Committee as a Participant in the Plan with respect to any Applicable Year. In its discretion, the Committee may designate Participants either on an individual basis or by determining that all employees in specified job categories, classifications, levels, subsidiaries or other appropriate classification will be Participants.

c. Notwithstanding anything herein to the contrary, the term Eligible Employee will not include any person who is not so recorded on the payroll records of the Company, including any such person who is subsequently reclassified by a court of law or regulatory body as a common law employee of the Company. Consistent with the foregoing, and for purposes of clarification only, the term employee or Eligible Employee does not include any individual who performs services for the Company as an independent contractor or under any other non-employee classification.

2.13 Executive Officer Incentive Plan means The Eli Lilly and Company Executive Officer Incentive Plan, as approved by the Board of Directors of Lilly, effective January 1, 2011. The Executive Officer Incentive Plan has been established to comply with the provisions of Section 162(m) of the Internal Revenue Code; provided, however, participation in such plan is not limited to "covered employees" within the meaning of Code Section 162(m)(3).

2.14 Lilly means Eli Lilly and Company.

2.15 Lilly Executive Officer or Section 162(m) Participant means a Participant who has been designated by the Board of Directors of Lilly as an executive officer pursuant to

Rule 3b‑7 under the Securities Exchange Act of 1934, as amended , and who either has remained in an executive officer position through the end of the Applicable Year or is otherwise a participant in the Executive Officer Incentive Plan on the last day of the Applicable Year . For purposes of this Plan, a Lilly Executive Officer will be considered a Section 162(m) Participant whether or not he is a "covered employee" under Section 162(m).

2.16 Participant means an Eligible Employee who is participating in the Plan.

2.17 Participant Earnings means (A) those amounts described below that are earned during the portion of the Applicable Year during which the employee is a Participant in the Plan:

(i) regular compensation (including applicable deferred compensation amounts), overtime, shift premiums and other forms of additional compensation determined by and paid currently pursuant to an established formula or procedure;

(ii) salary reduction contributions to The Lilly Employee 401(k) Plan or elective contributions under any similar tax-qualified plan that is intended to meet the requirements of Section 401(k) of the Internal Revenue Code or similar Company savings program;

(iii) elective contributions to any cafeteria plan that is intended to meet the requirements of Section 125 of the Internal Revenue Code or other pre-tax contributions to a similar Company benefit plan;

(iv) payments made under the terms of Lilly's Illness Pay Program or other similar Company or government-required leave program during an Applicable Year to a Participant who is on approved leave of absence and is receiving one hundred percent (100%) of his base pay; and

(v) other legally-mandated or otherwise required pre-tax deductions from a Participant's base salary.

(B) The term "Participant Earnings" does not include:

(i) compensation paid in lieu of earned vacation;

(ii) amounts contributed to the Retirement Plan or any other qualified plan, except as provided in clause (A)(ii), above;

(iii) payments made under the terms of Lilly's Illness Pay Program or other similar Company or government-required leave program during an Applicable Year to a Participant who is on approved leave of absence and is receiving less than the full amount of his base pay;

(iv) amounts paid under this Plan or other bonus or incentive program of the Company;

(v) payments made under The Lilly Severance Pay Plan, The Severance Pay Plan for Eli Lilly Affiliate Employees in Puerto

Rico or any other severance-type benefit (whether company-sponsored or mandated by law) arising out of or relating to a Participant's termination of employment;

(vi) payments based upon the discretion of the Company;

(vii) in the case of a person employed by a Lilly subsidiary, foreign service, cost of living, or other allowances that would not be paid were the person employed by Lilly;

(viii) amounts paid as commissions, sales bonuses, or Market Premiums (as defined under the Retirement Plan); or

(ix) earnings with respect to the exercise of stock options, vesting of restricted stock units or vesting of restricted stock.

2.18 Performance Benchmarks mean the amounts as calculated in Section 5.3 below. The Performance Benchmarks will be established based on Lilly's internal business plan as reviewed and approved by the Board of Directors of the Company and based on performance measures as described in Section 5.2.

2.19 Pipeline Metrics mean the measurements of the Company's research and development pipeline established and approved by the Compensation Committee in consultation with the Science and Technology Committee of the Board of Directors of Lilly to be used for purposes of bonus calculations as described below. Such measures may include, but are not limited to, the number and type of product approvals within an Applicable Year, the number of new molecular entities that enter Phase III clinical trials during an Applicable Year, the assessed progress of the Company's portfolio against predicted outcomes (i.e., delivery reliability) and the assessed quality of the pipeline products, as determined by the Company.

2.20 Plan means The Eli Lilly and Company Bonus Plan as set forth herein and as hereafter modified or amended from time to time. The Plan is an incentive compensation program and is not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), pursuant to Department of Labor Regulation Section 2510.3.

2.21 Plant Closing means the closing of a plant site or other Company location that directly results in termination of employment.

2.22 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.

2.23 Retirement means the cessation of employment upon the attainment of age fifty-five with at least ten years of service (55 and 10), age sixty-five with at least five years of service (65 and 5) or at least eighty (80) points, as determined by the provisions of the Retirement Plan as amended from time to time, assuming eligibility to participate in that plan. For persons who are not participants in the Retirement Plan, Retirement means the cessation of employment as a retired employee under the applicable retirement benefit plan or program as provided by the Company or applicable law.

2.24 Retirement Plan means The Lilly Retirement Plan.

2.25 Revenue means, for any Applicable Year, the consolidated net revenue of the Company as set forth in the "Statements of Operations" as reported by the Company in accordance with generally accepted accounting principles and Section 3.4 below.

2.26 Revenue Change means the percentage increase or decrease in Revenue in the Applicable Year compared to the prior year.

2.27 Service means the aggregate time of employment of an Eligible Employee by the Company.

SECTION 3. ADMINISTRATION

3.1 Committee . The Plan will be administered by the Compensation Committee of the Board of Directors of Eli Lilly and Company or, if the name of the Compensation Committee is changed, the Plan will be administered by such successor committee. For all Eligible Employees other than Lilly Executive Officers, the Compensation Committee may delegate all or a portion of its responsibilities within its sole discretion by resolution. Any reference in this Plan to the Committee or its authority will be deemed to include such designees (other than with respect to Lilly Executive Officers or a member of the Board of Directors or for purposes of Section 9).

3.2 Powers of the Committee . The Committee will have the full power and authority in its discretion to

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

b. adopt, amend and rescind rules consistent with the Plan;

c. make exceptions in particular cases to the rules of eligibility for participation in the Plan (except with respect to Lilly Executive Officers);

d. determine whether, to what extent, and under what circumstances payments made or to be made should be recovered or forfeited under the Company's Executive Compensation Recovery Policy as in effect from time to time; and

e. delegate authority for administration of the Plan with respect to any Eligible Employee except for Lilly Executive Officers or a member of the Board of Directors. The Committee will take all necessary action to establish annual Performance Benchmarks and approve the timing of payments, as necessary.

3.3 Certification of Results . Before any amount is paid under the Plan, the Committee will certify in writing the calculation of EPS, EPS Change, Revenue, Revenue Change and Pipeline Metrics (or other applicable performance measures) for the Applicable Year and the satisfaction of all other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus.

3.4 Adjustments for Significant Events . Not later than 90 days after the beginning of an Applicable Year, the Committee may specify with respect to Company Bonuses for the Applicable Year that the performance measures described in Section 5.2 will be determined before the effects of acquisitions, divestitures, restructurings or special charges or gains, changes in corporate capitalization, accounting changes, and/or events that are treated as extraordinary items for accounting purposes.

3.5 Finality of Committee Determinations . Any determination by the Committee of Revenue, Revenue Change, EPS, EPS Change, Pipeline Metrics, any other performance measure, Performance Benchmarks and the level and entitlement to Company Bonus, and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan, will be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives. The Committee may rely conclusively on determinations made by Lilly and its auditors to determine Revenue, Revenue Change, EPS, EPS Change and related information for administration of the Plan, whether such information is determined by the Company, auditors or a third-party vendor engaged specifically to provide such information to the Company. This subsection is not intended to limit the Committee's power, to the extent it deems proper in its discretion, to take any action permitted under the Plan.

SECTION 4. PARTICIPATION IN THE PLAN

4.1 General Rule . Only Eligible Employees may participate in and receive payments under the Plan.

4.2 Commencement of Participation . An Eligible Employee will become a Participant in the Plan as follows: (i) in the case of Eligible Employees under Section 2.12(a), on the date on which the individual completes at least one hour of employment as an Eligible Employee within the United States or Puerto Rico, and (ii) in the case of Eligible Employees under Section 2.12(b), the later of the date on which the individual completes at least one hour of employment as an Eligible Employee or the date as of which the Committee has designated the individual to become a Participant in the Plan.

4.3 Termination of Participation . An Eligible Employee will cease to be a Participant upon termination of employment with the Company for any reason, or at the time he otherwise ceases to be an Eligible Employee under the Plan ; provided, however, a terminated Participant shall be eligible for a Company Bonus to the extent provided in Section 5.9.

SECTION 5. DEFINITION AND COMPUTATION OF COMPANY BONUS

5.1 Computation for Eligible Employees . Company Bonus amounts will depend significantly on Company performance as well as whether Participants met their job expectations for certain Eligible Employees. As more specifically described below, a Participant's Company Bonus is calculated by multiplying the Participant's Bonus Target by his Participant Earnings and the Company Performance Bonus Multiple. For eligible management and Lilly employees and those Participants designated by the Committee, whether an individual met their job expectations will also impact the Company Bonus calculation, as described in Section 5.6(c) below. Company Bonuses are paid out to eligible Participants in the manner provided below.

5.2 Establishment of Performance Measures . Not later than 90 days after the beginning of each Applicable Year, the Committee will, in its sole discretion, determine appropriate performance measures for use in calculating Company Bonus amounts. These performance measures may include, but are not limited to, Revenue Change, EPS Change, growth in net income, return on assets, return on equity, Pipeline Metrics, total shareholder return, EVA, MVA or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains. Unless otherwise specified pursuant to a written resolution adopted by the Committee for the Applicable Year, the Committee will use as performance measures EPS Change, Revenue Change and Pipeline Metrics, in each case before the effect of acquisitions, divestitures, accounting changes, restructurings and special charges or gains (determined as described above) as performance measures.

5.3 Establishment of Performance Benchmarks . Not later than 90 days after the beginning of each Applicable Year, the Committee will establish Performance Benchmarks for the Company based on the performance measures described in Section 5.2 above. Unless otherwise specified pursuant to a written resolution adopted by the Committee for the Applicable Year, the Performance Benchmarks will correspond with EPS Change and Revenue Change amounts for the Applicable Year, established with reference to Lilly's internal business plan as reviewed and approved by the Board of Directors of the Company, and Pipeline Metrics as approved by the Committee in consultation with the Science and Technology Committee. The Performance Benchmarks will correspond to EPS Change, Revenue Change and Pipeline Metric multiples equal to 1.0. The Committee will also adopt a formula that will determine the extent to which the performance measure multiples will vary as the Company's actual results relative to the internal plan approved by the Board of Directors of the Company vary from the Performance Benchmarks. Notwithstanding the foregoing, each performance measure multiple established above will be no less than 0.0 or greater than 2.0 in any Applicable Year, regardless of the Company's actual results.

5.4 Company Performance Bonus Multiple . Unless otherwise specified pursuant to a written resolution adopted by the Committee not later than 90 days after the beginning of the Applicable Year, the Company Performance Bonus Multiple is equal to the product of the EPS Change multiple and 0.50 plus the product of the Revenue Change multiple and 0.25

plus the product of the Pipeline Metrics multiple and 0.25 (i.e., Company Performance Bonus Multiple = (EPS Change multiple * 0.50) + (Revenue Change multiple * 0.25) + (Pipeline Metrics multiple * 0.25)).

5.5 Company Performance Bonus Multiple Threshold and Ceiling; Committee's Downward Discretion. Notwithstanding Sections 5.3 and 5.4, the Company Performance Bonus Multiple will not be less than 0.25 or greater than 2.0 in an Applicable Year. If the calculations described in Sections 5.3 and 5.4 above result in a number that is less than 0.25, the Company Performance Bonus Multiple will equal 0.25 for the Applicable Year. Notwithstanding the foregoing Sections 5.3, 5.4, and 5.5, at any time prior to certification as described in Section 3.3, the Committee in its discretion may

a. reduce the Company Performance Bonus Multiple (including but not limited to a reduction below 0.25) for some or all Eligible Employees, or

b. increase one or more Performance Benchmarks.

5.6 Participant Company Bonus .

a. Bonus Target . Not later than 90 days after the beginning of the Applicable Year, the Bonus Target for each Participant, whether such Participant is designated on an individual basis or by specified job categories, classifications, levels, subsidiaries or other appropriate classification, will be determined by the Committee on a basis that takes into consideration a Participant's pay grade level and job responsibilities. The Bonus Target for each Participant for the Applicable Year will be expressed as a percentage of Participant Earnings as of December 31 of the Applicable Year. No later than early in the Applicable Year, each Participant will receive information regarding the Participant's Bonus Target. In the event that a Participant's pay grade level changes during the Applicable Year (e.g., because of promotion, demotion or otherwise), the Participant's Bonus Target will be prorated based on the Bonus Target applicable to each pay grade level (with related job responsibilities) and the percentage of time that the Participant is employed at each pay grade level during the Applicable Year.

b. Company Bonus Calculation . Except as described in Section 5.6(c) below, a Participant's Company Bonus will equal the product of the Company Performance Bonus Multiple and the Participant's Bonus Target and the Participant's Earnings.

c. Adjustment for Individual Performance Multiplier, if Applicable . Notwithstanding anything herein to the contrary, all eligible management employees (except Lilly Executive Officers), United States employees and other employees as may be designated from time to time by the Committee are subject to individual performance multipliers. For all such Participants subject to an individual performance multiplier, the amount calculated in Section 5.6(b) above will be adjusted based on whether the Participant met job expectationsas determined by the Company at the end of the Applicable Year. If a Participant does not meet such job

expectations, the Participant will receive an individual performance multiplier equal to either 0.0 or 0.5, as determined by the Company. In that event, the individual performance multiplier will be multiplied by the amount described in Section 5.6(b) above to calculate the Participant's Company Bonus. If a Participant meets job expectations, the Participant's Company Bonus will equal the amount calculated in Section 5.6(b) above. In addition, if a Participant meets job expectations, the Company may increase the Participant's Company Bonus by an additional amount based on its determination of the Participant's individual performance and related factors. Not later than 90 days after the beginning of the Applicable Year, the Committee will determine applicable multipliers for meeting job expectations or ranges for the applicable rating system in effect for the Participant. For each such Participant, such rating will be determined by the Participant's supervision.

In the event that a Participant does not receive a year-end performance rating, but is otherwise eligible for a Company Bonus, the amount calculated in Section 5.6(b) will be multiplied by 1.0 so that the Participant's actual Company Bonus will be the amount calculated in Section 5.6(b) above.

5.7 Conditions on Company Bonus . Payment of any Company Bonus is neither guaranteed nor automatic. A Participant's Company Bonus is not considered to be any form of compensation, wages, or benefits, unless and until paid.

5.8 Special Limitations and Conditions Applicable to Lilly Executive Officers . Any Company Bonus to a Lilly Executive Officer shall be subject to the terms of the Executive Officer Incentive Plan. As a result, no Company Bonus shall be paid to a Lilly Executive Officer, unless the Executive Incentive Bonus Plan is approved by Lilly shareholders at their annual meeting in April, 2011, in accordance with the applicable provisions of Code Section 162(m), and the amount of any Company Bonus to a Lilly Executive Officer for an Applicable Year shall under no circumstances exceed the amount payable for such Applicable Year pursuant to the Executive Officer Incentive Plan.

5.9 Required Employment . Except as provided below in this Section 5.9, required by applicable law or as otherwise designated by the Committee, if a Participant is not employed by the Company on the last day of the Applicable Year, or is otherwise not an Eligible Employee on that date, the Participant is not entitled to any Company Bonus payment under this Plan for that Applicable Year.

a. Leaves of Absence . A Participant who, on the last day of the Applicable Year, is on approved leave of absence under the Family and Medical Leave Act of 1993, military leave under the Uniformed Services Employment and Reemployment Rights Act, or such other approved leave of absence will be considered to be an Eligible Employee on that date for purposes of this Plan.

b. Transfer . An employee who is a Participant in this Plan for a portion of the Applicable Year and then transfers to a position within the Company in which he is ineligible to participate in this Plan, but who remains employed by the

Company on the last day of the Applicable Year, will be treated as satisfying the last-day-of-Applicable Year requirement for purposes of this Plan. In that event, his Company Bonus will be based on his Participant Earnings for the portion of the Applicable Year in which the employee was a Participant in the Plan.

c. Retirement, Disability or Death . Except as described below, a Participant who was an Eligible Employee for some portion of the Applicable Year and then takes Retirement, becomes and remains Disabled through the end of the Applicable Year, or dies during the Applicable Year will be considered to satisfy the last-day-of-Applicable-Year requirement described in this Section 5.9 for purposes of this Plan. Notwithstanding the foregoing, an Eligible Employee in the United States who has not received a year-end performance rating and (1) is on employment probation (or its equivalent outside the United States) and takes Retirement in lieu of a termination of employment; or (2) takes Retirement in lieu of termination of employment because of an immediately terminable offense (e.g. absence of three days without notice, insubordination, violation of drug policy, possession of firearms, misconduct) will not be considered to satisfy the last day of Applicable Year requirement.

d. Reallocation, Medical Reassignment, Plant Closing or Reduction in Workforce . A Participant who was an Eligible Employee for some portion of the Applicable Year and whose employment is terminated as a result of his failure to locate a position following his reallocation or medical reassignment in the United States, or a Plant Closing or Reduction in Workforce will be considered to satisfy the last-day-of-Applicable Year requirement described in this Section 5.9 for purposes of this Plan. The Committee or its designee's determination regarding whether a Participant's termination is a direct result of either a Plant Closing or a Reduction in Workforce will be final and binding.

e. Expiration of Contract : A Participant who was an Eligible Employee for some portion of the Applicable Year and is subject to an agreement that describes a specific end date of employment and whose employment ends as a direct result of the expiration (not termination) of the agreement prior to the end of the Applicable Year will be considered to satisfy the last-day-of-Applicable Year requirement described in this Section 5.9 for purposes of this Plan. The Committee or its designee's determination regarding whether a Participant's end of employment is a direct result of the expiration of the individual's agreement will be final and binding.

f. Notice of Resignation . In addition, a Participant who submits a notice of resignation from employment with the Company prior to the end of the Applicable Year and whose effective date of resignation is two (2) weeks or less from the date of notice of resignation (or as otherwise required by law) will be considered employed by the Company for purposes of this Plan until the end of his specified notice period.

5.10 New Participants . If an Eligible Employee began participation in the Plan during an Applicable Year and is eligible for a Company Bonus, his Company Bonus will be based on Participant Earnings earned after the employee became a Participant.

SECTION 6. TIME OF PAYMENT

6.1 General Rule . Payment under the Plan will be made in the year following the Applicable Year on or prior to March 15 of such year.

6.2 Terminated Employee . Except as provided in Section 5.9 above, in the event an Eligible Employee's employment with the Company ends for any reason prior to the last day of the Applicable Year, he will not receive any Company Bonus for the Applicable Year.

6.3 Deceased Eligible Employee . In the event an Eligible Employee dies before payment under the Plan is made, the Committee may, in its sole discretion, authorize the Company to pay to his personal representative or beneficiary an amount not to exceed the amount established by the Committee to reflect the payment accrued at the date of death. Any such payment would be paid consistent with the timing requirements described in subsection 6.1 above.

SECTION 7. ADMINISTRATIVE GUIDELINES

7.1 Establishment and Amendment by the Committee . The Committee may establish objective and nondiscriminatory written guidelines for administering those provisions of the Plan that expressly provide for the determination of eligibility, Company Bonus or benefits on the basis of rules established by the Committee. The Committee may, from time to time, amend or supplement the administrative guidelines established in accordance with this subsection 7.1. The administrative guidelines established or amended in accordance with this subsection 7.1 will not be effective to the extent that they materially increase the Plan's liability, or to the extent that they are inconsistent with, or purport to amend, any provision of the Plan set forth in a document other than such administrative guidelines.

7.2. Amendment by Board of Directors . Any administrative guidelines established by the Committee pursuant to subsection 7.1 may be amended or revoked by the Board of Directors, either prospectively or retroactively, in accordance with the general amendment procedures set forth in section 9 below.

SECTION 8. MISCELLANEOUS

8.1 No Vested Right . No employee, participant, beneficiary, or other individual will have a vested right to a Company Bonus or any part thereof until payment is made to him under Section 6.

8.2 No Employment Rights . No provision of the Plan or any action taken by the Company, the Board of Directors of the Company, or the Committee will give any person any right to be retained in the employ of the Company. The right and power of the Company to dismiss or discharge any Participant for any reason or no reason, with or without notice, is specifically reserved.

8.3 No Adjustments . After the certification of the calculation of EPS, EPS Change, Revenue, Revenue Change, Pipeline Metrics and any other material terms of the calculation of the Company Performance Bonus Multiple and Company Bonus for the Applicable Year as described in Section 3.3 above, no adjustments will be made to reflect any subsequent change in accounting, the effect of federal, state, or municipal taxes later assessed or determined, or otherwise.

8.4 Executive Compensation Recovery Policy . Notwithstanding any other provision of the Plan, including Section 8.3, all payments made or to be made pursuant to the Plan are subject to the Company's Executive Compensation Recovery Policy, as in effect from time to time. In addition, nothing herein shall limit the Company's power to take such action as it deems necessary to remedy any misconduct, prevent its recurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer in a manner that it deems appropriate.

8.5 Other Representations . Nothing contained in this Plan, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any employee, participant, beneficiary, legal representative, or any other person. Although Participants generally have no right to any payment from this Plan, to the extent that any Participant acquires a right to receive payments from the Company under the Plan, such right will be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder will be paid from the general funds of the Company and no special or separate fund will be established, and no segregation of assets will be made, to assure payment of such amount.

8.6 Tax Withholding . The Company will make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local, and other taxes required by law to be withheld with respect to Company Bonus payments under the Plan, including, but not limited to, deducting the amount required to be withheld from the amount of cash otherwise payable under the Plan, or from salary or any other amount then or thereafter payable to an employee, Participant, beneficiary, or legal representative.

8.7 Currency . The Company Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee will determine the appropriate foreign exchange conversion methodology in its discretion.

8.8 Effect of Plan on other Company plans . Nothing contained in this Plan is intended to amend, modify, terminate, or rescind other benefit or compensation plans established or maintained by the Company. Whether and to what extent a Participant's Company Bonus is taken into account under any other plan will be determined solely in accordance with the terms of such plan.

8.9 Construction . This Plan and all the rights thereunder will be governed by, and construed in accordance with, the laws of the state of Indiana, without reference to the principles of conflicts of law thereof.

8.10 Notice . Any notice to be given to the Company or Committee pursuant to the provisions of the Plan will be in writing and directed to Secretary, Eli Lilly and Company, Lilly Corporate Center, Indianapolis, IN 46285.

SECTION 9. AMENDMENT, SUSPENSION, OR TERMINATION

The Board of Directors of the Company will have the right to amend, modify, suspend, revoke, or terminate the Plan, in whole or in part, at any time and without notice, by written resolution of the Board of Directors. The Committee also will have the right to amend the Plan, except that the Committee may not amend this Section 9.

EXHIBIT 12. Statement Re: Computation of Ratio of Earnings to Fixed Charges

ELI LILLY AND COMPANY AND SUBSIDIARIES

	Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(Dollars in millions)				
Consolidated pretax income	**$ 5,889.3**	$ 5,408.2	$ 5,349.5	$ 6,525.2	$ 5,357.8
Interest [1]	**184.2**	198.8	211.7	211.5	291.5
Less interest capitalized during the period	**(24.1)**	(21.0)	(25.7)	(26.0)	(30.2)
Earnings	**$ 6,049.4**	$ 5,586.0	$ 5,535.5	$ 6,710.7	$ 5,619.1
Fixed charges	**$ 184.2**	$ 198.8	$ 211.7	$ 211.5	$ 291.5
Ratio of earnings to fixed charges	**32.8**	28.1	26.1	31.7	19.3

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

Exhibit 21 — List of Subsidiaries & Affiliates

The following are subsidiaries and affiliated corporations of the company at December 31, 2013. Certain subsidiaries have been omitted as they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
Agri Stats Brasil Servicos Informacoes Gerenciais Ltda.	Brazil
Agri Stats, Inc.	Indiana
Alnara Pharmaceuticals, Inc.	Massachusetts
Andean Technical Operations Center	Peru
Applied Molecular Evolution, Inc.	Delaware
Avid Radiopharmaceuticals, Inc.	Pennsylvania
ChemGen Corporation	Massachusetts
del Sol Financial Services, Inc.	British Virgin Islands
Dista Ilac Ticaret Ltd. Sti.	Turkey
Dista, S.A.	Spain
Dista-Produtos Quimicos & Farmaceuticos, LDA	Portugal
Elanco Animal Health Ireland Limited	Ireland
Elanco Animal Health, Korea, Ltd.	Korea
Elanco Rus Ltd.	Russia
Elanco-Valquimica, S.A.	Spain
ELCO Dominicana SRL	Dominican Republic
ELCO for Trade and Marketing, S.A.E.	Egypt
ELCO Insurance Company Limited	Bermuda
ELCO International Sales Corporation	U.S. Virgin Islands
ELCO Management, Inc.	Delaware
ELGO Insurance Company Limited	Bermuda
Eli Lilly (B.V.I.) Holding Company Unlimited	British Virgin Islands
Eli Lilly (Malaysia) Sdn. Bhd.	Malaysia
Eli Lilly (Philippines), Incorporated	Philippines
Eli Lilly (S.A.) (Proprietary) Limited	South Africa
Eli Lilly (Singapore) Pte. Ltd.	Singapore
Eli Lilly (Suisse) S.A.	Switzerland
Eli Lilly and Company	Indiana
Eli Lilly and Company (India) Pvt. Ltd.	India
Eli Lilly and Company (Ireland) Limited	Ireland
Eli Lilly and Company (Ireland) Trustees Limited	Ireland
Eli Lilly and Company (N.Z.) Limited	New Zealand
Eli Lilly and Company (Taiwan), Inc.	Taiwan
Eli Lilly and Company Limited	United Kingdom
Eli Lilly Asia Pacific SSC Sdn Bhd	Malaysia
Eli Lilly Asia, Inc.	Delaware
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Benelux S.A.	Belgium
Eli Lilly B-H d.o.o.	Bosnia
Eli Lilly Bienes y Servicios S de RL de CV	Mexico
Eli Lilly Canada Inc.	Canada

	State or Jurisdiction of Incorporation or Organization
Eli Lilly CR s.r.o.	Czech Republic
Eli Lilly Danmark A/S	Denmark
Eli Lilly de Centro America, S.A.	Guatemala
Eli Lilly de Mexico, S.A. de C.V.	Mexico
Eli Lilly do Brasil Limitada	Brazil
Eli Lilly Egypt, S.A.E.	Egypt
Eli Lilly European Clinical Trial Services SA	Belgium
Eli Lilly Export S.A.	Switzerland
Eli Lilly farmacevtska druzba, d.o.o.	Slovenia
Eli Lilly Finance, S.A.	Switzerland
Eli Lilly Ges.m.b.H.	Austria
Eli Lilly Group Limited	United Kingdom
Eli Lilly Holdings Ltd.	United Kingdom
Eli Lilly Hrvatska d.o.o.	Croatia
Eli Lilly Industries, Inc.	Delaware
Eli Lilly Interamerica Inc., y Compania Limitada	Chile
Eli Lilly Interamerica, Inc.	Indiana
Eli Lilly International Corporation	Indiana
Eli Lilly Israel Ltd.	Israel
Eli Lilly Italia S.p.A.	Italy
Eli Lilly Japan K.K.	Japan
Eli Lilly Nederland B.V.	Netherlands
Eli Lilly Nigeria Ltd.	Nigeria
Eli Lilly Norge A.S.	Norway
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan
Eli Lilly Polska Sp.z.o.o. (Ltd.)	Poland
Eli Lilly Regional Operations GmbH	Austria
Eli Lilly Romania SRL	Romania
Eli Lilly S.A.	Switzerland
Eli Lilly S.A. -- Ireland Branch	Ireland
Eli Lilly Services, Inc.	British Virgin Islands
Eli Lilly Slovakia s.r.o.	Slovakia
Eli Lilly Spain Holding ETVE, S.L.	Spain
Eli Lilly Sweden AB	Sweden
Eli Lilly Trading (Shanghai) Company Limited	China
Eli Lilly Trading S.A.	Switzerland
Eli Lilly Vostok S.A., Geneva	Switzerland
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico
Eli Lilly y Compania de Venezuela, S.A.	Venezuela
Express Markets, Inc.	Indiana
GEMS Services S.A.	Belgium
GEMS Services S.A. -- CC Branch	Belgium
Greenfield-Produtos Farmaceuticos, Lda.	Portugal
ICOS Corporation	Washington

	State or Jurisdiction of Incorporation or Organization
ImClone GmbH	Switzerland
ImClone LLC	Delaware
ImClone Systems LLC	Delaware
ImClone Systems International GmbH	Germany
Irisfarma S.A.	Spain
Ivy Animal Health, Inc.	Delaware
Kinsale Financial Services	Ireland
Lilly Asia Ventures Fund I, L.P.	Cayman Islands
Lilly Asia Ventures Fund II, L.P.	Cayman Islands
Lilly Cayman Holdings	Cayman Islands
Lilly China Research and Development Co., Ltd.	China
Lilly del Caribe, Inc.	Cayman Islands
Lilly Deutschland GmbH	Germany
Lilly France S.A.S.	France
Lilly Global Services, Inc.	Indiana
Lilly GmbH	Germany
Lilly Holdings GmbH	Austria
Lilly Holdings, LLC	Delaware
Lilly Hungaria KFT	Hungary
Lilly Ilac Ticaret Limited Sirketi	Turkey
Lilly Korea Ltd.	Korea
Lilly Nederland Holding B.V.	Netherlands
Lilly Pharma Fertigung & Distribution GmbH	Germany
Lilly Pharma Holding GmbH	Germany
Lilly Pharma Ltd.	Russia
Lilly Pharma Produktion GmbH & Co. KG	Germany
Lilly Portugal - Produtos Farmaceuticos, Lda.	Portugal
Lilly S.A.	Spain
Lilly Suzhou Pharmaceutical Co. Ltd.	China
Lilly Trading Co. LTD	China
Lilly USA, Corp.	Indiana
Lilly USA, LLC	Indiana
Lilly Ventures Fund I LLC	Delaware
Lilly Ventures Management Company LLC	Delaware
Lilly-NUS Centre for Clinical Pharmacology	Singapore
OY Eli Lilly Finland AB	Finland
Pharmabrand, S.A.I.C.	Greece
Pharmaserve-Lilly S.A.C.I.	Greece
PT. Eli Lilly Indonesia	Indonesia
SGX Pharmaceuticals, Inc.	Delaware
Spaly Bioquimica, S.A.	Spain
UAB Eli Lilly Lietuva	Lithuania
Vital Pharma Productos Farmaceuticos	Portugal

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3ASR No. 333-186979; and Form S-8 Nos. 333-104057 and 333-172422) of Eli Lilly and Company and subsidiaries and in the related Prospectus of our reports dated February 19, 2014, with respect to the consolidated financial statements of Eli Lilly and Company and subsidiaries, and the effectiveness of internal control over financial reporting of Eli Lilly and Company and subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst and Young LLP

Indianapolis, Indiana
February 19, 2014

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

CERTIFICATIONS

I, John C. Lechleiter, Ph.D., Chairman of the Board, President, and Chief Executive Officer, certify that:

1. I have reviewed this report on Form 10-K 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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 functions):

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 control over financial reporting.

Date: February 19, 2014

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

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

CERTIFICATIONS

I, Derica W. Rice, Executive Vice President, Global Services, and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-K 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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 functions):

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 control over financial reporting.

Date: February 19, 2014

By: /s/ Derica W. Rice
Derica W. Rice
Executive Vice President, Global Services, 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 his knowledge:

The Annual Report on Form 10-K for the year ended December 31, 2013 (the “Form 10-K”) 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2014

/s/ John C. Lechleiter

John C. Lechleiter, Ph.D.
Chairman of the Board, President, and
Chief Executive Officer

Date: February 19, 2014

/s/ Derica W. Rice

Derica W. Rice
Executive Vice President, Global Services and
Chief Financial Officer