LILLY ELI & CO
Form 424B2
February 20, 2014

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-186979
The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities became effective under the Securities Act of 1933, as amended. We are not using this preliminary prospectus supplement and the accompanying prospectus to offer to sell or to solicit offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS SUPPLEMENT DATED FEBRUARY 20, 2014
Prospectus Supplement
(To Prospectus dated March 1, 2013)
$

Eli Lilly and Company
$ % Notes Due 2019
Interest payable on and
$ % Notes Due 2044
Interest payable on and

The % notes will mature on , 2019. The % notes will mature on , 2044. However, we may redeem some or all of the notes at any time at the prices described under the heading “Description of the Notes - Optional Redemption.”
Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.
Investing in the notes involves risks. See the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

	Price to Public(1)	Underwriting Discounts	Proceeds to Us (Before Expenses)(1)
Per % Note	%	%	%
Total	$	$	$
Per % Note	%	%	%
Total	$	$	$

----
(1) Plus accrued interest from February , 2014, if any, if settlement occurs after such date.
The notes are not and will not be listed on any securities exchange.
The underwriters expect to deliver the notes to investors through the book-entry delivery system of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., on or about February , 2014, against payment in immediately available funds.

Joint Book-Running Managers
BofA Merrill Lynch Barclays Citigroup Morgan Stanley

February , 2014

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and any permitted free writing prospectuses we have authorized for use with respect to this offering. We have not, and the underwriters have not, authorized anyone to provide you with different or additional information and, accordingly, you should not rely on any such information if it is provided to you. We are not, and the underwriters are not, making an offer to sell, or the solicitation of an offer to buy, any of these securities in any jurisdiction where an offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or any permitted free writing prospectus is accurate as of any date other than the date on the front cover of this prospectus supplement or the accompanying prospectus or the date of any such permitted free writing prospectus, as the case may be, or that the information incorporated by reference herein or therein is accurate as of any date other than the date of the relevant report or other document in which such information is contained.

TABLE OF CONTENTS Page

Prospectus Supplement
ABOUT THIS PROSPECTUS SUPPLEMENT S-1
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS S-1
OUR COMPANY S-2
USE OF PROCEEDS S-2
RATIO OF EARNINGS TO FIXED CHARGES S-2
DESCRIPTION OF THE NOTES S-3
MATERIAL U.S. FEDERAL TAX CONSIDERATIONS S-8
UNDERWRITING S-10
LEGAL MATTERS S-12
EXPERTS S-12
WHERE YOU CAN FIND MORE INFORMATION S-12
DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT S-12

Prospectus
ABOUT THIS PROSPECTUS 2
RISK FACTORS 3
WHERE YOU CAN FIND MORE INFORMATION 3
DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS 3
ELI LILLY AND COMPANY 4
RATIO OF EARNINGS TO FIXED CHARGES 4
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS 4
USE OF PROCEEDS 4
DESCRIPTION OF SECURITIES 5
DESCRIPTION OF CAPITAL STOCK 5
DESCRIPTION OF DEPOSITARY SHARES 8

DESCRIPTION OF DEBT SECURITIES 10
DESCRIPTION OF WARRANTS 18
DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS 20
PLAN OF DISTRIBUTION 20
LEGAL MATTERS 21
EXPERTS 21

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering, the notes and matters relating to us. The second part, the accompanying prospectus, provides a more general description of the terms and conditions of the various debt securities we may offer under our registration statement, some of which does not apply to this offering or the notes.

In various places in this prospectus supplement and the accompanying prospectus, we refer you to sections of other documents for additional information by indicating the caption heading of the other sections. All cross-references in this prospectus supplement are to captions contained in this prospectus supplement and not in the accompanying prospectus, unless otherwise indicated.

This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add, update or change information in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference from a report or other document filed with the Securities and Exchange Commission (the “SEC”) after the date of the accompanying prospectus, is inconsistent with the accompanying prospectus, this prospectus supplement, or such information incorporated by reference, will supersede that information in the accompanying prospectus.

It is important for you to read and consider carefully all information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any permitted free writing prospectuses we have authorized for use with respect to this offering prior to making a decision to invest in the notes. See “Where You Can Find More Information” in the accompanying prospectus.

Unless otherwise indicated, all references in this prospectus supplement to “we,” “us,” “our” and “Eli Lilly” refer to Eli Lilly and Company and its consolidated subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein include 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, as amended, and are subject to the safe harbor created thereby under the Private Securities Litigation Reform Act of 1995. 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.

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 and other cautionary statements in our Annual Report on Form 10-K and our other filings with the SEC, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, 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 prospectus supplement and are expressly qualified in their entirety by the risk factors and other cautionary statements in our Annual Report on Form 10-K and our other filings with the SEC. 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 prospectus supplement.

OUR COMPANY

We were 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 sell products in two business segments - human pharmaceutical products and animal health. We manufacture and distribute our products through owned or leased facilities in the United States, Puerto Rico and 11 other countries. Our products are sold in approximately 120 countries.

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 and develop innovative new pharmaceutical products. We direct our research efforts primarily toward the search for products to prevent and treat human diseases. We also conduct research to find products to treat diseases in animals and to increase the efficiency of animal food production.

Our corporate offices are located at Lilly Corporate Center, Indianapolis, Indiana 46285, our telephone number is (317) 276-2000 and our website is www.lilly.com. The information contained in, or that can be accessed through, our website is not a part of, or incorporated by reference in, this prospectus supplement or the accompanying prospectus.

USE OF PROCEEDS

We expect to use the net proceeds from the sale of the notes (estimated at $ before estimated expenses of this offering) for general corporate purposes, including the repayment in full at maturity of $1,000,000,000 in principal amount of our 4.200% notes due March 6, 2014, plus accrued and unpaid interest thereon. Prior to such uses, we may temporarily invest the net proceeds in marketable securities and short-term investments.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Ratio of Earnings to Fixed Charges(1)	32.8	28.1	26.1	31.7	19.3

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

DESCRIPTION OF THE NOTES

The following summary describes certain terms of the % notes due 2019 (the “ % notes”) and the % notes due 2044 (the “ % notes” and, collectively with the % notes, the “notes”), respectively, and supplements, and to the extent inconsistent replaces, the description of the general terms of the debt securities included in the accompanying prospectus. Each series of notes will be a single series of debt securities under an indenture, dated as of February 1, 1991 (the “indenture”), between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee. The following summary of the notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the actual provisions of the notes and the indenture. As used in this section, unless otherwise indicated, all references to “we,” “us,” “our” and “Eli Lilly” refer only to Eli Lilly and Company and not to any of its subsidiaries.

General

The notes will be our unsecured and unsubordinated obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness. The notes will be issued in fully registered form only, in denominations of $2,000 and integral multiples of $1,000 in excess of that amount.

The % notes will be limited to $ aggregate principal amount and, except as contemplated below under "- Optional Redemption," will mature on , 2019. The % notes will be limited to $ aggregate principal amount and, except as contemplated below under "- Optional Redemption," will mature on , 2044. However, we may, without the consent of the holders of notes, issue additional debt securities having the same ranking, interest rate, maturity, redemption provisions and other terms as the notes of a particular series. Any additional debt securities having such similar terms, together with the notes of such series, will constitute a single series of debt securities under the indenture.

We will pay interest on the % notes at a rate of % per annum semi-annually in arrears on and of each year, commencing on , 2014, to the persons in whose names such notes are registered at the close of business on or , respectively, as the case may be (whether or not a business day), immediately preceding the relevant interest payment date. We will pay interest on the % notes at a rate of % per annum semi-annually in arrears on and of each year, commencing on , 2014, to the persons in whose names such notes are registered at the close of business on or , respectively, as the case may be (whether or not a business day), immediately preceding the relevant interest payment date. Interest payments for the notes will include accrued interest from, and including, the date of issue or from, and including, the last date in respect of which interest has been paid or duly provided for, as the case may be, to, but excluding, the interest payment date or the stated maturity date or the date of earlier redemption, as the case may be. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

If any interest payment date falls on a day that is not a business day, we will make the required interest payment on the next business day, and no interest on such payment will accrue for the period from and after such interest payment date. Similarly, if the stated maturity date or the date of earlier redemption, as the case may be (the "maturity date"), of the notes falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and interest, if any, on the next succeeding business day, and no interest on such payment will accrue for the period from and after the maturity date.

As used in this prospectus supplement, "business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

Optional Redemption

At our option, we may redeem the notes, in whole or in part, at any time or from time to time as described below.

If we redeem all or any part of the % notes prior to maturity or all or any part of the % notes prior to , , we will pay a redemption price equal to the greater of:

- 100% of the principal amount of the notes being redeemed on the redemption date; and
- the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed on that redemption date (not including the amount, if any, of unpaid interest accrued to, but excluding, the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below), plus % (or basis points) with respect to the % notes and % (or basis points) with respect to the % notes;

plus, in each case, unpaid interest accrued on such notes to, but excluding, the redemption date. If we redeem all or any part of the % notes on or after , , we will pay a redemption price equal to 100% of the principal amount of the % notes being redeemed plus accrued and unpaid interest thereon.

Notwithstanding the foregoing, installments of interest on notes that are due and payable on an interest payment date falling on or prior to a redemption date will be payable on such interest payment date to the registered holders as of the close of business on the relevant record date.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. Once notice of redemption is mailed, the notes called for redemption will become due and payable on the redemption date at the applicable redemption price.

"Treasury Rate" means, with respect to any redemption date for the % notes and any redemption date prior to , for the % notes, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of the principal amount of a particular series to be redeemed) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means, for the notes of a particular series, the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of such notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

"Comparable Treasury Price" means, with respect to any redemption date for the % notes and any redemption date prior to , for the % notes, (A) if we obtain five or more Reference Treasury Dealer Quotations for such redemption date and notes of such series to be redeemed, the average of such Reference Treasury Dealer Quotations after excluding the highest and lowest of such Reference Treasury Dealer Quotations, (B) if we obtain fewer than five but more than one Reference Treasury Dealer Quotation(s), the average of such Reference Treasury Dealer Quotations, or (C) if we obtain only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

"Reference Treasury Dealer" means (A) each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Citigroup Global Markets Inc. (or their respective affiliates that are Primary Treasury Dealers), and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by us.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date for the % notes and any redemption date prior to , for the % notes, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue for the notes of a particular series to be redeemed (expressed in each case as a percentage of the principal amount of such series) quoted in writing to us by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless we default in the payment of the redemption price). Before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of the notes of the particular series to be redeemed on that date. If fewer than all of the notes of such series are to be redeemed, the notes to be redeemed shall be selected by lot by The Depository Trust Company ("DTC"), in the case of notes represented by a global security, or by the trustee by a method the trustee deems to be fair and appropriate, in the case of notes that are not represented by a global security.

The notes will not be entitled to the benefit of any mandatory redemption or sinking fund provisions.

Book-Entry Notes

The Depository Trust Company

Except under the limited circumstances described below, all notes will be book-entry notes. This means that the actual purchasers of the notes will not be entitled to have the notes registered in their names and will not be entitled to receive physical delivery of the notes in definitive (paper) form. Instead, upon issuance, each series of notes will be represented by one or more fully registered global notes.

Each global note will be deposited with, or on behalf of, DTC, a securities depositary, and will be registered in the name of DTC's nominee, Cede & Co. No global note representing book-entry notes may be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC. Thus, DTC will be the only owner and sole registered holder of the notes for purposes of the indenture.

The registration of the global notes in the name of DTC's nominee will not affect beneficial ownership and is performed merely to facilitate subsequent transfers. The book-entry system is used because it eliminates the need for physical movement of securities certificates. The laws of some jurisdictions, however, may require some purchasers to take physical delivery of their notes in definitive form. These laws may impair the ability of holders to transfer book-entry notes.

Purchasers of notes in the United States may hold interests in the global notes only through DTC, if they are participants in such system. Purchasers may also hold interests indirectly through securities intermediaries - such as banks, brokerage houses and other institutions that maintain securities accounts for customers - that have accounts with DTC or its nominee ("participants"). Purchasers of notes in Europe can hold interests in the global notes only through Clearstream Banking, société anonyme ("Clearstream"), or through Euroclear Bank S.A./N.V. ("Euroclear"), if they are participants in these systems or indirectly through organizations that are participants in these systems.

Because DTC or its nominee will be the only registered holder of the global notes, Clearstream and Euroclear will hold positions through their respective U.S. depositaries, which in turn will hold positions on the books of DTC. For information on how accounts of ownership of notes held through DTC are recorded, please refer to "Description of Debt Securities - Global Securities" in the accompanying prospectus.

None of us, the trustee or any of our or their agents will be liable for the accuracy of, or responsible for maintaining, supervising or reviewing, DTC's records or any participant's records relating to book-entry notes. In addition, none of us, the trustee or any of our or their agents will be responsible or liable for payments made on account of the book-entry notes.

In this prospectus supplement, unless and until notes in definitive form are issued to the beneficial owners as described below, all references to “holders” of notes shall mean DTC or its nominee. We, the trustee and any paying agent, transfer agent or registrar may treat DTC or its nominee as the only owner and sole registered holder of the notes for all purposes.

We will make all payments of principal of and premium, if any, and interest on our notes to DTC or its nominee by wire transfer. We will send all required reports and notices solely to DTC or its nominee as long as DTC or its nominee is the sole registered holder of the notes. DTC and its participants are generally required by law to receive and transmit all payments, notices and directions from us and the trustee to the beneficial owners through a chain of intermediaries. Purchasers of the notes will not receive written confirmation from DTC of their purchases. However, beneficial owners of book-entry notes are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participants or indirect participants through which they entered into the transaction.

Similarly, we and the trustee will accept notices and directions solely from DTC or its nominee. Therefore, in order to exercise any rights of a holder of notes under the indenture, each person owning a beneficial interest in the notes must rely on the procedures of DTC and, in some cases, Clearstream or Euroclear. If the beneficial owner is not a participant in the applicable system, then it must rely on the procedures of the participant through which that person owns its interest. DTC has advised us that it will take actions under the indenture only at the direction of its participants, which in turn will act only at the direction of the beneficial owners. Some of these actions, however, may conflict with actions DTC takes at the direction of other participants and beneficial owners.

Notices and other communications by DTC to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners will be governed by arrangements among them.

Book-entry notes may be more difficult to pledge because of the lack of physical notes. Beneficial owners may experience delays in receiving payments in respect of their notes since such payments will initially be made to DTC and must then be transferred through the chain of intermediaries to each beneficial owner's account.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants deposit with it. DTC also facilitates the settlement among its participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in its participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC's participants include underwriters, including the underwriters in this offering, securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Clearstream

Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations, known as Clearstream participants, and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thus eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. In the United States, Clearstream participants are limited to securities brokers and dealers and banks. Clearstream participants may include the underwriters in this offering. Other institutions that maintain a custodial relationship with a Clearstream participant may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Payments with respect to the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

Euroclear

Euroclear was created in 1968 to hold securities for its participating organizations, known as Euroclear participants, and to clear and settle transactions between Euroclear participants and participants of certain other securities intermediaries through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and the risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below.

Euroclear is a Belgian bank that is regulated by the Belgian Banking Commission. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters in this offering. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear and applicable Belgian law (collectively, the "Euroclear Terms and Conditions") govern securities clearance accounts and cash accounts with Euroclear. Specifically, these terms and conditions govern:

- transfers of securities and cash within Euroclear;

- withdrawal of securities and cash from Euroclear; and
- receipts of payments with respect to securities in Euroclear.

All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Payments with respect to notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear Terms and Conditions, to the extent received by Euroclear.

The foregoing information about DTC, Clearstream and Euroclear has been provided by each of them for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Global Clearance and Settlement Procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way, in accordance with DTC's rules, and will be settled in immediately available funds using DTC's same-day funds settlement system. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way, in accordance with the applicable rules and operating procedures of Clearstream and Euroclear, and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear participants, on the other, will be effected through DTC, in accordance with DTC's rules, on behalf of the relevant European international clearing system by the U.S. depositaries. However, such cross-market transactions will require delivery of instructions

to the relevant European international clearing system by the counterparty in this system in accordance with its rules and procedures and within its established deadlines, European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to DTC.

Because of time-zone differences, credits of notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and will be credited the business day following the DTC settlement date. These credits or any transactions in such notes settled during such processing will be reported to the relevant Euroclear or Clearstream participants on that business day. Cash received in Clearstream or Euroclear as a result of sales of notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and these procedures may be revised or discontinued at any time.

Payments

We will make all payments of principal of and premium, if any, and interest on book-entry notes to DTC or its nominee. Upon receipt of any such payment, DTC will immediately credit the accounts of its participants on its book-entry registration and transfer system. DTC will credit those accounts in proportion to the participants' respective beneficial interests in the principal amount of the global note as shown on the records of DTC. Payments by participants to beneficial owners of book-entry notes will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of those participants.

Payments on book-entry notes held beneficially through Clearstream or Euroclear will be credited to their respective participants in accordance with their respective rules and procedures, to the extent received by their respective U.S. depositaries.

Definitive Notes and Paying Agents

Under the circumstances described in the last paragraph under "Description of Debt Securities - Global Securities" of the accompanying prospectus, the beneficial owners will be notified through the chain of intermediaries that definitive notes are available. Beneficial owners of book-entry notes will then be entitled (1) to receive physical delivery of notes in definitive form equal in principal amount to their beneficial interest and (2) to have notes in definitive form registered in their names. The notes in definitive form will be issued in denominations of $2,000 and integral multiples of $1,000 in excess of that amount. Notes in definitive form will be registered in the name or names of the person or persons DTC specifies in a written instruction to the registrar of the notes. DTC may base its written instruction upon directions it receives from its participants. Thereafter, the holders of the notes in definitive form will be recognized as the "holders" of the notes under the indenture. The indenture provides for the replacement of a mutilated, lost, stolen or destroyed definitive note, so long as the applicant furnishes to us and the trustee such securities or indemnity and such evidence of ownership as we and the trustee may require.

In the event that notes in definitive form are issued, the holders of such notes will be able to receive payments of principal of and premium, if any, and interest on their notes at the office of our paying agent maintained in the Borough of Manhattan, The City of New York. Payments due on the maturity date of a note in definitive form may be made only against presentation and surrender of such note to one of our paying agents. We may make payments due on an interest payment date for a note in definitive form by mailing a check to the address of the holder of such note appearing in the register of note holders maintained by the registrar. Our paying agent in the Borough of Manhattan is currently the corporate trust office of Deutsche Bank Trust Company Americas, currently located at 60 Wall Street, 16th Floor, New York, New York 10005.

In the event that notes in definitive form are issued, the holders of such notes will be able to transfer their notes, in whole or in part, by surrendering such notes for registration of transfer at the office of Deutsche Bank Trust Company

Americas, duly endorsed by or accompanied by a written instrument of transfer in form satisfactory to us and the registrar. A form of such instrument of transfer will be obtainable at the offices of Deutsche Bank Trust Company Americas. Upon surrender, we will execute, and the trustee will authenticate and deliver, new notes of the same series and like tenor and terms to the designated transferee in the principal amount being transferred, and a new note of the same series and like tenor and terms for any principal amount not being transferred will be issued to the transferor. We will not charge any fee for the registration of transfer or exchange, except that we may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.S-12

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS

The following is a general discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of notes. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly on a retroactive basis.

This discussion applies only to initial holders that purchase notes upon original issuance at the initial offering price and that hold notes as capital assets. This discussion is for general information purposes only and does not address all of the U.S. federal income tax consequences that may be important to particular holders in light of their individual circumstances. Such holders may include banks and other financial institutions, real estate investment trusts, regulated investment companies, partnerships or other pass through entities, insurance companies, tax-exempt entities, dealers in securities, certain former citizens or former long- term residents of the United States, persons

holding the notes as part of a hedging or conversion transaction or a straddle or U.S. Holders that have a functional currency other than the U.S. dollar.

As used herein, the term "U.S. Holder" means a beneficial owner of a note that is, for U.S. federal income tax purposes, (1) a citizen or resident of the United States, (2) a corporation (including any entity classified as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any State thereof, including the District of Columbia, (3) an estate the income of which is subject to United States federal income taxation regardless of its source or (4) a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable Treasury regulations to be treated as a "United States" person. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts which were in existence on August 20, 1996 and were treated as United States persons under the Code and applicable Treasury regulations thereunder prior to such date that elect to continue to be so treated also shall be considered U.S. Holders.

If a partnership (including any entity classified as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships and partners in such partnerships should consult their own tax advisors.

Prospective purchasers are urged to consult their own tax advisors as to the particular U.S. federal income and other tax consequences to them of the acquisition, ownership and disposition of the notes as well as any tax consequences under state, local and foreign tax laws, and the possible effects of changes in tax laws.

U.S. Federal Income Taxation of U.S. Holders

It is expected and the following discussion assumes that the notes will be issued without original issue discount for U.S. federal income tax purposes. Accordingly, interest on a note generally will be taxable to a U.S. Holder as ordinary income at the time it accrues or is actually or constructively received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between (1) the sum of cash and the fair market value of other property received on such disposition, except to the extent such cash or property is attributable to accrued but unpaid interest not previously included in income, which will be taxable as ordinary interest income, and (2) such U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal such U.S. Holder's initial investment in the note. Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the note were held for more than one year on the date of such sale, exchange, redemption, retirement at maturity or other taxable disposition. Long-term capital gains of noncorporate taxpayers generally are taxed at a lower maximum marginal tax rate than that applicable to ordinary income. The deductibility of capital losses is subject to limitations.

Backup Withholding

Non-corporate U.S. Holders generally will be required to supply a social security number or other taxpayer identification number along with certain certifications under penalties of perjury in order to avoid backup withholding with respect to interest paid on a note and the proceeds of a sale or other disposition of a note. In addition, such payments generally will be subject to information reporting. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder's federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service (the "IRS").

Medicare Tax

An additional 3.8% Medicare tax is imposed on the net investment income of certain individuals, estates and trusts. For these purposes, "net investment income" generally includes interest on and capital gains from the sale or other disposition of securities like the notes, subject to certain exceptions. A U.S. Holder that is an individual, estate or trust is urged to consult its tax advisor regarding the applicability of the Medicare tax to its income and gains in respect of

the notes.

U.S. Federal Taxation of Non-U.S. Holders

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a note, other than an entity treated as a partnership for U.S. federal income tax purposes, that is not a U.S. Holder. An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by among other things, being present in the United States (1) on at least 31 days in the calendar year; and (2) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Resident aliens are subject to United States federal income tax as if they were United States citizens. This discussion does not specifically address the tax consequences to Non-U.S. Holders that are or would be subject to U.S. federal income tax on a net basis on income realized with respect to a note because such income is effectively connected with the conduct of a U.S. trade or business by such Non-U.S. Holders. In addition, this discussion does not include any description of the tax laws of any state, local or foreign government that may be applicable to a particular beneficial owner.

General

Payments of interest on notes to a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, except as described below under "- Backup Withholding and Information Reporting," provided that (a) the Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Code, (b) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (c) the Non-U.S. Holder is not a "controlled foreign corporation" that is related to us, through stock ownership, and (d) either (i) the Non-U.S. Holder certifies under penalties of perjury on IRS Form W-8BEN or a suitable substitute form that it is not a "U.S. person," as defined in the Code, and provides its name and address, or (ii) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary

---

course of its trade or business and holds the notes on behalf of the Non-U.S. Holder certifies under penalties of perjury that such a statement has been received from the Non-U.S. Holder or a qualified intermediary and furnishes a copy thereof. In the case of notes held by a foreign partnership, certifications must be provided by the partners rather than the partnership. If interest paid on the notes is not eligible for the exemption from withholding described earlier in this paragraph, payments of interest made to a Non-U.S. Holder will be subject to 30% United States federal withholding tax unless the Non-U.S. Holder provides the applicable withholding agent with a properly executed IRS Form W-8BEN (or other applicable form) claiming an exemption from or reduction in this withholding tax under an applicable income tax treaty.

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax, except as described below under "- Backup Withholding and Information Reporting," with respect to gain realized on the sale, exchange, redemption, retirement at maturity or other disposition of a note unless the Non-U.S. Holder is an individual who is present in the United States for a period or periods aggregating 183 or more days in the taxable year of disposition and certain other conditions are met.

Backup Withholding and Information Reporting

Backup withholding will not apply to payments on a note made by us or a paying agent to a Non-U.S. Holder if the certification described above under "- General" is received. Backup withholding generally will not apply if a foreign office of a broker pays the proceeds of the sale of a note. Information reporting will, and backup withholding may, apply, however, to a payment by or through a foreign office of a custodian, nominee, agent or broker that is, for U.S. federal income tax purposes, a U.S. person, a "controlled foreign corporation," a foreign partnership that at any time during its taxable year is owned by one or more U.S. persons who, in the aggregate, hold more than 50% of the income or capital interest in the partnership, or a foreign person that has certain connections with the United States, unless such custodian, nominee, agent or broker has documentary evidence in its records that the holder is a non-U.S. person and certain other conditions are met, or the holder otherwise establishes an exemption. Copies of the information returns reporting such payments may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty. Payment by a U.S. office of a custodian, nominee, agent or broker is subject to both backup withholding and information reporting unless the holder certifies under penalties of perjury that it is not a U.S. person and the payor does not have actual knowledge to the contrary or the holder otherwise establishes an exemption. A Non-U.S. Holder may obtain a refund or a credit against such Non-U.S. Holder's U.S. federal income tax liability of any amounts withheld under the backup withholding rules, provided the required information is timely furnished to the IRS.UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Citigroup Global Markets Inc. are acting as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of the notes of each series set forth opposite such underwriter's name.

Underwriter	Principal Amount of % Notes	Principal Amount of % Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$	$
Barclays Capital Inc. .		
Citigroup Global Markets Inc. .		
Morgan Stanley & Co. LLC		
Total	$	$

The underwriting agreement provides that obligations of the underwriters to purchase the notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all of the notes if they purchase any of the notes.

The underwriters may offer some of the notes directly to the public at the respective public offering prices set forth on the cover page of this prospectus supplement and some of the notes to dealers at the respective public offering price less a concession not to exceed % of the principal amount, in the case of the % notes and % of the principal amount, in

the case of the % notes. The underwriters may allow, and dealers may reallow, a concession not to exceed % of the principal amount, in the case of the % notes and % of the principal amount, in the case of the % notes, on sales to other dealers. After the initial offering of the notes of a particular series to the public, the representatives may change the related public offering price and concession.

The following table shows the underwriting discounts and commissions that we have agreed to pay to the underwriters in connection with this offering.

	As a Percentage of Principal Amount	Dollar Amount
Per % note	%	$
Per % note	%	$
Total		$

In connection with the offering, the representatives, on behalf of the underwriters, may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes of a particular series in excess of the principal amount of notes of such series to be purchased by the underwriters in this offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of notes of a particular series in the open market after the distribution of such notes has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain

bids or purchases of notes of a particular series made for the purpose of preventing or retarding a decline in the market price of the notes of such series while this offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives, in covering syndicate short positions or making stabilizing purchases, repurchase notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our expenses for this offering, not including the underwriting discount, will be $.

The notes are being offered for sale in those jurisdictions in the United States, Europe and elsewhere it is lawful to make such offers and sales.

Each of the underwriters has represented and agreed that it has not and will not offer, sell or deliver any of the notes directly or indirectly, or distribute this prospectus supplement or the prospectus or any other offering material relating to the notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the underwriting agreement.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer to the public of notes which are the subject of the offering contemplated by this prospectus in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in the Relevant Member State at any time:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of our representatives for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to in (a) through (c) above shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each underwriter has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or

express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments they may be required to make because of any of those liabilities.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Covington & Burling LLP, Washington, D.C. Davis Polk & Wardwell LLP, New York, New York, will pass on certain legal matters for the underwriters. Covington & Burling LLP and Davis Polk & Wardwell LLP will rely on the opinion of James B. Lootens, our Secretary and Deputy General Counsel, with respect to matters of Indiana law. As of February 18, 2014, Mr. Lootens beneficially owned 27,866 shares of our common stock, and he held options to purchase an additional 7,939 of shares of common stock.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2013, and the effectiveness of our internal control over financial reporting as of December 31, 2013, as set forth in their reports, which are incorporated by reference in this prospectus supplement, the accompanying prospectus and elsewhere in the registration statement. Our financial statements are incorporated by reference in reliance upon Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and periodic reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facility at 100 F Street, N.E., Washington, D.C. 20549.

You may also obtain copies of our SEC filings at prescribed rates by writing to the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facility.

DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT

The SEC allows us to "incorporate by reference" into this prospectus supplement information which we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus, and information that we file later with the SEC will automatically update and supersede any inconsistent information in this prospectus supplement and the accompanying prospectus and in our other filings with the SEC.

We incorporate by reference the following document that we previously filed with the SEC (other than information in such documents that is deemed not to be filed):

- our annual report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 19, 2014.

We also incorporate by reference any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, on or after the date of the filing of the registration statement and until we have sold all of the debt securities to which this prospectus supplement and the accompanying prospectus relate or any particular offering of debt securities is otherwise terminated.

You may obtain a free copy of these filings from us by telephoning or writing to us at the following address and telephone number:

Shareholder Services Department
Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285
Tel.: (317) 276-2000

PROSPECTUS

Eli Lilly and Company

Common Stock
Preferred Stock
Depositary Shares
Debt Securities
Warrants
Stock Purchase Contracts
Stock Purchase Units

You should read this prospectus and the applicable prospectus supplement carefully before you invest in any of our securities. Under this prospectus, we may sell, from time to time, in one or more offerings:

common stock;
preferred stock;
depositary shares representing preferred stock;
debt securities;
warrants;
stock purchase contracts; and
stock purchase units.

Our common stock is listed on the New York Stock Exchange under the symbol "LLY". Our principal executive offices are located at Lilly Corporate Center, Indianapolis, Indiana 46285, and our telephone number is (317) 276-2000.

The applicable prospectus supplement will contain the specific terms of the securities being offered thereby. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

We may sell these securities to or through underwriters, dealers or agents. We may also sell these securities directly or through our subsidiaries to purchasers.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Investing in our securities involves risks. See "Risk Factors" on page 2 of this prospectus.

The date of this prospectus is March 1, 2013.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS 2
RISK FACTORS 3
WHERE YOU CAN FIND MORE INFORMATION 3
DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS 3
ELI LILLY AND COMPANY 4
RATIO OF EARNINGS TO FIXED CHARGES 4
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS 4
USE OF PROCEEDS 4
DESCRIPTION OF SECURITIES 5
DESCRIPTION OF CAPITAL STOCK 5
DESCRIPTION OF DEPOSITARY SHARES 8
DESCRIPTION OF DEBT SECURITIES 10
DESCRIPTION OF WARRANTS 18
DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS 20
PLAN OF DISTRIBUTION 20
LEGAL MATTERS 21
EXPERTS 21

ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or SEC, as a “well- known seasoned issuer,” as defined under Rule 405 under the Securities Act of 1933, as amended, or the Securities Act. Under this shelf registration process, we may, from time to time, in one or more offerings, sell any of the securities described in this prospectus.

This prospectus provides you with a general description of the securities we may offer. Each time we offer any of the securities, we will prepare a prospectus supplement that will contain certain specific information about the terms of that offering and the securities being offered thereby. The applicable prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information described under the heading “Documents Incorporated by Reference into this Prospectus” in this prospectus in their entirety.

The registration statement that contains this prospectus, and the exhibits to the registration statement, contain additional information about us and the securities that we may offer under this prospectus. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of that contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by that reference and the exhibits and schedules thereto. The registration statement and exhibits can be read at the SEC's web site or at the SEC office mentioned under the heading “Where You Can Find More Information” in this prospectus.

We may include agreements as exhibits to the registration statement of which this prospectus forms a part. In reviewing such agreements, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

should not be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures would not necessarily be reflected in the agreement;
may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors in our securities; and
were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement, are subject to more recent developments, and therefore may no longer be accurate.

RISK FACTORS

Our business is subject to uncertainties and risks and an investment in our securities involves risks. You should carefully consider and evaluate all of the information included and incorporated by reference in this prospectus, including the risk factors incorporated by reference from our most recent annual report on Form 10-K, as updated by our quarterly reports on Form 10-Q and other SEC filings, before investing in our securities. We may include additional risks related to the securities being offered in the prospectus supplement relating to that offering. It is possible that our business, financial condition, liquidity, results of operations and prospects could be materially adversely affected by any of these risks.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and periodic reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facility at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of our SEC filings at prescribed rates by writing to the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facility.
Our SEC filings are available at the office of the New York Stock Exchange. For further information on obtaining copies of our SEC filings from the New York Stock Exchange, you should call (212) 656-3000.

DOCUMENTS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS

The SEC allows us to "incorporate by reference" into this prospectus information which we file with the SEC. This means that we can disclose important information to you by referring you to the documents containing that information and that such information will be regarded as an important part of this prospectus.
We incorporate by reference information contained in our annual report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 21, 2013. We also incorporate the description of our common stock set forth in our registration statement filed pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and any amendment or report filed for the purpose of updating that description.
We also incorporate by reference any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of the filing of the registration statement and, in the case of any particular offering of securities, until such offering of securities is terminated. Our future filings with the SEC will automatically update and supersede any inconsistent information in this prospectus and in our other SEC filings, and such outdated or inconsistent information will no longer be regarded as part of this prospectus.
You may obtain a free copy of these filings from us by telephoning or writing to us at the following address and telephone number:
Shareholder Services Department
Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285
Tel.: (317) 276-2000
You should rely only on the information contained or incorporated by reference in this prospectus and the applicable prospectus supplement and any free writing prospectus we have prepared or authorized for use with respect to a particular offering of our securities under this prospectus. We have not authorized anyone to provide you with different or additional information and, accordingly, you should not rely on any such information if it is provided to

you. We are not making an offer to sell, or the solicitation of an offer to buy, any of these securities in any jurisdiction where an offer or sale is not permitted. You should not assume that the information contained in this prospectus or the applicable prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus or the applicable prospectus supplement, as the case may be, or that the information incorporated by reference herein and therein is accurate as of any date other than the date of the relevant report or other document in which such information is contained.

ELI LILLY AND COMPANY

We were 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 sell products in two significant business segments - human pharmaceutical products and animal health products. We manufacture and distribute our products through owned or leased facilities in the United States, Puerto Rico and 11 other countries. Our products are sold in approximately 130 countries.

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 and develop innovative new pharmaceutical products. We direct our research efforts primarily toward the

search for products to prevent and treat human diseases. We also conduct research to find products to treat diseases in animals and to increase the efficiency of animal food production.

Our corporate offices are located at Lilly Corporate Center, Indianapolis, Indiana 46285, our telephone number is (317) 276-2000 and our website is http://www.lilly.com. The information contained in, or that can be accessed through, our website is not a part of, or incorporated by reference in, this prospectus.

RATIO OF EARNINGS TO FIXED CHARGES

No shares of our preferred stock were outstanding during the years ended December 31, 2012, 2011, 2010, 2009, and 2008. Accordingly, the ratio of earnings to fixed charges and preferred dividends is not separately stated from the ratio of earnings to fixed charges for each such period in the below table. The below table indicates our ratio of earnings (loss) to fixed charges for each such period:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Ratio of Earnings to Fixed Charges(1)	28.1	26.1	31.7	19.3	N/M[2]

N/M - Not Meaningful

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

[2] For such ratio, earnings were $1.31 billion less than fixed charges. The loss for the year ended December 31, 2008, included special charges of $1.48 billion related to the settlement of a U.S. government investigation of our marketing practices for Zyprexa®, and acquired in-process research and development expense of $4.69 billion associated with the ImClone acquisition.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information included or incorporated by reference in this prospectus and other written and oral statements made by us from time to time contain “forward-looking statements” as defined by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among other things, discussions concerning our potential exposure to market risks, as well as statements expressing our expectations, beliefs, estimates, forecasts, projections and assumptions about the future. Forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “could,” “possible,” “plan “will,” “forecast” and similar words or expressions. Forward-looking statements are only predictions. Our forward-looking statements generally relate to our strategies, financial results, product development and regulatory approval programs, and sales efforts. You should carefully consider forward- looking statements and understand that actual events or results may differ materially as a result of a variety of risks and uncertainties, known and unknown, and other factors facing our company. It is not possible to foresee or identify all factors affecting our forward-looking statements; therefore, investors should not consider any list of factors affecting our forward-looking statements to be an exhaustive statement of all risks or uncertainties.

We caution investors that any forward-looking statements are based on currently available operational, financial and competitive information, and they should not place undue reliance on these forward-looking statements, which reflect management's opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of the securities for general corporate purposes, unless otherwise specified in the applicable prospectus supplement.

DESCRIPTION OF SECURITIES

This prospectus contains a summary of our common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units. These summaries are not meant to be a complete description of each security. Certain specific terms of any security to be issued pursuant hereto will be set forth in a related prospectus supplement.

DESCRIPTION OF CAPITAL STOCK

As of the date hereof, our authorized capital stock consists of 3,205,000,000 shares, of which 3,200,000,000 shares are common stock, without par value, and 5,000,000 shares are preferred stock, without par value. Of our preferred stock, 1,500,000 shares have been designated as Series B Junior Participating Preferred Stock. As of February 15, 2013, there were 1,138,925,891 shares of common stock outstanding. None of our preferred stock was issued and outstanding as of February 15, 2013. All of our issued and outstanding shares of common stock are fully paid and non-assessable.

Common Stock

Dividend Rights. Subject to the dividend rights of the holders of any outstanding shares of preferred stock, the holders of shares of common stock are entitled to receive ratably such dividends as may be lawfully declared at any time by the board of directors.

Rights Upon Liquidation. Upon liquidation, dissolution or winding up of our affairs, after payment to the holders of any outstanding shares of preferred stock of the full amount to which they are entitled, the holders of shares of common stock are entitled, to the exclusion of any holders of preferred stock, to share ratably in our assets that are legally available for distribution after satisfaction of our liabilities.

No Conversion, Redemption or Preemptive Rights. Holders of our common stock have no conversion, redemption, preemptive or similar rights.

Voting Rights. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of shareholders. Our amended articles of incorporation do not provide for cumulative voting in the election of directors.

Preferred Stock

Our amended articles of incorporation authorize our board of directors, without further shareholder action, to provide for the issuance of up to 5,000,000 shares of preferred stock, in one or more series, and to fix, by the adoption and filing in accordance with the Indiana Business Corporation Law, or the IBCL, of an amendment or amendments to the amended articles of incorporation, the designations, terms and relative rights and preferences, including the dividend rate, voting rights, conversion rights, redemption and sinking fund provisions and liquidation preferences, of each of these series. We may amend from time to time our amended articles of incorporation to increase the number of authorized shares of preferred stock. Any such amendment would require the approval of the holders of a majority of our shares entitled to vote.

Certain specific terms of the preferred stock that we offer in the future will be described in the applicable prospectus supplement relating to that preferred stock. Investors are urged to carefully review the terms contained in such prospectus supplement, as well as the articles of amendment establishing such terms that we file with the Secretary of State of the State of Indiana and the SEC. Those terms may include:

the title and liquidation preference per share of the preferred stock and the number of shares offered;

the initial aggregate offering price of the preferred stock;

the dividend rate (or method of calculation), the dates on which dividends will be payable, whether dividends shall be cumulative and, if so, the date from which the dividends will begin to accumulate;

any redemption or sinking fund provisions of the preferred stock;

any conversion rights applicable to the preferred stock;

the voting rights, if any, of the preferred stock;

important federal income tax considerations; and

any additional dividend, liquidation, redemption, sinking fund, conversion and other rights, preferences, privileges, limitations and restrictions of the preferred stock.

Dividend Rights. The preferred stock will have a preference over the common stock as to payment of dividends. Before any dividends or distributions (other than dividends or distributions payable in common stock or other stock ranking junior to that series of preferred stock as to dividends and upon liquidation) on the common stock or other stock ranking junior to that series of preferred stock as to dividends and upon liquidation shall be declared and set apart for payment or paid, the holders of shares of each series of preferred stock (unless otherwise set forth in the applicable prospectus supplement) will be entitled to receive dividends when, as and if declared by our board of directors or, if dividends are cumulative, full cumulative dividends for the current and all prior dividend periods. We will pay those dividends either in cash, shares of preferred stock, or otherwise, at the rate and on the date or dates set forth in the applicable prospectus supplement. With respect to each series of preferred stock that has cumulative dividends, the dividends on each share of the series will be cumulative from the date of issue of the share unless some other date is set forth in the prospectus supplement relating to the series. Accruals of dividends will not bear interest. The applicable prospectus supplement will indicate the relative ranking of the particular series of the preferred stock as to the payment of dividends, as compared with then- existing and future series of preferred stock.

Rights Upon Liquidation. The preferred stock of each series will be preferred over the common stock and other stock ranking junior to that series of preferred stock as to assets, so that the holders of that series of preferred stock (unless otherwise set forth in the applicable prospectus supplement) will be entitled to be paid, upon our voluntary or involuntary liquidation, dissolution or winding up, and before any distribution is made to the holders of common stock and other stock ranking junior to that series of preferred stock, the amount set forth in the applicable prospectus

supplement. However, in this case the holders of preferred stock of that series will not be entitled to any other or further payment. If upon any liquidation, dissolution or winding up, our net assets are insufficient to permit the payment in full of the respective amounts to which the holders of all outstanding preferred stock are entitled, our entire remaining net assets will be distributed among the holders of each series of preferred stock in amounts proportional to the full amounts to which the holders of each series are entitled, subject to any provisions of any series of preferred stock that rank it junior or senior to other series of preferred stock upon liquidation. The applicable prospectus supplement will indicate the relative ranking of the particular series of the preferred stock upon liquidation, as compared with then-existing and future series of preferred stock.

Conversion, Redemption or Exchange Rights. The shares of a series of preferred stock will be convertible at the option of the holder of the preferred stock, redeemable at our option or the option of the holder, as applicable, or exchangeable at our option, into another security, in each case, to the extent set forth in the applicable prospectus supplement.

Voting Rights. Except as indicated in the applicable prospectus supplement or as otherwise from time to time required by law, the holders of preferred stock will have no voting rights other than those fixed by the board of directors pursuant to Article 7 of our amended articles of incorporation.

Anti-Takeover Effects of Provisions of our Amended Articles of Incorporation and our Amended By-Laws

Our amended articles of incorporation and our amended by-laws contain certain provisions that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

Our amended by-laws provide that special meetings of holders of common stock may be called only by our board of directors or the Chairman of the board of directors. Holders of our common stock are not permitted to call a special meeting or to require that our board of directors call a special meeting of shareholders.

Our amended by-laws establish an advance notice procedure for the nomination, other than by or at the direction of our board of directors, of candidates for election as directors as well as for other shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director or raise business at such meetings must be received by us not less than 120 days nor more than 180 days prior to the date on which our proxy statement is released to shareholders in connection with the previous year's annual meeting and must contain certain specified information concerning the person to be nominated or the matters to be brought before the meeting and concerning the shareholder submitting the proposal.

Our amended articles of incorporation provide for our board of directors to be divided into three classes of directors, as nearly equal in number as possible, serving staggered terms of office. Approximately one-third of our board of directors is elected each year to three-year terms of office. In addition, our directors (other than directors appointed by holders of preferred stock) may be removed only for cause and only upon the affirmative vote of holders of 80% of our outstanding voting stock.

Our amended articles of incorporation provide that, in addition to any affirmative vote required by law, the affirmative vote of holders of 80% of our outstanding voting stock shall be necessary to approve certain major business transactions (such as mergers or asset sales with an interested shareholder or our liquidation), unless approved by our board of directors in the manner prescribed in such articles.

The foregoing summary is qualified in its entirety by the provisions of our amended articles of incorporation and our amended by-laws, copies of which have been filed with the SEC.

Certain Provisions of the Indiana Business Corporation Law

As an Indiana corporation, we are governed by the IBCL. Under specified circumstances, the following provisions of the IBCL may delay, prevent or make more difficult certain unsolicited acquisitions or changes of control of us. These provisions also may have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which shareholders may otherwise deem to be in their best interest.

Special Meetings by the Shareholders. Under Chapter 29 of the IBCL, any action required or permitted to be taken by the holders of common stock may be effected only at an annual meeting or special meeting of such holders, and shareholders may act in lieu of such meetings only by unanimous written consent.

Control Share Acquisitions. Under Chapter 42 of the IBCL, an acquiring person or group who makes a “control share acquisition” in an “issuing public corporation” may not exercise voting rights on any “control shares” unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters' rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

Under the IBCL, “control shares” means shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise voting power of the issuing public corporation in the election of directors within any of the following ranges:

one-fifth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more.

“Control share acquisition” means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition. “Issuing public corporation” means a corporation which has (i) 100 or more shareholders, (ii) its principal

place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than $1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The above provisions do not apply if, before a control share acquisition is made, the corporation's articles of incorporation or by-laws, including a by-law adopted by the corporation's board of directors, provide that they do not apply. Our amended articles of incorporation and our amended by-laws do not currently exclude us from Chapter 42.

Certain Business Combinations. Chapter 43 of the IBCL restricts the ability of a “resident domestic corporation” to engage in any combinations with an “interested shareholder” for five years after the date the interested shareholder became such, unless the combination or the purchase of shares by the interested shareholder on the interested shareholder's date of acquiring shares is approved by the board of directors of the resident domestic corporation before that date. If the combination was not previously approved, the interested shareholder may effect a combination after the five-year period only if that shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified fair price criteria. For purposes of the above provisions, “resident domestic corporation” means an Indiana corporation that has 100 or more shareholders. “Interested shareholder” means any person, other than the resident domestic corporation or its subsidiaries, who is (1) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (2) an affiliate or associate of the resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

The definition of “beneficial owner” for purposes of Chapter 43, means a person who, directly or indirectly, has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement,

arrangement or understanding for the purpose of acquiring, holding or voting or disposing of the subject shares, or holds any "derivative instrument" that includes the opportunity to profit or share in any profit derived from any increase in the value of the subject shares.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. Our amended articles of incorporation do not exclude us from Chapter 43.

Directors' Duties and Liability. Under Chapter 35 of the IBCL, directors are required to discharge their duties:

in good faith;

with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and

in a manner the directors reasonably believe to be in the best interests of the corporation.

However, the IBCL also provides that a director is not liable for any action taken as a director, or any failure to act, regardless of the nature of the alleged breach of duty (including breaches of the duty of care, the duty of loyalty, and the duty of good faith) unless the director has breached or failed to perform the duties of the director's office and the action or failure to act constitutes willful misconduct or recklessness.

This exoneration from liability under the IBCL does not affect the liability of directors for violations of the federal securities laws.

Chapter 35 of the IBCL also provides that a board of directors, in discharging its duties, may consider, in its discretion, both the long-term and short-term best interests of the corporation, taking into account, and weighing as the directors deem appropriate, the effects of an action on the corporation's shareholders, employees, suppliers and customers and the communities in which offices or other facilities of the corporation are located and any other factors the directors consider pertinent. Directors are not required to consider the effects of a proposed corporate action on any particular corporate constituent group or interest as a dominant or controlling factor. If a determination is made with the approval of a majority of the disinterested directors of the board, that determination is conclusively presumed to be valid unless it can be demonstrated that the determination was not made in good faith after reasonable investigation. Chapter 35 specifically provides that specified judicial decisions in Delaware and other jurisdictions, which might be looked upon for guidance in interpreting Indiana law, including decisions that propose a higher or different degree of scrutiny in response to a proposed acquisition of the corporation, are inconsistent with the proper application of the business judgment rule under that section.

Mandatory Classified Board of Directors. Under Chapter 33 of the IBCL, a corporation with a class of voting shares registered with the SEC under Section 12 of the Exchange Act must have a classified board of directors unless the corporation adopts a by-law expressly electing not to be governed by this provision by the later of July 31, 2009 or 30 days after the corporation's voting shares are registered under Section 12 of the Exchange Act. Although our amended articles of incorporation provide for a classified board of directors (and that provision can only be amended upon the affirmative vote of holders of 80% of our outstanding voting stock), we adopted an amendment to our amended by-laws electing not to be subject to this mandatory requirement effective July 13, 2009; however, the IBCL permits this election to be rescinded by subsequent action of our board of directors.

Certain Effects of Authorized But Unissued Stock

Our authorized but unissued shares of common stock and preferred stock may be issued without additional shareholder approval and may be utilized for a variety of corporate purposes, including future offerings to raise additional capital or to facilitate corporate acquisitions.

The issuance of preferred stock could have the effect of delaying or preventing a change in control of us. The issuance of preferred stock could decrease the amount available for distribution to holders of our common stock or could adversely affect the rights and powers, including voting rights, of such holders. In certain circumstances, such issuance could have the effect of decreasing the market price of our common stock.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of management. Such additional shares also could be used to dilute the stock ownership

of persons seeking to obtain control of us.

We plan to issue additional shares of common stock in connection with our employee benefit plans.

Transfer Agent and Registrar

Wells Fargo Shareowner Services acts as transfer agent and registrar of our common stock.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol "LLY".

DESCRIPTION OF DEPOSITARY SHARES

The following description of the depositary shares does not purport to be complete and is subject to, and qualified in its entirety by, the deposit agreement and the depositary receipt relating to the preferred stock that is attached to the deposit agreement. You should read these documents as they, and not this description, define your rights as a holder of depositary shares. Forms of these documents will be filed with the SEC as exhibits to the registration statement of which this prospectus forms a part.

If we elect to offer fractional interests in shares of preferred stock, we will provide for the issuance by a depositary of depositary receipts for depositary shares. Each depositary share will represent fractional interests of preferred stock. We will deposit the shares of preferred stock underlying the depositary shares under a deposit agreement between us and a bank or trust company selected by us. The bank or trust company must have its principal office in the United States and a combined capital and surplus of at least $50 million. The depositary receipts will evidence the depositary shares issued under the deposit agreement.

The deposit agreement will contain terms applicable to the holders of depositary shares in addition to the terms stated in the depositary receipts. Each holder of depositary shares will be entitled to all the rights and preferences of the preferred stock underlying the depositary shares in proportion to the applicable fractional interest in the underlying shares of preferred stock. The depositary will issue depositary receipts to individuals purchasing the fractional interests in shares of the related preferred stock according to the terms of the offering described in the applicable prospectus supplement.

Dividends and Other Distributions

The depositary will distribute all cash dividends or other cash distributions received for the preferred stock to the holders of depositary shares in proportion to the number of depositary shares that they own on the relevant record date. The depositary will distribute only an amount that can be distributed without attributing to any holder of depositary shares a fraction of one cent. The depositary will add any undistributed balance to, and treat it as part of, the next sum received by the depositary for distribution to holders of depositary shares.

If there is a non-cash distribution, the depositary will distribute property received by it to the holders of depositary shares in proportion, insofar as possible, to the number of depositary shares owned by them, unless the depositary determines, after consultation with us, that it is not feasible to make such distribution. If this occurs, the depositary may, with our approval, sell such property and distribute the net proceeds from the sale to the holders. The deposit agreement also will contain provisions relating to how any subscription or similar rights that we may offer to holders of the preferred stock will be available to the holders of the depositary shares.

Conversion, Exchange and Redemption

If the preferred stock underlying the depositary shares may be converted or exchanged, each holder of depositary receipts will have the right or obligation, as applicable, to convert or exchange the depositary shares represented by the depositary receipts.

Whenever we redeem shares of preferred stock held by the depositary, the depositary will redeem, at the same time, the number of depositary shares representing the preferred stock. The depositary will redeem the depositary shares from the proceeds it receives from the corresponding redemption, in whole or in part, of the underlying preferred stock. The depositary will mail notice of redemption to the holders of the depositary shares that are to be redeemed between 30 and 60 days before the date fixed for redemption. The redemption price per depositary share will be equal to the applicable fraction of the redemption price per share on the underlying preferred stock. If less than all the depositary shares are to be redeemed, the depositary will select which shares to be redeemed by lot, proportionate allocation or any other method.

After the date fixed for redemption, the depositary shares called for redemption will no longer be outstanding. When the depositary shares are no longer outstanding, all rights of the holders will end, except the right to receive money, securities or other property payable upon redemption.

Voting

When the depositary receives notice of a meeting at which the holders of the preferred stock are entitled to vote, the depositary will mail the particulars of the meeting to the holders of the depositary shares. Each holder of depositary shares on the record date may instruct the depositary on how to vote the shares of preferred stock underlying the holder's depositary shares. The depositary will try, if practical, to vote the number of shares of preferred stock underlying the depositary shares according to the instructions. The depositary will abstain from voting shares of the preferred stock to the extent it does not receive specific instructions from the holders of depositary shares representing such preferred stock. We will agree to take all reasonable action requested by the depositary to enable it to vote as instructed.

Record Date

Whenever (1) any cash dividend or other cash distribution shall become payable, any distribution other than cash shall be made, or any rights, preferences or privileges shall be offered with respect to the underlying preferred stock, or (2) the depositary shall receive notice of any meeting at which holders of the underlying preferred stock are entitled to vote or of which holders of the underlying preferred stock are entitled to notice, or of the mandatory conversion of or any election on our part to call for the redemption of any of the underlying preferred stock, the depositary shall in each such instance fix a record date (which shall be the same as the record date for the underlying preferred stock) for the

determination of the holders (x) who shall be entitled to receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof or (y) who shall be entitled to give instructions for the exercise of voting rights at any such meeting or to receive notice of such meeting or of such redemption or conversion, subject to the provisions of the deposit agreement.

Amendments

We and the depositary may agree to amend the deposit agreement and the depositary receipt evidencing the depositary shares. Any amendment that (a) imposes or increases certain fees, taxes or other charges payable by the holders of the depositary shares as described in the deposit agreement or (b) otherwise prejudices any substantial existing right of holders of depositary shares, will not take effect until 30 days after the depositary has mailed notice of the amendment to the record holders of depositary shares. Any holder of depositary shares that continues to hold its shares at the end of the 30-day period will be deemed to have agreed to the amendment.

Termination

We may, at our option, direct the depositary to terminate the deposit agreement by mailing a notice of termination to holders of depositary shares at least 30 days prior to termination. In addition, a deposit agreement will automatically terminate if:

the depositary has redeemed all related outstanding depositary shares, or

we have liquidated, terminated or wound up our business and the depositary has distributed the underlying preferred stock to the holders of the related depositary shares.

The depositary may likewise terminate the deposit agreement if at any time 60 days shall have expired after the depositary shall have delivered to us a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment. If any depositary receipts remain outstanding after the date of termination, the depositary thereafter will discontinue the transfer

of depositary receipts, will suspend the distribution of dividends to the holders thereof, and will not give any further notices (other than notice of such termination) or perform any further acts under the deposit agreement except that the depositary will continue (1) to collect dividends on the underlying preferred stock and any other distributions with respect thereto and (2) to deliver the underlying preferred stock together with such dividends and distributions and the net proceeds of any sales of rights, preferences, privileges or other property, without liability for interest thereon, in exchange for depositary receipts surrendered. At any time after the expiration of two years from the date of termination, the depositary may sell any underlying preferred stock then held by it at public or private sales, at such place or places and upon such terms as it deems proper and may thereafter hold the net proceeds of any such sale, together with any money and other property then held by it, without liability for interest thereon, for the pro rata benefit of the holders of depositary receipts which have not been surrendered.

Payment of Fees and Expenses

We will pay all fees, charges and expenses of the depositary, including the initial deposit of the preferred stock and any redemption of the preferred stock. Holders of depositary shares will pay transfer and other taxes and governmental charges and any other charges as are stated in the deposit agreement for their accounts.

Resignation and Removal of Depositary

At any time, the depositary may resign by delivering written notice to us, and we may remove the depositary. Resignations or removals will take effect upon the appointment of a successor depositary and its acceptance of the appointment. The successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50 million.

Reports

The depositary will forward to the holders of depositary shares all reports and communications from us that are delivered to the depositary and that we are required by law, the rules of an applicable securities exchange or our amended articles of incorporation to furnish to the holders of the preferred stock. The depositary will not be liable if it is prevented or delayed by law or any circumstances beyond its control in performing its obligations under the deposit agreement. The deposit agreement limits our obligations and the depositary's obligations to performance in good faith of the duties stated in the deposit agreement. The depositary will not be obligated to prosecute or defend any legal proceeding connected with any depositary shares or preferred stock unless the holders of depositary shares requesting the depositary to do so furnish it with satisfactory indemnity. In performing our obligations, we and the depositary may rely upon the written advice of our counsel or accountants, on any information that competent people provide to us and on documents that we believe are genuine.

DESCRIPTION OF DEBT SECURITIES

We may offer and issue our debt securities from time to time in one or more series. The debt securities are to be issued under an indenture, dated as of February 1, 1991, between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee. The indenture does not limit the aggregate principal amount of the debt securities that may be issued thereunder. The indenture is an exhibit to the registration statement of which this prospectus is a part. The indenture incorporates our standard multiple-series indenture provisions as Annex A to the indenture, a copy of which is an exhibit to the registration statement of which this prospectus is a part. The following information summarizes certain general terms of the debt securities as described in the indenture and the standard multiple-series indenture provisions. The indenture is subject to and governed by the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act.

We will summarize in the applicable prospectus supplement certain specific terms of the debt securities, any modifications of or additions to the general terms of the debt securities described herein and any applicable material federal income tax considerations. Accordingly, please read both this prospectus and the applicable prospectus supplement for a summary of the terms of the debt securities of any particular series.

However, such summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the actual provisions of the indenture and the debt securities.

For purposes of this summary, the terms “we,” “us” and “our” refer only to Eli Lilly and Company and not to any of its subsidiaries, unless we specify otherwise.

General

The debt securities will be unsecured general obligations of our company. The indebtedness represented by the debt securities will rank equally with all other unsecured and unsubordinated indebtedness of our company. The debt securities may be issued in one or more series. Also, a single series may be issued at various times with different maturity dates and different interest rates. One or more series of debt securities may be issued with the same or various maturities at par or at a discount. Debt securities bearing no interest or interest at a rate which at the time of issuance is below the market rate ("original issue discount securities") will be sold at a discount below their stated principal amount. This discount may be substantial. We will provide information regarding material federal income tax consequences and other special considerations applicable to any original issue discount securities in the applicable prospectus supplement.

If we denominate the purchase price of any of the debt securities in a foreign currency or currencies, or if the principal of or premium, if any, or interest on any series of debt securities is payable in a foreign currency or currencies, we will include in the applicable prospectus supplement information on the restrictions, elections, material federal income tax considerations, specific terms and other information with respect to that issue of debt securities and the foreign currency or currencies.

A prospectus supplement relating to a series of debt securities will include certain specific terms, including some or all of the following:

the title;

the aggregate principal amount and any limit thereon;

the price or prices at which such debt securities will be sold;

the date or dates on which or periods during which such debt securities may be issued;

the date or dates on which the principal, and premium, if any, is payable or the method of determining the date or dates;
the method by which principal and premium, if any, will be determined;
if interest bearing:
the interest rate;
the method by which the interest rate will be determined;
the date from which interest will accrue;
interest payment dates; and
the regular record date for the interest payable on any interest payment date;

Service cost	$ 4.8	$ 5.4	$ 0.6	$ 0.6
Interest cost	24.0	23.4	1.3	1.2
Expected return on plans assets	(29.6)	(28.1)		
Amortization of prior service cost	1.0	1.2	(0.1)	(0.2)
Recognized actuarial loss	7.2	7.8	1.1	1.1
Net periodic benefit cost	$ 7.4	$ 9.7	$ 2.9	$ 2.7

Employees also participate in defined contribution pension plans. Our defined benefit pension plan was closed to salaried employees and certain hourly employees hired after December 31, 2004. These employees participate in a defined contribution pension plan which is administered as part of the CEOP. We contribute a defined percentage of pay to the defined contribution plan on behalf of each of the eligible employees to an individual retirement contribution account. Expenses of the defined contribution pension plans were $0.9 million and $0.4 million for the three months ended March 31, 2007 and 2006, respectively.

13. In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). This interpretation clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and requires a measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on the treatment of derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

We adopted the provisions of FIN No. 48 on January 1, 2007. As a result of the implementation, we recognized a $0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to Retained Earnings. In addition, FIN No. 48 required a reclassification of unrecognized tax benefits and related interest and penalties from deferred income taxes to current and long-term liabilities. At January 1, 2007, we reclassified $19.8 million from Deferred Income Taxes to Accrued Liabilities ($3.1 million) and Other Liabilities ($16.7 million).

As of January 1, 2007, we had $16.5 million of gross unrecognized tax benefits, of which $11.9 million would impact the effective tax rate, if recognized. The remainder of $4.6 million would be a reduction to goodwill, if recognized.

The unrecognized tax benefit, net of the federal income tax benefit, totaled $13.6 million. If these tax benefits are not recognized, the result would be cash tax payments.

We recognize interest and penalty expense related to unrecognized tax positions as a component of the Income Tax Provision. As of January 1, 2007, interest accrued was approximately $4.3 million, and penalties accrued were approximately $0.9 million. During the three months ended March 31, 2007 and 2006, we expensed interest of $0.4 million and $0.9 million, respectively.

As of January 1, 2007, we believe it is reasonably possible that our total amount of unrecognized tax benefits will decrease by $1.6 million over the next twelve months. This decrease is the result of a state income tax payment of $0.9 million related to a change in a tax filing position and the lapse of federal, state, and foreign statutes of limitation.

In April 2006, we reached an agreement in principle and expected a settlement with the Internal Revenue Service (IRS) on certain material outstanding federal tax exposures. On July 10, 2006, the settlement was finalized. This settlement, which includes the periods 1996 to 2002, relates primarily to the tax treatment of capital losses generated in 1997. We expect to make interest payments of approximately $2.0 million in 2007 to various state and local jurisdictions in conjunction with the IRS settlement. We have filed both federal and state amended income tax returns for years 2002 and prior to report changes to taxable income per IRS examinations. Such tax years remain subject to examination to the extent of the changes reported.

Our federal income tax returns for 2003 to 2006 are open tax years. We file in numerous state and foreign jurisdictions with varying statutes of limitation open from 2002 through 2006 depending on each jurisdiction s unique statute of limitation. In 2006, the IRS commenced an examination of our U.S. income tax return for 2004. The examination is anticipated to be complete by the end of 2007. The IRS has proposed adjustments and we are currently evaluating the proposal. We believe that it is reasonably possible that an additional payment of approximately $0.5 million will be made by the end of 2007.

14. On January 31, 2007, we entered into a sale/leaseback agreement for chlorine railcars that were acquired in 2005 and 2006 by our Chlor Alkali Products segment. The sale/leaseback is an operating lease which expires on December 31, 2016. This transaction reduced our fixed assets by $15.7 million. We received proceeds from the sale of $14.8 million. The loss on this transaction was deferred and is being amortized over the terms of the lease agreement.

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

Our manufacturing operations are concentrated in three business segments: Chlor Alkali Products, Metals, and Winchester. All three are capital intensive manufacturing businesses with operating rates closely tied to the general economy. Each segment has a commodity element to it, and therefore, our ability to influence pricing is quite limited on the portion of the segment s business that is strictly commodity. Our Chlor Alkali Products segment is a commodity business where all supplier products are similar and price is the major supplier selection criterion. We have little or no ability to influence prices in this large, global commodity market. Cyclical price swings, driven by changes in supply/demand, can be abrupt and significant and, given capacity in our Chlor Alkali Products business, can lead to very significant changes in our overall profitability. While a majority of Metals sales are of a commodity nature, this business has a significant volume of specialty engineered products targeted for specific end-uses. In these applications, technical capability and performance differentiate the product and play a role in product selection, and thus price is not the only selection criterion. Winchester also has a commodity element to its business, but a majority of Winchester ammunition is sold as a branded consumer product where there are opportunities to differentiate certain offerings through innovative new product development and enhanced product performance. While competitive pricing versus other branded ammunition products is important, it is not the only factor in product selection.

Recent Developments

During the second quarter of 2007, we intend to make a $100 million voluntary contribution to our defined benefit pension plan. In addition, the asset investment policy for the plan will be adjusted to insulate the plan from discount rate risk. Based on the combination of these actions, it is likely that the defined benefit pension plan will meet the full funding requirements of the Pension Protection Act of 2006 without any additional contributions. The contribution will be accretive to earnings beginning in the second quarter and will be fully tax deductible against 2006 income.

Consolidated Results of Operations

($ in millions, except per share data)	Three Months Ended March 31, 2007	2006
Sales	$ 765.7	$ 725.1
Cost of Goods Sold (exclusive of LIFO inventory liquidation gains, shown below)	700.9	632.4
LIFO Inventory Liquidation Gains	5.3	13.5
Gross Margin	70.1	106.2
Selling and Administration	41.2	45.8
Research and Development	1.1	1.2
Restructuring Charge		15.7
Operating Income	27.8	43.5
Earnings of Non-consolidated Affiliates	8.1	12.1
Interest Expense	5.0	5.1
Interest Income	3.5	3.0
Other Income	0.1	0.9
Income before Taxes	34.5	54.4
Income Tax Provision	11.4	20.7
Net Income	$ 23.1	$ 33.7
Net Income per Common Share:		
Basic	$ 0.31	$ 0.47
Diluted	$ 0.31	$ 0.47

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Sales for the three months ended March 31, 2007 were $765.7 million compared with $725.1 million last year, an increase of $40.6 million, or 6%. Chlor Alkali Products sales decreased by $18.4 million, or 11%, due to ECU prices, which decreased approximately 15%, and decreased shipment volumes (4%). In the Metals segment, sales increased $48.8 million, or 11%. The increase in Metals segment sales was the result of increased metal prices, partially offset by lower shipment volumes (13%). The Commodity Exchange (COMEX) copper price averaged $2.70 per pound in the first quarter of 2007 compared with $2.25 per pound in the first quarter of 2006, an increase of 20%. Winchester sales were higher by $10.2 million, or 11%, due to increased selling prices and higher volumes.

Gross margin decreased $36.1 million, or 34%, over the three months ended March 31, 2006, primarily as a result of lower ECU selling prices for Chlor Alkali Products and decreased volumes in our Chlor Alkali segment. Gross margin was also impacted by the lower LIFO inventory liquidation gains of $5.3 million in 2007 compared to $13.5 million in 2006 in our Metals segment. Gross margin as a percentage of sales decreased to 9% in 2007 from 15% in 2006. This gross margin percentage decrease reflects the gross margin dollar decrease of $36.1 million and higher Metals sales resulting from increased metal values.

Selling and administration expenses as a percentage of sales were 5% in 2007 and 6% in 2006. Selling and administration expenses for the three months ended March 31, 2007 were $4.6 million, or 10%, lower than the three months ended March 31, 2006 primarily due to decreased consulting expense of $1.3 million, decreased management incentive compensation of $1.3 million partially resulting from mark-to-market adjustments on stock-based compensation, lower pension expense of $0.9 million, decreased relocation charges of $0.6 million, and a lower level of legal and legal-related settlement expenses of $0.4 million.

Restructuring charges of $15.7 million were recorded for the three months ended March 31, 2006 related to the closure of the Waterbury facility in the Metals segment, and included lease and other contract termination costs, facility and equipment write-off costs, and employee severance and related benefit costs.

The earnings of non-consolidated affiliates were $8.1 million for the three months ended March 31, 2007, a decrease of $4.0 million from $12.1 million for the three months ended March 31, 2006, primarily due to lower ECU selling prices at SunBelt.

The higher interest income of $0.5 million was due to higher short-term interest rates and higher average cash balances.

The effective tax rate for the three months ended March 31, 2007 of 33.0% is lower than the 35% U.S. federal statutory rate primarily due to the benefit of the domestic manufacturing deduction, which increased from 3% to 6% in 2007, and the utilization of certain state tax credits, which were offset in part by state income taxes and income in certain foreign jurisdictions being taxed at higher rates. The effective tax rate for the three months ended March 31, 2006 of 38.0% was higher than the 35% U.S. federal statutory rate primarily due to state income taxes, income in certain foreign jurisdictions being taxed at higher rates, and the accrual of interest on taxes which may become payable in the future.

Segment Results

We define segment results as income (loss) before interest expense, interest income, other income, and income taxes, and include the operating results of non-consolidated affiliates. Intersegment sales of $22.8 million and $15.3 million for the three months ended March 31, 2007 and 2006, respectively, representing the sale of ammunition cartridge case cups to Winchester from Metals, at prices that approximate market, have been eliminated from Metals segment sales.

	Three Months Ended	
	March 31,	
($ in millions)	2007	2006
Sales:		
Chlor Alkali Products	$ 155.3	$ 173.7
Metals	510.2	461.4
Winchester	100.2	90.0
Total sales	$ 765.7	$ 725.1
Income before taxes:		
Chlor Alkali Products[1]	$ 43.2	$ 73.9
Metals[1] [2]	9.9	20.5
Winchester	8.1	3.9
Corporate/Other:		
Pension expense[3]	(1.5)	(3.4)
Environmental provision	(6.1)	(4.9)
Other corporate and unallocated costs	(17.7)	(18.7)
Restructuring charge[4]		(15.7)
Interest expense	(5.0)	(5.1)
Interest income	3.5	3.0
Other income	0.1	0.9
Income before taxes	$ 34.5	$ 54.4

(1) Earnings of non-consolidated affiliates are included in the segment results consistent with management s monitoring of the operating segments. The earnings from non-consolidated affiliates, by segment, are as follows:

	Three Months Ended	
	March 31,	
	2007	2006
Chlor Alkali Products	$ 8.1	$ 11.9
Metals		0.2
Earnings of non-consolidated affiliates	$ 8.1	$ 12.1

(2)

Metals segment income for the three months ended March 31, 2007 included a LIFO inventory liquidation gain of $5.3 million resulting from the Metals inventory reduction program. Metals segment income for the three months ended March 31, 2006 included a LIFO inventory liquidation gain of $13.5 million related to the closure of our Waterbury operations as part of the 2006 Metals restructuring actions.

(3) The service cost and the amortization of prior service cost components of pension expense related to the employees of the operating segments are allocated to the operating segments based on their respective estimated census data. All other components of pension costs are included in Corporate/Other and include items such as the expected return on plan assets, interest cost, and recognized actuarial gains and losses.

(4) The three-month period ended March 31, 2006 reflects the 2006 Metals restructuring charge of $15.7 million.

Chlor Alkali Products

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Chlor Alkali Products sales for the three months ended March 31, 2007 were $155.3 million compared to $173.7 million for the three months ended March 31, 2006, a decrease of $18.4 million, or 11%. The sales decrease was due to lower ECU pricing, which decreased 15% from the three months ended March 31, 2006 and lower volumes of 4%. Our ECU netbacks, excluding SunBelt, were approximately $500 for the three months ended March 31, 2007 compared to approximately $590 for the same period in 2006. Our operating rate for the three months ended March 31, 2007 was 87% of capacity, compared to 90% for the three months ended March 31, 2006. The operating rate for 2007 was affected by utility caused power outages and other unplanned outages at our facilities.

Chlor Alkali posted segment income of $43.2 million for the three months ended March 31, 2007, compared to $73.9 million for the same period in 2006, a decrease of $30.7 million, or 42%. Segment income was lower in 2007 primarily because of lower selling prices ($18.1 million), increased operating costs ($4.8 million), lower volumes ($4.1 million), and lower SunBelt operating results ($3.8 million). Operating expenses increased primarily due to increases in distribution costs and manufacturing costs, which included higher electricity prices.

Metals

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Sales for the three months ended March 31, 2007 were $510.2 million compared to sales of $461.4 million for the three months ended March 31, 2006, an increase of $48.8 million, or 11%. This increase reflects higher metal values offset by 13% lower volumes. The COMEX copper price averaged $2.70 per pound in the first quarter of 2007 compared with $2.25 per pound in 2006, an increase of 20%. The average London Market Exchange (LME) zinc price was $1.57 per pound in the first quarter of 2007 compared with $1.02 per pound in 2006, an increase of 54%.

Shipments to automotive customers decreased by 31% for the three months ended March 31, 2007 compared to the same period in 2006, due to decreased automotive production from 2006 and customer inventory reductions. Shipments to the building products segment decreased 15% over the same period last year due to decreased demand from the housing industry. Shipments to the electronics segment and ammunition customers decreased 18% and 6%, respectively. Coinage shipments for the first quarter of 2007 were 1% higher compared with the first quarter of 2006.

The Metals segment reported income of $9.9 million for the three months ended March 31, 2007 compared to $20.5 million in 2006, a decrease of $10.6 million. The Metals segment income for the three months ended March 31, 2007 included a LIFO inventory liquidation gain of $5.3 million as part of the Metals inventory reduction program. The Metals segment income for the three months ended March 31, 2006 included a LIFO inventory liquidation gain of $13.5 million related to the closure of our Waterbury operations. The Metals segment decreased earnings were primarily due to a lower LIFO inventory liquidation gain ($8.2 million) and lower volumes ($8.2 million), partially offset by higher selling prices ($5.2 million). The price of copper and zinc increased by 20% and 54%, respectively, from the three months ended March 31, 2006.

Winchester

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Sales were $100.2 million for the three months ended March 31, 2007 compared to $90.0 million for the three months ended March 31, 2006, an increase of $10.2 million, or 11%. Sales of ammunition to domestic commercial customers increased $5.4 million. Shipments to the U.S. military and to law enforcement organizations increased by $1.9 million and $1.3 million, respectively, for the three months ended March 31, 2007 compared to the same period in 2006.

Winchester reported segment income of $8.1 million for the three months ended March 31, 2007 compared to $3.9 million for the three months ended March 31, 2006, an increase of $4.2 million. The increase was due to the impact of higher selling prices and increased volumes ($9.0 million) and lower operating costs ($1.0 million), which were partially offset by increased commodity and other material costs ($6.1 million).

Corporate/Other

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

For the three months ended March 31, 2007, pension expense included in Corporate/Other was $1.5 million compared to $3.4 million for the three months ended March 31, 2006. The $1.9 million decrease in corporate pension expense was due to the combination of a 25-basis point

increase in the discount rate, the voluntary $80.0 million pension contribution made in September of 2006 and favorable performance on plan assets in 2006. On a total company basis, pension expense for the three months ended March 31, 2007 was $7.4 million compared to $9.7 million for the three months ended March 31, 2006.

For the three months ended March 31, 2007, charges to income for environmental investigatory and remedial activities were $6.1 million compared with $4.9 million in 2006. This provision relates primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. We currently estimate these charges to income for the full year to be in the $25 million range, compared to $22.6 million in 2006 (which included $1.2 million in recoveries from third parties of environmental costs incurred and expensed in prior periods).

For the three months ended March 31, 2007, other corporate and unallocated costs were $17.7 million compared with $18.7 million in 2006, a decrease of $1.0 million, or 5%. Management incentive compensation decreased by $0.8 million, partially resulting from mark-to-market adjustments on stock-based compensation, and legal and legal-related settlement expenses, primarily associated with a legacy environmental matter, decreased $0.4 million.

Outlook

Earnings for the second quarter of 2007 are projected to be in the $0.35 per diluted share range, which includes approximately $5.0 million of additional LIFO inventory liquidation gains resulting from planned inventory reductions in Metals.

In Chlor Alkali Products, we expect improved volumes in the second quarter compared to the first quarter of 2007, as operating rates are expected to be in the mid-90% range. During the second quarter, we expect our ECU netbacks to improve over the first quarter of 2007, as we begin to experience the benefit from the fourth quarter 2006 caustic price increase. As we look forward, we believe the April 1, 2007, $25 per ton chlorine price increase and the April 1, 2007, $40 per ton for commercial grade and $50 per ton for high purity grade caustic price increases will be accepted in the market. The majority of the benefit from these increases should be realized in the third quarter of 2007. We also believe chlorine and caustic supply will remain tight during the second quarter of 2007 due to a number of production outages scheduled by other producers, as well as increased seasonal demand for both molecules.

We are continuing to explore opportunities to expand our presence in the bleach market. We are currently involved in discussions on a bleach joint venture in North America, which would leverage our ability to provide raw materials and market bleach and hydrochloric acid products. We hope to reach an agreement on this opportunity during the second quarter, which will require modest investments over the next several years. We continue to believe the market for bleach is one that is growing and that bleach represents a value added product that historically commands a price premium compared to non-bleach ECUs.

In Metals, we expect earnings in the second quarter of 2007 to be comparable to the first quarter of 2007. During the first quarter of 2007, we accelerated our planned inventory reduction program and realized a $5.3 million inventory liquidation gain. We expect a similar gain in the second quarter of 2007. Our plan, which we announced in January, is to reduce inventory levels in our strip business by a total of 20% during 2007 and 2008, in addition to the approximately 10% reduction realized in 2006.

In Winchester, we expect earnings in the second quarter of 2007 to decline from the first quarter of 2007 because of normal seasonal factors. In response to the continuing increase in the price of lead, Winchester announced an 8% price increase to be effective June 1 across its promotional product lines. Similar increases were announced by Winchester s major competitors. This represents the ninth price increase since the beginning of 2004. Commodity material prices will continue to challenge Winchester in 2007.

Winchester has recently received two military orders. A multi-year $18 million order was received to supply shotgun ammunition to the U.S. Army. In addition, a $24 million contract was received from General Dynamics for year two of the U.S. Army s second source small caliber ammunition program. Deliveries under both of these contracts will begin in 2007, and these orders will result in Winchester s 2007 military sales exceeding 2006 levels.

During the second quarter, we intend to make a $100 million voluntary contribution to our defined benefit pension plan. In addition, the asset investment policy for the plan will be adjusted to insulate the plan from discount rate risk. Based on the combination of these actions, it is likely that the defined benefit pension plan will meet the full funding requirements of the Pension Protection Act of 2006 without any additional contributions. The contribution will be accretive to earnings beginning in the second quarter of 2007 and will be fully tax deductible against 2006 income.

The expected impact of higher copper prices, a normal seasonal inventory build in the Winchester business, and the pension contribution will create a usage of cash in the second quarter of 2007. As a reminder, in our Metals business, every 10 cents per pound increase in the price of copper results in a $4 million increase in working capital. Since the end of March, copper has increased approximately 70 cents per pound. The voluntary pension contribution will result in a reduction in cash taxes during the second quarter.

Environmental Matters

For the three months ended March 31, 2007 and 2006, cash outlays for environmental matters were $5.5 million and $5.2 million, respectively, for environmental investigatory and remediation activities associated with former waste disposal sites and past manufacturing operations. Spending in 2007 for investigatory and remedial efforts, the timing of which is subject to regulatory approvals and other uncertainties, is estimated to be in the $35 million range. Cash outlays for remedial and investigatory activities associated with former waste disposal sites and past manufacturing operations were not charged to income, but instead, were charged to reserves established for such costs identified and expensed to income in prior periods. Associated costs of investigatory and remedial activities are provided for in accordance with generally accepted accounting principles governing probability and the ability to reasonably estimate future costs. Our ability to estimate future costs depends on whether our investigatory and remedial activities are in preliminary or advanced stages. With respect to unasserted claims, we accrue liabilities for costs that, in our experience, we may incur to protect our interest against those unasserted claims. Our accrued liabilities for unasserted claims amounted to $6.6 million at March 31, 2007. With respect to asserted claims, we accrue liabilities based on remedial investigation, feasibility study, remedial action, and Operation, Maintenance and Monitoring (OM&M) expenses that, in our experience, we may incur in connection with the asserted claims. Required site OM&M expenses are estimated and accrued in their entirety for required periods not exceeding 30 years, which reasonably approximates the typical duration of long-term site OM&M. Charges to income for investigatory and remedial activities were $6.1 million and $4.9 million for the three months ended March 31, 2007 and 2006, respectively. Charges to income for investigatory and remedial efforts were material to operating results in 2006 and are expected to be material to operating results in 2007 and may be material to operating results in future years.

Our consolidated balance sheets included liabilities for future environmental expenditures to investigate and remediate known sites amounting to $91.4 million at March 31, 2007, $90.8 million at December 31, 2006, and $102.6 million at March 31, 2006 of which $56.4 million, $55.8 million, and $74.6 million were classified as other noncurrent liabilities, respectively. These amounts do not take into account any discounting of future expenditures or any consideration of insurance recoveries or advances in technology. These liabilities are reassessed periodically to determine if environmental circumstances have changed and/or remediation efforts and our estimate of related costs have changed. As a result of these reassessments, future charges to income may be made for additional liabilities.

Annual environmental-related cash outlays for site investigation and remediation, capital projects, and normal plant operations are expected to range between approximately $45 million to $55 million over the next several years, $20 million to $40 million of which is for investigatory and remedial efforts, which are expected to be charged against reserves recorded on our balance sheet. While we do not anticipate a material increase in the projected annual level of our environmental-related cash outlays, there is always the possibility that such an increase may occur in the future in view of the uncertainties associated with environmental exposures. Environmental exposures are difficult to assess for numerous reasons, including the identification of new sites, developments at sites resulting from investigatory studies, advances in technology, changes in environmental laws and regulations and their application, changes in regulatory authorities, the scarcity of reliable data pertaining to identified sites, the difficulty in assessing the involvement and financial capability of other PRPs, and our ability to obtain contributions from other parties, and the lengthy time periods over which site remediation occurs. It is possible that some of these matters (the outcomes of which are subject to various uncertainties) may be resolved unfavorably to us, which could materially adversely affect our financial position or results of operations.

Legal Matters and Contingencies

We, and our subsidiaries, are defendants in various legal actions (including proceedings based on alleged exposures to asbestos) incidental to our past and current business activities. While we believe that none of these legal actions will materially adversely affect our financial position, in light of the inherent uncertainties of litigation, we cannot at this time determine whether the financial impact, if any, of these matters will be material to our results of operations.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation, or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. In certain instances such as environmental projects, we are responsible for managing the cleanup and remediation of an environmental site. There exists the possibility of recovering a portion of these costs from other parties. We account for gain contingencies in accordance with the provisions of SFAS No. 5, Accounting for Contingencies, and therefore do not record gain contingencies and recognize income until it is earned and realizable.

Liquidity, Investment Activity and Other Financial Data

Cash Flow Data

	Three Months Ended	
	March 31,	
Provided By (Used For) ($ in millions)	**2007**	**2006**
Net operating activities	$ 12.4	$ (30.8)
Capital expenditures	(13.5)	(14.2)
Net investing activities	53.9	(58.2)
Net financing activities	(9.9)	(8.7)

Operating Activities

For the three months ended March 31, 2007, cash provided by operating activities increased by $43.2 million from 2006 primarily due to a smaller increase in working capital. In 2007, working capital increased $24.5 million compared with an increase of $76.5 million in 2006. This change in working capital growth from 2007 to 2006 was partially offset by lower earnings. Receivables increased from December 31, 2006 by $30.8 million, primarily as a result of increased sales in Winchester and Metals. Our days sales outstanding decreased by approximately three days from prior year. The 2007 cash from operations was affected by a $13.5 million decrease in cash tax payments.

Investing Activities

Capital spending of $13.5 million in the three months ended March 31, 2007 was $0.7 million lower than in the corresponding period in 2006. For the total year, we expect our capital spending to be approximately $90 to $95 million. We expect depreciation to be in the $72 million range for full-year 2007.

On January 31, 2007, we entered into a sale/leaseback agreement for chlorine railcars in our Chlor Alkali Products segment that were acquired in 2005 and 2006. We received proceeds from the sale of $14.8 million.

During the three months ended March 31, 2007, we sold $50.0 million of short-term investments, which were purchased during the three months ended March 31, 2006.

The 2007 decrease in distributions from affiliated companies represents primarily our share of SunBelt s lower operating results, net of cash payments to affiliates.

Financing Activities

At March 31, 2007, we had $123.7 million available under our $160.0 million senior revolving credit facility because we had issued $36.3 million of letters of credit under a subfacility for the purpose of supporting certain long-term debt, certain workers compensation insurance policies, and plant closure and post-closure obligations. Under the facility, we may select various floating rate borrowing options. It includes various customary restrictive covenants, including restrictions related to the ratio of debt to earnings before interest expense, taxes, depreciation and amortization (leverage ratio) and the ratio of earnings before interest expense, taxes, depreciation and amortization to interest expense (coverage ratio).

During the three months ended March 31, 2007 and 2006, we issued 0.4 million and 0.1 million shares of common stock with a total value of $6.7 million and $3.2 million, respectively, to the CEOP. These shares were issued to satisfy the investment in our common stock resulting from employee contributions, our matching contributions and re-invested dividends. We issued 0.2 million shares with a total value of $3.3 million, representing stock options exercised for the three months ended March 31, 2006. There were no stock options exercised in the three months ended March 31, 2007.

The percent of total debt to total capitalization decreased to 31.3% at March 31, 2007, from 31.8% at year-end 2006. The decrease was due primarily to the higher shareholders equity resulting from the net income for the three-month period ended March 31, 2007 and a lower level of outstanding debt at March 31, 2007.

In the first quarter of 2007 and 2006, we paid a quarterly dividend of $0.20 per share. In April 2007, our board of directors declared a dividend of $0.20 per share on our common stock, which is payable on June 11, 2007 to shareholders of record on May 10, 2007.

The payment of cash dividends is subject to the discretion of our board of directors and will be determined in light of then-current conditions, including our earnings, our operations, our financial conditions, our capital requirements, and other factors deemed relevant by our board of directors. In the future, our board of directors may change our dividend policy, including the frequency or amount of any dividend, in light of then-existing conditions.

Liquidity and Other Financing Arrangements

Our principal sources of liquidity are from cash and cash equivalents, short-term investments, cash flow from operations and short-term borrowings under our senior revolving credit facility. We also have access to the debt and equity markets.

Cash flow from operations is variable as a result of the cyclical nature of our operating results, which have been affected recently by the economic cycles in many of the industries we serve, such as vinyls, urethanes, pulp and paper, automotive, electronics, housing, and the telecommunications sectors. Cash flow from operations is affected by changes in ECU selling prices caused by the changes in the supply/demand balance of chlorine and caustic, resulting in the chlor alkali business having significant leverage on our earnings. For example, assuming all other costs remain constant and internal consumption remains approximately the same, a $10 per ECU selling price change equates to an approximate $11 million annual change in our revenues and pretax profit when we are operating at full capacity. In addition, cash flow from operating activities is affected by the prices of copper and zinc. For example, assuming Metals segment shipment volumes remain the same, a $0.10 per pound change in the metal prices results in an approximate $4.0 million change in our investment in working capital.

Our current debt structure is used to fund our business operations. As of March 31, 2007, we had borrowings of $253.3 million, of which $2.9 million was issued at variable rates. We have entered into interest rate swaps on $101.6 million of our underlying fixed-rate debt obligations, whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. The counterparty to these agreements is a major financial institution. We have designated the swap agreements as fair value hedges of the risk of changes in the value of fixed rate debt due to changes in interest rates for a portion of our fixed rate borrowings. Accordingly, the swap agreements have been recorded at their fair market value of $4.1 million and are included in Other Assets on the accompanying Consolidated Balance Sheet, with a corresponding increase in the carrying amount of the related debt. No gain or loss has been recorded as the contracts met the criteria to qualify for hedge accounting treatment with no ineffectiveness. Commitments from banks under our revolving credit facility are an additional source of liquidity.

In the second quarter of 2007, we intend to make a $100 million voluntary contribution to our defined benefit pension plan. In addition, the asset investment policy for the plan will be adjusted to insulate the plan from discount rate risk.

On December 31, 1997, we entered into a long-term, sulfur dioxide supply agreement with Alliance Specialty Chemicals, Inc. (Alliance), formerly known as RFC $S0_2$, Inc. Alliance has the obligation to deliver annually 36,000 tons of sulfur dioxide. Alliance owns the sulfur dioxide plant, which is located at our Charleston, TN facility and is operated by us. The price for the sulfur dioxide is fixed over the life of the contract, and under the terms of the contract, we are obligated to make a monthly payment of approximately $0.2 million regardless of the amount of sulfur dioxide purchased. Commitments related to this agreement are approximately $2.4 million per year for 2007 through 2011 and $0.6 million in 2012. This supply agreement expires in 2012.

We, and our partner, PolyOne, own equally SunBelt. Oxy Vinyls (a joint venture between OxyChem and PolyOne) is required to purchase 250,000 tons of chlorine based on a formula related to its market price. We market the excess chlorine and all of the caustic soda produced. The construction of this plant and equipment was financed by the issuance of $195.0 million of Guaranteed Senior Secured Notes due 2017. SunBelt sold $97.5 million of Guaranteed Senior Secured Notes due 2017, Series O, and $97.5 million of Guaranteed Senior Secured Notes due 2017, Series G. We refer to these notes as the SunBelt Notes. The SunBelt Notes bear interest at a rate of 7.23% per annum payable semiannually in arrears on each June 22 and December 22.

We have guaranteed the Series O Notes, and PolyOne has guaranteed the Series G Notes, in both cases pursuant to customary guaranty agreements. Our guarantee and PolyOne s guarantee are several, rather than joint. Therefore, we are not required to make any payments to satisfy the Series G Notes guaranteed by PolyOne. An insolvency or bankruptcy of PolyOne will not automatically trigger acceleration of the SunBelt Notes or cause us to be required to make payments under our guarantee, even if PolyOne is required to make payments under its guarantee. However, if SunBelt does not make timely payments on the SunBelt Notes, whether as a result of a failure to pay on a guarantee or otherwise, the holders of the SunBelt Notes may proceed against the assets of SunBelt for repayment. If we were to make debt service payments under our guarantee, we would have a right to recover such payments from SunBelt.

Beginning on December 22, 2002 and each year through 2017, SunBelt is required to repay $12.2 million of the SunBelt Notes, of which $6.1 million is attributable to the Series O Notes. After the payment of $6.1 million on the Series O Notes in December 2006, our guarantee of these SunBelt notes was $67.0 million at March 31, 2007. In the event SunBelt cannot make any of these payments,

19

we would be required to fund our half of such payment. In certain other circumstances, we may also be required to repay the SunBelt Notes prior to their maturity. We and PolyOne have agreed that, if we or PolyOne intend to transfer our respective interests in SunBelt and the transferring party is unable to obtain consent from holders of 80% of the aggregate principal amount of the indebtedness related to the guarantee being transferred after good faith negotiations, then we and PolyOne will be required to repay our respective portions of the SunBelt Notes. In such event, any make whole or similar penalties or costs will be paid by the transferring party.

We guarantee debt and other obligations under agreements with our affiliated companies. In the normal course of business, we guarantee the principal and interest under a $0.3 million line of credit of one of our wholly-owned foreign affiliates. At March 31, 2007, December 31, 2006, and March 31, 2006, our wholly-owned foreign affiliate had no borrowings outstanding under this line of credit, which would be utilized for working capital purposes.

New Accounting Standards

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities which permits an entity to measure certain financial assets and liabilities at fair value. The statement s objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. This statement becomes effective for fiscal years beginning after November 15, 2007 and should be applied prospectively. It is expected that this statement will not have a material effect on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The changes to current practice resulting from the application of this statement relates to the definition of fair value, the methods used to estimate fair value, and the requirement for expanded disclosures about estimates of fair value. This statement becomes effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. It is expected that this statement will not have a material effect on our financial statements.

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities, which amends certain provisions in the AICPA Industry Audit Guide, Audits of Airlines and APBO No. 28, Interim Financial Reporting. This position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. This position became effective for fiscal years beginning after December 15, 2006 and should be applied retrospectively for all financial statements presented. Previously, our accrual for planned major maintenance costs did not extend past year end, but was accrued within the year for the year. This position did not have a material effect on our 2006 financial statements, and therefore, no restatements were made.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). This interpretation clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and requires a measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on the treatment of derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. This interpretation was effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN No. 48 on January 1, 2007. As a result of the implementation, we recognized a $0.1 million increase in the liability for unrecognized tax benefits, which has been accounted for as a reduction to Retained Earnings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the normal course of our business operations due to our purchases of certain commodities, our ongoing investing and financing activities, and our operations that use foreign currencies. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows, and future earnings. We have established policies and procedures governing our management of market risks and the uses of financial instruments to manage exposure to such risks.

Energy costs including electricity used in our Chlor Alkali Products segment, and certain raw materials and energy costs, namely copper, lead, zinc, electricity, and natural gas used primarily in our Metals and Winchester segments products, are subject to price volatility. Depending on market conditions, we may enter into futures contracts and put and call option contracts in order to reduce the impact of metal price fluctuations. As of March 31, 2007, we maintained open positions on futures contracts totaling $64.2 million ($64.7 million at December 31, 2006 and $20.4 million at March 31, 2006). Assuming a hypothetical 10% increase in commodity prices which are currently hedged, we would experience a $6.4 million ($6.5 million at December 31, 2006 and $2.0 million at March 31, 2006) increase in our cost of inventory purchased, which would be offset by a corresponding increase in the value of related hedging instruments.

Beginning in 2007, we entered into metal forward sales transactions to hedge a portion of our Metals segment inventory. The purpose of the hedging activity was to protect the inventory against changes in fair value due to changes in the spot metal prices. The derivative contracts designated as fair value hedges of our Metals inventory were marked-to-market within the quarter based upon changes in the COMEX forward prices, and the Metals inventory being hedged was marked-to-market based upon changes in the spot price at the end of the quarter. The differences between the indices used to mark-to-market the Metals inventory being hedged and the forward contracts designated as fair value hedges can result in volatility in our reported earnings. However, over time gains or losses on the sale of the Metals inventory will be offset by gains or losses on the fair value hedges, resulting in the realization of gross margin we anticipated at the time the transaction was structured. In the three months ended March 31, 2007, we recognized a pretax loss of $0.1 million within Cost of Goods Sold related to hedge ineffectiveness and changes in time value excluded from the assessment of hedge ineffectiveness.

We are exposed to changes in interest rates primarily as a result of our investing and financing activities. Investing activity is not material to our consolidated financial position, results of operations, or cash flows. Our current debt structure is used to fund our business operations, and commitments from banks under our revolving credit facility are a source of liquidity. As of March 31, 2007, December 31, 2006, and March 31, 2006, we had long-term borrowings of $253.3 million, $253.9 million, and $255.0 million, respectively, of which $2.9 million at March 31, 2007, December 31, 2006, and March 31, 2006 was issued at variable rates. As a result of our fixed-rate financings, we entered into floating interest rate swaps in order to manage interest expense and floating interest rate exposure to optimal levels. We have entered into $101.6 million of such swaps, whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. In all cases, the underlying index for the variable rates is the six-month London InterBank Offered Rate (LIBOR). Accordingly, payments are settled every six months and the term of the swap is the same as the underlying debt instrument.

Assuming no changes in the $101.6 million of variable-rate debt levels from December 31, 2006, we estimate that a hypothetical change of 100-basis points in the LIBOR interest rates from 2006 would impact interest expense by $1.0 million on an annualized pretax basis.

The following table reflects the swap activity related to certain debt obligations as of March 31, 2007:

Underlying Debt Instrument	*Swap Amount ($ in millions)*	*Date of Swap*	*March 31, 2007 Floating Rate*
9.125%, due 2011	$ 50.0	December 2001	8.819%
9.125%, due 2011	$ 25.0	March 2002	7.5 - 8.5%(a)
Industrial development and environmental improvement obligations at fixed interest rates of 6.0% to 6.75%, due 2007-2017	$ 21.1	March 2002	5.63%
	$ 5.5	March 2002	5.77%

(a) Actual rate is set in arrears. We project the rate will fall within the range shown.

These interest rate swaps reduced interest expense, resulting in an increase in pretax income of $0.1 million and $0.4 million for the three months ended March 31, 2007 and 2006, respectively.

If the actual change in interest rates or commodities pricing is substantially different than expected, the net impact of interest rate risk or commodity risk on our cash flow may be materially different than that disclosed above.

We do not enter into any derivative financial instruments for speculative purposes.

Item 4. Controls and Procedures

Our chief executive officer and our chief financial officer evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2007. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information Olin is required to disclose in the reports that it files or submits with the SEC under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Commission s rules and forms, and to ensure that information we are required to disclose in such reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures
Not applicable.

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report on Form 10-Q includes forward-looking statements. These statements relate to analyses and other information that are based on management s beliefs, certain assumptions made by management, forecasts of future results, and current expectations, estimates and projections about the markets and economy in which we and our various segments operate. The statements contained in this quarterly report on Form 10-Q that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties.

We have used the words anticipate, intend, may, expect, believe, should, plan, estimate, project, and variations of such words an expressions in this quarterly report to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control.

Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward looking-statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

The risks, uncertainties and assumptions involved in our forward-looking statements many of which are discussed in more detail in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2006, include, but are not limited to the following:

sensitivity to economic, business and market conditions in the United States and overseas, including economic instability or a downturn in the sectors served by us such as automotive, electronics, coinage, telecommunications, ammunition, housing, vinyls and pulp and paper, and the migration by United States customers to low-cost foreign locations;

the cyclical nature of our operating results, particularly declines in average selling prices in the chlor alkali industry and the supply/demand balance for our products, including the impact of excess industry capacity or an imbalance in demand for our chlor alkali products;

economic and industry downturns that result in diminished product demand and excess manufacturing capacity in any of our segments and that, in many cases, result in lower selling prices and profits;

the effects of any declines in global equity markets on asset values and any declines in interest rates used to value the liabilities in our pension plan;

costs and other expenditures in excess of those projected for environmental investigation and remediation or other legal proceedings;

higher-than-expected raw material, energy, transportation, and/or logistics costs;

unexpected litigation outcomes;

the occurrence of unexpected manufacturing interruptions and outages, including those occurring as a result of labor disruptions and production hazards;

new regulations or public policy changes regarding the transportation of hazardous chemicals and the security of chemical manufacturing facilities; and

an increase in our indebtedness or higher-than-expected interest rates, affecting our ability to generate sufficient cash flow for debt service.

You should consider all of our forward-looking statements in light of these factors. In addition, other risks and uncertainties not presently known to us or that we consider immaterial could affect the accuracy of our forward-looking statements.

Part II Other Information

Item 1. Legal Proceedings.

Not Applicable.

Item 1A. Risk Factors.

Not Applicable.

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

(a) Not applicable.

(b) Not applicable.

(c)

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased[1]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2007		N/A		
February 1-28, 2007		N/A		
March 1-31, 2007		N/A		
Total				154,076(1)

(1) On April 30, 1998, the issuer announced a share repurchase program approved by the board of directors for the purchase of up to 5 million shares of common stock. Through March 31, 2007, 4,845,924 shares had been repurchased, and 154,076 shares remain available for purchase under that program, which has no termination date.

Item 3. Defaults Upon Senior Securities.
Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders.
Not Applicable.

Item 5. Other Information.
Not Applicable.

Item 6. Exhibits.

12 Computation of Ratio of Earnings to Fixed Charges (Unaudited)

31.1 Section 302 Certification Statement of Chief Executive Officer

31.2 Section 302 Certification Statement of Chief Financial Officer

32 Section 906 Certification Statement of Chief Executive Officer and Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLIN CORPORATION
(Registrant)

By: /s/ John E. Fischer
Vice President and Chief Financial Officer

(Authorized Officer)

Date: May 1, 2007

EXHIBIT INDEX

Exhibit No.	Description
12	Computation of Ratio of Earnings to Fixed Charges (Unaudited)
31.1	Section 302 Certification Statement of Chief Executive Officer
31.2	Section 302 Certification Statement of Chief Financial Officer
32	Section 906 Certification Statement of Chief Executive Officer and Chief Financial Officer