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Date: May 3, 2007

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference EITF0703

Dear Director:

Eli Lilly and Company appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) EITF on Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities (hereafter referred to as the "EITF"). As a large, multinational company that creates and delivers innovative medicines that enable people to live longer, healthier, more active lives, Eli Lilly and Company is significantly involved in research and development activities and utilizes external vendors to complete some of these activities.

We support the FASB's efforts to provide more consistency in financial reporting to the readers of financial statements. While we do not disagree conceptually with the tentative conclusions of the Task Force, we do have significant concerns about how the proposed EITF might be operationalized and the proposed transition requirements. In response to the FASB's request for comments we offer the following:

In regards to our ability to access necessary information required to make a cumulative effect adjustment, we are certain this will be a considerable challenge. While we do not believe we would have a significant adjustment, validating this assumption would take extensive effort. As a large multi-national pharmaceutical company, the required tasks would include identifying relevant contracts, physically locating those contracts from thousands which are entered into annually and run for several years, reviewing those contracts and comparing the accounting pursuant to the EITF to our current accounting. The several thousand contracts are located in many different countries, all of which would likely require review by individuals from both legal and financial areas. In addition, the arrangements in place to provide research and development activities are very complex in nature and are not "one-size fits all." We do not believe the cost of these efforts described above justify the benefit. We believe the most practical approach is to apply the EITF prospectively as of the effective date.

Regarding the FASB's question on constituent's ability to access information subsequent to adoption, our answer depends on how we are allowed to operationalize the EITF. In many cases, we do not have sufficient information on a contract by contract basis to allow us to determine, with a degree of precision, the amount of activity that has occurred. However, in

deriving our current accounting approach, which appears to be somewhat consistent with the consensus, we often use the limited data we have combined with our historical experience in similar projects to make what we believe are reasonable estimates of the activities that have occurred. We then base our remaining accrual on these estimates. This methodology has been accepted by our auditors as a reasonable principle to determine how our prepaid clinical trial payments are expensed. If the accounting firms are going to insist that we obtain information from all significant vendors on a quarterly basis to justify our recognition of expense, this would be problematic as we may not be able to obtain the required information in a timely manner. We acknowledge that this may be more of an issue with the auditing profession than an accounting issue, but it is an area of concern that we want you to be aware of.

One other matter surfaced as we were evaluating the EITF, we are curious as to whether the Task Force considered the potential interplay between the proposed EITF and SOP 98-5, *Reporting on the Costs of Start-Up Activities*. Many contracts are written with clearly bifurcated terms where certain upfront payments are considered start-up costs, which should be expensed as incurred. We see a potential conflict evolving in the accounting for such arrangements.

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

Sincerely,

ELI LILLY AND COMPANY

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