

LILLY ELI & CO
Form 4
September 10, 2008

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LILLY ENDOWMENT INC

2. Issuer Name and Ticker or Trading Symbol
LILLY ELI & CO [LLY]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
2801 NORTH MERIDIAN STREET
(Street)

3. Date of Earliest Transaction (Month/Day/Year)
09/09/2008

____ Director
____ Officer (give title below)
 10% Owner
____ Other (specify below)

INDIANAPOLIS, IN 46208-0068
(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
____ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
1-Common Stock	09/09/2008		S		5,900	D	\$ 46.46
2-Common Stock	09/09/2008		S		700	D	\$ 46.49
3-Common Stock	09/09/2008		S		100	D	\$ 46.5
4-Common Stock	09/09/2008		S		900	D	\$ 46.51
5-Common Stock	09/09/2008		S		200	D	\$ 46.52
	09/09/2008		S		200	D	\$ 46.52

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6-Common Stock					\$ 46.52		
7-Common Stock	09/09/2008	S	100	D	\$ 46.53	135,792,704	D
8-Common Stock	09/09/2008	S	900	D	\$ 46.53	135,791,804	D
9-Common Stock	09/09/2008	S	600	D	\$ 46.54	135,791,204	D
10-Common Stock	09/09/2008	S	800	D	\$ 46.54	135,790,404	D
11-Common Stock	09/09/2008	S	700	D	\$ 46.55	135,789,704	D
12-Common Stock	09/09/2008	S	1,900	D	\$ 46.55	135,787,804	D
13-Common Stock	09/09/2008	S	700	D	\$ 46.56	135,787,104	D
14-Common Stock	09/09/2008	S	700	D	\$ 46.56	135,786,404	D
15-Common Stock	09/09/2008	S	300	D	\$ 46.57	135,786,104	D
16-Common Stock	09/09/2008	S	1,100	D	\$ 46.57	135,785,004	D
17-Common Stock	09/09/2008	S	100	D	\$ 46.58	135,784,904	D
18-Common Stock	09/09/2008	S	1,500	D	\$ 46.58	135,783,404	D
19-Common Stock	09/09/2008	S	600	D	\$ 46.59	135,782,804	D
20-Common Stock	09/09/2008	S	2,500	D	\$ 46.59	135,780,304	D
21-Common Stock	09/09/2008	S	1,500	D	\$ 46.6	135,778,804	D
22-Common Stock	09/09/2008	S	900	D	\$ 46.6	135,777,904	D
23-Common Stock	09/09/2008	S	900	D	\$ 46.61	135,777,004	D
24-Common Stock	09/09/2008	S	1,600	D	\$ 46.61	135,775,404	D
25-Common Stock	09/09/2008	S	300	D	\$ 46.62	135,775,104	D
	09/09/2008	S	2,100	D		135,773,004	D

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26-Common Stock					\$				46.62
27-Common Stock	09/09/2008	S	1,100	D	\$	135,771,904	D		46.63
28-Common Stock	09/09/2008	S	2,500	D	\$	135,769,404	D		46.63
29-Common Stock	09/09/2008	S	1,200	D	\$	135,768,204	D		46.64
30-Common Stock	09/09/2008	S	100	D	\$	135,768,104	D		46.64

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 5)
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LILLY ENDOWMENT INC 2801 NORTH MERIDIAN STREET INDIANAPOLIS, IN 46208-0068		X		

Signatures

by: /s/Diane M. Stenson, Treasurer on behalf of Lilly Endowment, Inc.

09/10/2008

__Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Remarks:

This is the first of six Forms 4 filed by the Reporting Person on the same date, September 10, 2008, representing transactions #

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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Proxy disclosure rules artificially inflate our CEO's compensation increase from 2009 to 2010. The compensation reflected for each year within the Summary Compensation Table on page 19 of our proxy statement does not necessarily reflect when that compensation was earned. Compensation for 2010 includes \$165,000 of compensation that pertains to an annual incentive award related to 2009 performance. Adjusting for this, 2010 compensation would be \$1,345,000 and 2009 compensation would be \$1,071,000. The normalized increase of \$270,000 is due to a 2010 option grant of \$367,000 (ISS uses a higher value which is addressed below) and a performance share award valued at \$219,000 together representing more than the entire normalized increase. These are grant date values based on Black Scholes as per US GAAP for the options and based on target performance at the grant date share price for the performance shares, and as such, have no value if the Company does not improve performance going forward. The result is that compensation tied to long-term equity awards increased by \$420,000 (\$586,000 in 2010 compared to \$165,000 in 2009) in 2010, which is more than the entire normalized increase of \$270,000 from 2009 to 2010.

ISS's valuation of our CEO's option grant significantly overstates his total compensation. ISS's Proxy Report measures his total compensation at \$1,656,000, whereas the Company's 2011 proxy statement measures total CEO compensation at \$1,510,062, consistent with how we record compensation expense in our audited financial statements. The cause of this difference is a variation in the assumptions used in the calculation of the grant date fair value of the CEO's 2010 option award using the Black Scholes option pricing model. The Company's proxy statement reports these options as having a grant date fair value of \$367,335, whereas ISS values the award at \$513,000. The Company's grant date fair value of the CEO's option award in the proxy statement is the same as that used for purposes of recording the compensation expense in its audited financial statements, and we believe our assumptions are appropriate and reasonable. Cambrex applies a model that is consistent with SEC and FASB guidance.

Other Factual Inaccuracies in the ISS Report

Factual inaccuracies in the ISS report compromise the integrity of ISS work product. The ISS Proxy Report indicates that the Company does not disclose stock ownership guidelines for its directors. This statement is factually incorrect. Cambrex provided the following statement on page 27 of its proxy:

Director Stock Ownership Guidelines

On January 27, 2011, the Board revised its stock ownership policy for directors. Under the policy, directors are expected to acquire and hold Company stock equal in value to at least three times the annual retainer for directors by the later of January 27, 2014, or three years from a director's election to the Board. The Company believes that this ownership policy further aligns director and stockholder interest and thereby promotes the objective of increasing stockholder value.

Further, the ISS Proxy Report indicates that in 2010 "ISS recommended that shareholders withhold votes from Mr. Bethune for failure to attend at least 75 percent of board meetings and meetings of committees on which he served during fiscal 2009." What ISS fails to mention in its Proxy Report is that on April 9, 2010, ISS issued a proxy alert revising its recommendation with respect to Mr. Bethune to "For." Specifically, ISS stated: "In our original analysis, we noted that Mr. Bethune had attended fewer than 75 percent of the meetings of the board and committees on which he served in 2009, and recommended that shareholders withhold votes from Mr. Bethune on this basis. The Company has since provided ISS with further disclosure. ISS has determined that Mr. Bethune's absences were for legitimate personal reasons. Therefore, we are changing our vote recommendation on Mr. Bethune's re-election from withhold to FOR."

By failing to provide this further explanation in its report, ISS misrepresents the facts in a way that portrays Mr. Bethune's attendance record for 2009 in an inaccurate light. As is demonstrated by the aforementioned inaccuracies, ISS has conducted a cursory and incomplete review of our proxy materials, calling into question the integrity of the

ISS Proxy Report and its subsequent recommendations.
