

Eli Lilly and Company Lilly Corporate Center Indianapolis, Indiana 46285

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Date: November 1, 2002

Ms. Suzanne Q. Bielstein Director Major Projects and Technical Activities 401 Merritt 7 P.O. Box 5116 Norwark, Connecticut, 06856-5116 Letter of Comment No: 2 | File Reference: 1101-001 Date Received: 11/1/02

Re: Exposure Draft: Accounting for Stock-Based Compensation-Transition and Disclosure

Dear Ms. Bielstein:

Eli Lilly and Company appreciates the opportunity to comment on the Exposure Draft-Accounting for Stock-Based Compensation-Transition and Disclosure.

In general, we support the efforts of the FASB to clarify the transition and disclosure for Statement No. 123. However, we have some concerns with the specific proposal and hope the Board will consider this in their deliberations.

We do not agree that there should be three options regarding transition. We believe that there should be one accepted method of transition resulting in enhanced consistency and comparability. All companies that choose to adopt Statement No. 123 should follow this one accepted method. We are adamantly opposed to the restatement method. Given the current market volatility issues, we strongly believe any form of restatement generates a perception of negativity in today's capital markets and creates unnecessary volatility. The method we would like to endorse is the prospective method. This was the transition method approved by the Board in 1995 and we question why the Board is trying to revisit this decision.

We agree that the proposal for additional disclosures provides increased clarity regarding the effect of stock-based compensation on financial results. Although this does create additional administrative burden on a quarterly basis, we believe there is a payoff in terms of clarity for the readers of the financial statements. However, we strongly believe that the disclosure should be in a separate stock option footnote as opposed to being included in the "Summary of Significant Accounting Policies" note. The policies footnote should include only references to stock option accounting policies and not the entire disclosure.

We appreciate the opportunity to express our views and concerns regarding this Exposure Draft. If you have any questions regarding our response or would like to discuss our comments, please call (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

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